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Performance Audit

# Delivery of Projects on the AusLink National Network

## Department of Infrastructure, Transport, Regional Development and Local Government

Australian National Audit Office

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Canberra ACT
23 April 2009

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the *Department of Infrastructure, Transport, Regional Development and Local Government* in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Delivery of Projects on the AusLink National Network.*

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Auditor-General

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

**AUDITING FOR AUSTRALIA**

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:
**The Publications Manager**
**Australian National Audit Office**
**GPO Box 707**
**Canberra ACT 2601**

| | |
|---|---|
| **Telephone:** | **(02) 6203 7505** |
| **Fax:** | **(02) 6203 7519** |
| **Email:** | **webmaster@anao.gov.au** |

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Audit Team
Nicola Rowe
Erica Sekendy
Sonia Polubinski
Zrinka Bebek
Brian Boyd

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# Summary

## Introduction

**1.** The AusLink White Paper was released on 7 June 2004. It announced[1] that the AusLink National Network would replace the former separate National Highway System, Roads of National Importance and the interstate rail network. The National Network was to be a single integrated network of land transport linkages of strategic national importance. At the time of audit fieldwork, it comprised 24 transport corridors that take in Australia's major roads and railways, as well as freight terminals at major sea and air ports.

**2.** AusLink National Network funding, through the AusLink Investment Program, was to be guided and underpinned by five-year plans with an overall 20-year horizon. The first five years (referred to in this report as AusLink 1) operates between 2004–05 and 2008–09. The funding envelope for the second five year stage (referred to in this report as AusLink 2 but also known as the Nation Building Program) was announced in the May 2007 Budget, with payments to be made between 2009–10 and 2013–14. In total, $25 billion has been paid, or committed, for road and rail construction projects on the AusLink National Network[2] between July 2004 and June 2014.

**3.** The June 2004 White Paper set out the projects that were to be funded during the first five year AusLink period. Various infrastructure funding agreements (referred to as Bilateral Agreements) were negotiated and signed between May and December 2005. The Bilateral Agreements included an Australian Government contribution of $3.4 billion towards 53 new AusLink projects.[3]

**4.** During the first five years there were two occasions in which a substantial increase in AusLink funding was announced for additional projects on the National Network, as follows:

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[1] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon. Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, pp. x.

[2] Section 5 of the AusLink Act specifies the network as the 'AusLink National Land Transport Network'. Throughout the report the term AusLink National Network and the term AusLink National Land Transport Network are used interchangeably.

[3] They also included 85 continuing projects, with an aggregate Australian Government contribution of $1.9 billion.

- in June 2006, $1.82 billion was paid to five States and the Northern Territory to accelerate work on parts of the National Network with a specified completion date by 31 December 2009; and
- projects were announced as funding commitments prior to the 2004 and 2007 Federal Elections. A relatively small number of land transport projects were announced as election commitments during the campaign for the 2004 Federal Election. By way of comparison, over the course of the 2007 Election campaign, both the Coalition and the Australian Labor Party (ALP) made a substantial number of announcements involving funding for projects on the AusLink National Network.[4]

**5.** In July 2007, the then Shadow Minister for Transport, Roads and Tourism announced that the ALP was committed to the retention of all the AusLink programs. Accordingly, the forward estimates included in the 2008–09 Budget Papers continue to include substantial forward estimates for the AusLink Investment Program during the AusLink 2 period (including estimated program expenses for National Network projects of $4.2 billion in 2008–09).[5]

## Audit scope and objective

**6.** ANAO's performance audit priority in the Infrastructure, Transport, Regional Development and Local Government portfolio is directed at the implementation of AusLink.[6] Accordingly, this audit is one of a series of audits ANAO is undertaking of the AusLink land transport initiative.

**7.** The delivery of projects on the AusLink National Network involves both the Department of Infrastructure, Transport, Regional Development and

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4 DITRDLG advised the Senate Rural and Regional Affairs and Transport Committee (during the May 2008 Estimates Hearings) that National Network funding for the AusLink 2 period had been fully committed to projects on the basis of 2007 Election Commitments. On 5 February 2009, the Council of Australian Governments announced that the States had agreed to finalise by 1 March 2009 National Partnership Agreements for the Program that was formerly known as AusLink, within the Commonwealth's existing funding envelope. Additional funding of $150 million in 2008–09 to help the States fund additional regional road maintenance projects was conditional on the National Partnership Agreements being signed.

5 The projects to be funded under AusLink 2 are expected to be a combination of projects not finished in the first five years and those announced by the ALP during 2007 prior to the November 2007 Federal Election. At the time the audit was being completed, agreements with the States to cover the second five year period were being negotiated.

6 ANAO, *Planned Audit Work Programme 2007–2008*, July 2007, p. 106.

Local Government (DITRDLG) and State[7] road transport authorities. DITRDLG is involved in project planning (so as to ensure that Australian Government policy objectives and accountability responsibilities are satisfied) and State road transport agencies manage programs of works within each State, with individual construction projects being delivered by State agencies or third parties contracted by the State.

**8.** The objective of this performance audit of construction projects on the AusLink National Network was to assess the effectiveness of the administration by DITRDLG in working with the States to deliver the outcomes expected by the Government and the broader community. To inform the audit assessment, the methodology included examination of both Australian Government and State Government records as well as site inspections in relation to 21 projects being delivered in three States (New South Wales (NSW), Queensland and Tasmania).[8] DITRDLG and the respective State road transport authorities were consulted in the selection of projects to be examined in detail.

**9.** As a key reference point, the audit drew on the *National Guidelines for Transport System Management* (National Guidelines) which were endorsed by the Australian Transport Council in November 2004, and updated in December 2006. The National Guidelines are based on a decision support system known as the Transport System Management Framework (see Figure 1), which is aimed at achieving high-level transport system objectives.[9] The expectation is that working through this Framework will result in a structured approach to decision-making, without which decisions may lack consistency, resources may be misallocated and high level objectives may not be achieved.[10] The National Guidelines were not in place at the time the

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7 Consistent with the *AusLink (National Land Transport) Act 2005*, the term 'State' used throughout this report includes the Australian Capital Territory and the Northern Territory.

8 The State selection provided audit coverage of 65 per cent of the AusLink National Network funding for the period 2004–05 to 2008–09.

9 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, p. 11.

10 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, p. 11. The *AusLink Investment Program: National Projects Notes on Administration* (March 2006, updated in November 2006), reiterate this expectation. Specifically, the Notes explain that the Government has committed to progressively adopt a nationally consistent project appraisal methodology drawing upon the National Guidelines. Further, Project Proposal Reports (PPRs) and supplementary information requirements set out in the Notes on Administration (when updated in November 2006) were prepared in line with the National Guidelines methodology.

AusLink White Paper was published, but the principles underlying the Guidelines were reflected in the *AusLink Investment Program: National Projects Notes on Administration*.[11]

**10.** A key aspect of the National Guidelines is a staged appraisal process.[12] The intention is that projects pass through all filters such that they have demonstrated strategic merit and fit, and performed well in detailed appraisals. Detailed appraisals are expected to involve comprehensive analysis including detailed Benefit Cost Analysis, a financial or budget assessment, and specific impact analyses and impact statements (for example, environmental, social, regional, employment and equity).

**11.** A staged appraisal process drawing on economic analysis of anticipated project benefits and estimated whole-life costs reflects contemporary developments in managing large scale projects. For example a staged approach to project development and approval underpinned the recommendations of a 2007 independent review of major highway projects in the United Kingdom that was commissioned following large increase in estimates for projects.[13] In addition, Infrastructure Australia's published infrastructure decision-making framework includes the use of economic analysis as part of the project assessment and prioritisation process.

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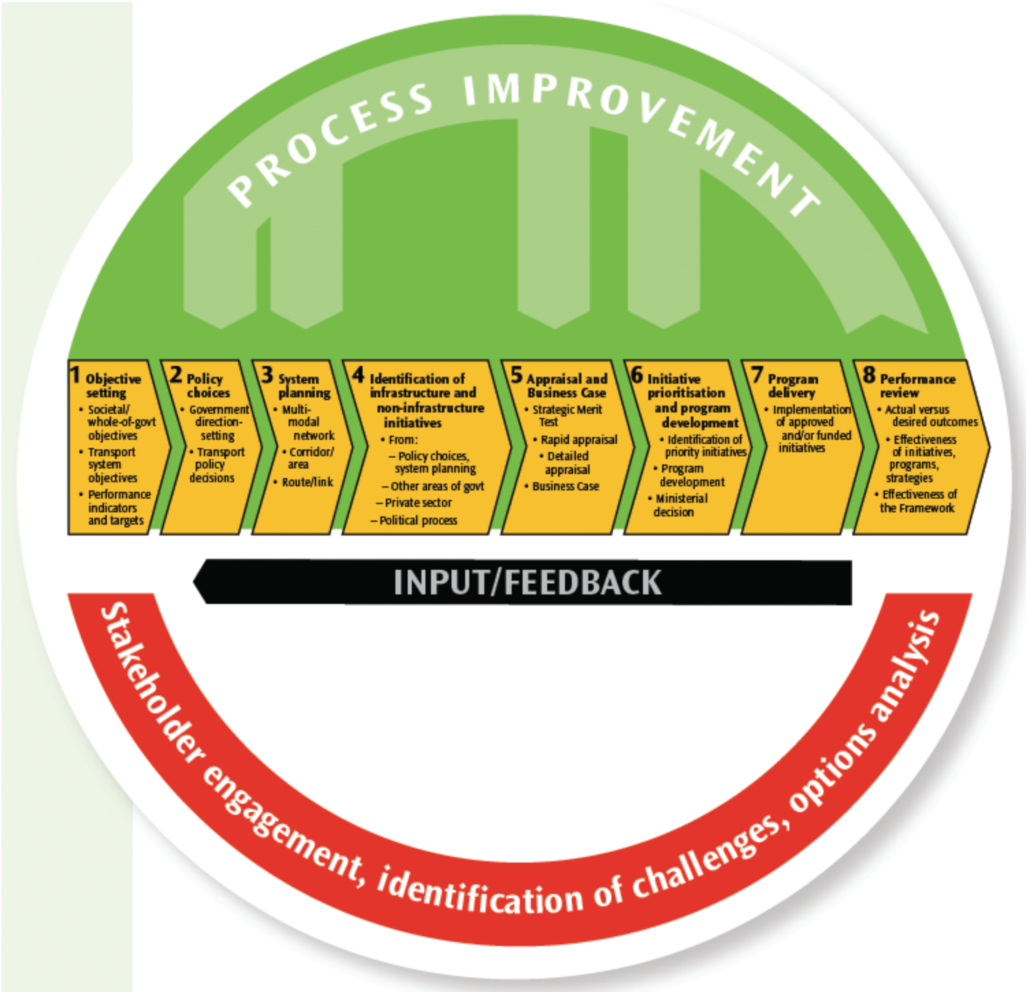
11 While the National Guidelines were not in place when projects were identified in the AusLink White Paper, the Notes on Administration explained that a funding recipient must submit a PPR for each project prior to funds being approved for that project. As noted earlier, information required by the Notes on Administration to be provided in a PPR for appraisal and, subsequent funding approval, was prepared in accordance with the National Guidelines methodology.

12 The staged appraisal process outlined in the National Guidelines is reiterated in the Notes on Administration.

13 Mike Nichols, Chairman & Chief Executive of The Nichols Group, *Report to Secretary of State for Transport: Review of Highways Agency's Major Roads Programme*, March 2007, p. 10.

## Figure 1

### The Transport System Management Framework




Source: Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 2—Strategic transport planning and development, December 2006, p. 12.

**12.** In December 2008, the Government announced that a total of $7.4 billion would be spent across 46 rail, road and education infrastructure projects with the objective of strengthening the economy and supporting jobs.[14]

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[14] *Nation Building: Rail, Road, Education & Research and Business*, Statement by the Honourable Kevin Rudd MP, Prime Minister, the Honourable Julia Gillard MP, Deputy Prime Minister and Minister for Education, Employment, Workplace Relations and Social Inclusion, the Honourable Wayne Swan MP, Treasurer and the Honourable Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, 12 December 2008, p. 3.

The project announcements included bringing forward the commencement of construction of 14 national road projects already announced under AusLink 2, with a total value of $4.5 billion.[15] Of the 14 national road projects, 12 had been announced to receive funding during the 2007 Election Campaign.[16] As audit fieldwork had been completed prior to the December 2008 announcement, ANAO has not examined assessment and risk management practices employed by DITRDLG for the projects announced at the end of 2008.

## Audit Conclusions

**13.** The delivery of AusLink National Network construction projects has been progressed through the development and implementation of new legislative, intergovernmental and program arrangements. Under these arrangements, up to 30 June 2008, more than $6 billion has been paid to the States for expenditure on National Network construction projects. Although there have been significant delays in some major projects, over 60 per cent of projects have been reported by the States as having been completed.

**14.** The majority of the AusLink 1 projects examined in the audit sample have been delivered, or are currently being delivered.[17] However, the delivery cost of most of the sampled AusLink 1 projects is greater than that expected at the time Australian Government funding was approved (with increases

[15] *Nation Building: Rail, Road, Education & Research and Business*, Statement by the Honourable Kevin Rudd MP, Prime Minister, the Honourable Julia Gillard MP, Deputy Prime Minister and Minister for Education, Employment, Workplace Relations and Social Inclusion, the Honourable Wayne Swan MP, Treasurer and the Honourable Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, 12 December 2008, p. 3.

[16] Of these 12 projects, six were included in the list of 'Early Start' projects approved in April 2008. In most instances, the 'Early Start' funding had been approved for necessary planning work in advance of a decision being made as to whether construction funding would be provided, whereas the December 2008 announcement involved the commitment of funds to accelerate construction works.

[17] At the time of audit fieldwork, two projects in the audit sample were not proceeding to construction, namely:

- funding to construct the F3 Freeway to Branxton project in NSW was not approved as a result of a significant increase in the project estimate. The project was included in the Bilateral Agreement with an estimated cost of $382 million. The estimated cost for the project was increased to $765 million (2005 dollars) in May 2005 and to $1200 million (2007 dollars) in July 2007. The F3 to Branxton link was included in Infrastructure Australia's December 2008 list of 94 infrastructure proposals for prioritisation provided to the Council of Australian Governments with an approximate capital cost of $1.1727 billion (in 2008 dollars); and
- rather than continue the planning and preconstruction work on the previous Government's $2.2 billion project known as the Goodna Bypass in South East Queensland, in the 2007 Federal election the ALP committed $1.1 billion to the Ipswich Motorway Upgrade between Dinmore and Goodna.

ranging from 6 per cent to 249 per cent).[18] There have also been significant delays in the delivery of some major projects. Key factors in these circumstances have included:

- projects being approved for funding after limited prior consultation with the States, and before the necessary planning and preconstruction work had been completed such that a robust estimate and delivery timeframe had not been established and/or without a comprehensive assessment of the likely net benefits of each candidate project; and
- shortcomings in estimating practices and DITRDLG scrutiny of estimates submitted by the States.

**15.** These budgeting and schedule issues underline the importance of developing robust project proposals that have been subject to rigorous scrutiny, and of care being taken with early project commitments and funding announcements. In particular, it is now recognised that project costs are not able to be estimated with confidence until after sufficient planning and scoping work has been undertaken.

**16.** At present, the documented project assessment and approval processes for National Network projects are premised on projects being considered for funding on a phased basis. However, it has become common for funding commitments for major roads projects to be made in the context of Federal Election campaigns. Many of the election commitment projects announced in both the 2004 and 2007 campaigns were at an early stage of development such that robust project proposals (including the likely delivery timeframe and expected cost) had not been developed. This was compounded by the aggregate cost of the project announcements made by each of the Coalition and the ALP exceeding the amount of available AusLink 2 funding. This situation creates challenges for DITRDLG and State transport agencies in delivering projects within the approved funding envelope.

**17.** Similarly, Infrastructure Australia identified four key weaknesses[19] in submissions to it requesting funding for projects under the first National Infrastructure Priority List, although the proponent considered their project submissions were sufficiently developed that a funding prioritisation decision

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[18] For further details, see Table 3.1 in the body of the report.

[19] See paragraph 6.28 in the body of the report.

could be made. These instances included some projects nominated by States and Territories for which AusLink funding had already either been committed or requested.[20] As indicated by Infrastructure Australia's response on this audit (see paragraph 72), Infrastructure Australia was established to improve the quality of infrastructure planning and investment strategy in Australia and believes it can play a positive role in helping States and Territories to improve their planning processes and to assist with capacity issues.

**18.** One of the significant changes proposed to be made under the AusLink planning and administration framework compared to the predecessor land transport program was the adoption of a comprehensive evaluation framework that would help improve the efficiency and effectiveness of program outcomes and project delivery. With the assistance of expert consultants, an evaluation framework was developed and documented in mid-2006. However, at the time of ANAO's audit, the framework had not been implemented. Feedback from the States to ANAO is that they support DITRDLG implementing the evaluation framework, in consultation with them. DITRDLG has advised ANAO of steps it is taking to implement the evaluation framework.

## Improvement opportunities

**19.** DITRDLG has advised ANAO that it takes seriously the need for it to have an active role in the monitoring and evaluation of projects, and it will continue to do so on an increasing basis as it reviews and refines its governance arrangements to meet policy requirements. DITRDLG also advised ANAO of the steps it is taking to implement the results of a 2007 consultant review of cost estimating practices. In addition, in response to the Issues Papers provided to agencies between August and November 2008, DITRDLG advised ANAO of various improvements it had made or was making to its administration of funding for National Network projects. Of particular note is:

- the implementation in November 2007 of the AusLink Project Management System (APMS) to enable improved reporting for program management with a number of reporting enhancements currently being made to the APMS product suite;

[20] Infrastructure Australia does not have a role in the selection or delivery of AusLink projects.

- changed organisational arrangements including the formation of new sections to review and develop business processes so as to enhance oversight, assessment and reporting within DITRDLG's Infrastructure Investment Division;
- improved procedures and guidance for DITRDLG staff to assist them better understand and apply the documented framework for project development, assessment, approval and monitoring;
- requirements for the States to document in project proposals their intended procurement strategy and delivery method, including the capacity of the State to manage arrangements such as alliance contracts; and
- the engagement of consultants to review practices and procedures regarding the Nation Building Program, identifying requirements and timeframes for the Nation Building initiatives and reporting on projects.

**20.** In developing the audit recommendations, ANAO has had regard to the improvements DITRDLG advised ANAO that it had already made or was making. ANAO has also had regard to the long term goal announced by Infrastructure Australia to improve the robustness and quality of project proposals from the States and other stakeholders for future spending on infrastructure, including land transport infrastructure. Specifically, in its December 2008 report to the Council of Australian Governments, Infrastructure Australia announced that it proposed to:

- publish more detailed guidelines, expanding on its decision making framework to give States and other organisations a clear process to follow;
- publish detailed guidance on the type of evidence required to demonstrate a project's strategic fit; and
- work with the various jurisdictions, the Australian Transport Council and other sector bodies to produce national guidelines for project appraisal.[21]

[21] Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 77.

**21.** In combination, these various initiatives, together with implementation of the recently promulgated cost estimating standard, can be expected to enhance the administration of funding for National Network projects and, consequently, the delivery of projects. ANAO has made four recommendations relating to DITRDLG:

- obtaining assurance that improvements to project estimation and assessment processes are implemented;
- explicitly addressing the department's role where projects are delivered through the alliance contracting method given the significant differences between alliance contracting methods and the more traditional contracting forms that have been typically used to deliver AusLink National Network projects;
- better managing scope risks for projects that receive accelerated funding; and
- documenting the improved administrative framework that has been developed where projects are announced for funding through political processes.

## Key Findings

### Governance framework (Chapter 2)

**22.** The AusLink White Paper was published in June 2004, with implementation of the White Paper commencing on 1 July 2004. The White Paper stated that legislative, intergovernmental and institutional mechanisms were a core component of AusLink. However, the ANAO observed that some key aspects of the project appraisal and funding approval arrangements for AusLink National Network projects involved a diminution in Australian Government control over the terms and conditions under which land transport funding is being provided to the States.

*Legislation*

**23.** The AusLink policy was given formal effect by the AusLink Act, which was assented to on 6 July 2005. Part 3 (sections 8 to 27 inclusive) of the AusLink Act commenced on 28 July 2005. This Part sets out the legislative framework applying to AusLink National Projects. Section 8 of the AusLink

Act defines an AusLink National Project as a project for which an approval by the Minister under subsection 9(1) is in force.[22] Project Approval Instruments made under section 9 of the AusLink Act are a key element in the governance framework for the delivery of projects on the National Network.

### *Bilateral Agreements*

**24.** With the introduction of AusLink, the then Government intended that arrangements covering funding contributions by States and Territories, the development of corridor strategies, future transport and land use planning, and assessment of projects would be set out in Bilateral Agreements to be negotiated between the Australian Government and each State. Negotiations with the States for the development of Bilateral Agreements were undertaken concurrently with the development of the AusLink legislation. Bilateral Agreements with each of the States were signed between 27 May 2005 (Victoria) and 8 December 2005 (Western Australia). Although funding is assessed and approved on a project by project basis and the Bilateral Agreements identified individual projects and the associated Australian Government funding amount, the Bilateral Agreements do not represent a binding commitment of Australian Government funding to the projects listed in a schedule to each Agreement.[23] Rather, the Bilateral Agreements document the overall level of funding for each State.

**25.** The various Bilateral Agreements state that they operate in conjunction with the legislation and that the AusLink Act takes precedence, but they are not funding agreements under the AusLink Act.[24] It was proposed that Bilateral Agreements not be recognised in the legislation, rather, that they would be on the same footing as agreements previously concluded with States for shared funding arrangements as such agreements were considered to have operated effectively within a well established and understood

[22] The transitional arrangements put in place through the *AusLink (National Land Transport – Consequential and Transitional Provisions) Act 2005* (Transitional Act) included making provision for projects that had been approved under the ALTD Act to be treated as if they had been approved under, and to therefore be administered under, the AusLink Act. The Transitional Act also amended the ALTD Act to provide that no new approvals of projects or programs under the ALTD Act were to be given by the Minister on or after 28 July 2005 (being the commencement date of Parts 3 to 8 of the AusLink Act).

[23] This means, for example, that States have no legal entitlement to Australian Government funding for a project until the project and the funding amount have been reflected in a Project Approval Instrument under the AusLink Act.

[24] In this respect, whilst the Act permits funding agreements to be used for projects being delivered by the States or a local government authority, it does not require funding agreements to be used.

Commonwealth-State framework. However, the previous agreements with the States for shared funding had operated under a governance framework that included legally binding Notes on Administration.[25]

**26.** A sound understanding of the total estimated project cost is important to inform decisions concerning the commitment of Australian Government funding to individual projects. Including accurate data on total estimated project costs in the AusLink 1 Bilateral Agreements was also important:

- in circumstances where the Australian Government was either fully funding a project, or funding an uncapped percentage of project costs given the risks involved where total project costs increase; and
- to provide an accurate baseline against which to assess the management of the Program.

**27.** One of the key shortcomings in the approach adopted by DITRDLG in preparing and finalising the Bilateral Agreements in AusLink 1 was that the baseline data provided on individual projects did not, in some instances, reflect a robust and up-to-date estimate of the expected cost of delivering the project.[26] DITRDLG also did not ensure that the Bilateral Agreements included current Australian Government funding amounts at the time of agreement.

**28.** Subsequent variations to projects have also not been well handled. In April 2006, DITRDLG had advised the then Minister that it would prepare amendments to Bilateral Agreements when new projects were added, project details significantly altered, additional Australian Government funding provided or significant reallocations of funds between projects. However, often

[25] The AusLink Notes on Administration reinforce the mandatory conditions set out in the AusLink Act. They also provide additional requirements for funding recipients in terms of the administration of AusLink National Projects, including in relation to reporting and accountability requirements. The 2005–06 AusLink Annual Report stated that the AusLink Notes include instructions for assessing projects, the conditions of approval, tendering arrangements and contract specifications and the system of payments. They also cover audit and programme evaluation issues to ensure taxpayers get value for money in the delivery of projects. (Source AusLink Annual Report 2005–06, DITRDLG, April 2007.)

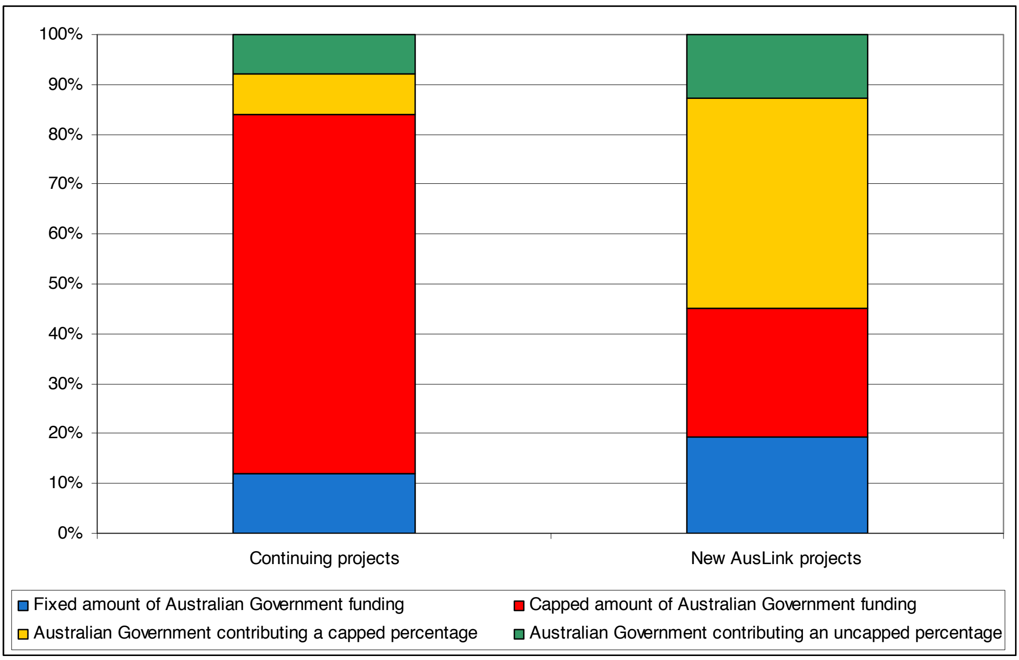
[26] Some of the understatements were substantial in monetary terms. For example, in the F3 Freeway to Branxton project, the RTA's most recent project estimate at the time the White Paper was finalised was $577 million (in 2003 dollars). The RTA's estimate of project costs was increased in May 2005 to $765 million (in 2005 dollars based on detailed engineering and environmental information). However, the Bilateral Agreement signed four months later with NSW (on 29 September 2005) included an estimated project cost of $382 million (which was a 2001 concept estimate adjusted to 2003 dollars). As a result, the then-current estimate of costs was $383 million higher (or more than double) the amount included in the Bilateral Agreement.

such changes did not result in DITRDLG amending the relevant Bilateral Agreement.

**29.** A key policy objective outlined in the AusLink White Paper was that there would be increased sharing of costs with the States. The Bilateral Agreements gave effect to this policy objective with the proportion of projects where costs were to be shared increasing from 29 per cent of continuing projects to 58 per cent of new AusLink projects (representing 84 per cent of AusLink 1 funding). There was also a noticeable change in the nature of the intended cost sharing arrangements. As illustrated by Figure 2, the significant majority (72 per cent) of shared funded projects continuing from the predecessor program involved the capping of the Australian Government contribution at a specified amount. For new AusLink projects, it was more common (55 per cent compared to 26 per cent) for the shared funding arrangements to involve the Australian Government contributing a percentage of actual project costs. For 76 per cent of these projects, the Australian Government's share of costs was capped at a specified amount.

## Figure 2

### Nature of shared funding arrangements




Source: ANAO analysis of Bilateral Agreements.

**30.** While the AusLink 1 Bilateral Agreements sought to address the financial risk to the Australian Government of project cost increases through cost sharing and cost capping arrangements, several areas still require attention:

- as noted, the Bilateral Agreements were not developed and maintained as an effective record of the projects being funded;
- agreed cost sharing arrangements were not reflected in the relevant Project Approval Instrument made under the AusLink Act; and
- for some projects where costs were to be shared, DITRDLG was not obtaining reports from the States that enabled it to assure itself that costs were actually being shared in the way intended.

**31.** DITRDLG advised ANAO that its approach to the second five year period addresses specific issues raised by the ANAO, including:

- DITRDLG had examined the role and legal status of Bilateral Agreements with the States. DITRDLG advised ANAO that a uniform Memorandum of Understanding (MoU) was to be executed bilaterally with each State/Territory in a way that meets the requirements of the National Partnership Payment process being rolled out under the Council of Australian Governments Commonwealth-State financial reform agenda;
- DITRDLG was working with its legal advisers to revise and strengthen the Notes on Administration to support the new MoU framework. Changes were expected to include clearer information for the States on performance reporting requirements, cost estimation practices, and project appraisal and approval frameworks; and
- any changes to the schedule of projects for the second five years of AusLink would be agreed with the States via a letter or at the project approval stage, and will be continuously recorded.

## Project planning and delivery (Chapter 3)

### *Project estimates and actual costs*

**32.** Notwithstanding the increased sharing of costs and use of cost capping arrangements, a feature of the first five year AusLink period was significant increases in the delivery cost of many projects compared to the estimate of costs at the time Australian Government funding was approved. In relation to the projects in the audit sample, the Australian Government contribution decreased for a small number of projects, with a maximum decrease of 17 per cent. It was more common for the delivery cost to be greater than the estimate at the time Australian Government funding was committed to the project, with increases ranging from 6 per cent to 249 per cent. Of the audit sample projects that were clearly identified in the drafting of the Bilateral Agreements, only three projects did not involve an increase or decrease in Australian Government contribution but, in each instance, a change in scope occurred which allowed the project to remain within the project estimate.[27]

**33.** ANAO's December 1993 report of a performance audit of predecessor National Highway Program included two recommendations in relation to estimating of project costs. The first was aimed at improving estimating performance and the accuracy of estimates. The second was aimed at the then Department of Transport and Communications assessing estimates consistently and objectively on a common basis for all States and for the Department to have greater control of the estimating process. However, it was not until a 2007 consultants' review of cost estimation practices in respect to certain projects in Queensland was completed that DITRDLG commenced the development of a national cost estimating standard. The review had concluded that DITRDLG should define its requirements better, that its staff should be trained to cast a more critical eye over the initial cost estimates for projects and that the lessons from the report should be implemented nationally.[28]

**34.** The 'Best Practice Cost Estimation for Publicly Funded Road and Rail Construction' was provided to States in October 2008. DITRDLG has also advised that the use of the standard is expected to be a requirement for all parties under the next set of Commonwealth-State agreements. While it is not possible for the application of the standard to eliminate cost overruns,[29] its promulgation, together with the associated training for DITRDLG staff, are positive developments. However, the cost estimation standard also observed

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[27] Two of the three projects involved a package/program of works that enabled some flexibility and cost changes to be absorbed.

[28] Minister for Transport and Regional Services, The Hon Mark Vaile MP, Speech: *A Strong Plan For Queensland's Roads And Railways*, VS15/2007, 19 July 2007.

[29] The cost estimation standard recommended that both P50 and P90 estimates (or their equivalent) be provided in any submission for Australian Government funding. This means that, even where there has been sound project management and cost planning, it is probable that the overall estimate will be exceeded:

- for half of all projects where a P50 estimate is used; and
- for one out of ten projects where a P90 estimate is used.

that, given past non-compliance with estimating procedures within State agencies, compliance with the procedures outlined in the standard would be an ongoing issue. Accordingly, it will be important that DITRDLG take steps to be assured that the standard is being adhered to and that decision-makers receive clear advice on the level of confidence attaching to project estimates.

### *Project timeframes*

**35.** The Bilateral Agreements specify, for each State, the total amount the Australian Government would make available for projects in that State in the five years from 2004–05 to 2008–09. The maturity of projects included in the Bilateral Agreements varied. However, this situation was not reflected in the Agreements.[30]

**36.** Compared to the expected delivery timeframe at the time Australian Government approval for a project was first provided, there have been significant delays in the delivery of some major projects. Some of the factors that have contributed to this result have been:

- as part of approving a project for delivery, a project is required to comply with the Australian Government and relevant State's planning, environment and heritage legislation. The requirement to abide by this legislation has implications for timing and costs of projects. Accordingly, in these circumstances, it can be difficult to accelerate spending on the construction of land transport infrastructure without making compromises in other aspects of project delivery; and
- planning and detailed project development may not be undertaken until Australian Government funds are committed for delivery of the project. This in turn impacts on the ability to accelerate delivery of projects where planning works have not been previously completed.

**37.** Project timeframes were also impacted by the AusLink Act requirement that a State which is a funding recipient use a public tender process for AusLink National Network projects, unless they have obtained an exemption from the Australian Government. ANAO identified non-compliance with the tendering requirements in relation to planning, design and other

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[30] Whilst the Bilateral Agreement made a distinction between a continuing project and a new project, this distinction did not necessarily relate to the level of development of the project (for example whether it was at a concept planning stage or whether design work had been substantially completed such that preconstruction work could begin), rather the distinction related to whether there was an existing commitment to fund the project as opposed to a new funding commitment.

preconstruction (including geotechnical, environmental studies and Aboriginal heritage) professional service contracts. Non-conformance to the tendering requirements differed between jurisdictions.[31] Long-standing issues were also identified where initial contracts were competitively let for a certain scope of work but significantly varied. In most instances construction works were tendered or an exemption from calling public tenders was sought from the Federal Minister.[32]

### *Project delivery strategies*

**38.** Construction projects can be delivered in a number of different ways, with the various delivery methods affecting the exposure of each party to risk. DITRDLG has advised ANAO that, whilst it has an interest in understanding the delivery method of the States, ultimately the States are responsible for choosing an appropriate delivery method and ensuring this is consistent with their obligations to the Australian Government. The choice of delivery method can take into account a range of factors including the state of the market, the type of project and the extent to which private sector partnering may be an important component of delivery. In addition, as a provider of significant amounts of funding for construction projects on the AusLink National Network, decisions made by the Australian Government, particularly in relation to funding of specific projects and the associated timing of payments can influence the choice of delivery method by the States.

**39.** In circumstances where projects were approved for Australian Government funding with limited prior consultation with the States, and before the necessary planning and preconstruction work had been completed such that a robust estimate and delivery timeframe had not been established, the capping of the Australian Government contribution has encouraged project delivery agencies to examine opportunities to minimise their own risk of cost overruns; this, in turn, may result in project scope reductions. In addition, where capping of costs has been combined with specification of a tight delivery timeframe, the project delivery options available to the States are

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[31] For example, in Queensland non-conformance appeared to be driven more by the capacity of local consultants to undertake the high level of work underway, whereas in NSW, tendering requirements were being circumvented due to timing pressures.

[32] In January 2008, one project in the audit sample (Molong HML bridge project) was planning to proceed to construction without having an exemption provided by the Minister. An exemption was sought by RTA in April 2008 yet it was not until 26 February 2009 when the exemption was provided.

narrowed, which for some of the sampled projects was a significant factor in the States deciding to use project alliances.

**40.** A key part of a successful alliance contracting arrangement relates to the scoping of the project and the setting of agreed targets. This 'project definition phase' provides a key input to the alliance financial arrangements. Depending on the extent of DITRDLG's involvement, the negotiation process can make decisions on factors, such as the project scope, less transparent to the Australian Government than traditional contracting methodologies.[33] For the projects examined by ANAO, DITRDLG's level of involvement in the development and finalisation of the alliance arrangements so as to protect the Australian Government's interest, varied.

## Accelerated spending on National Network projects (Chapters 4 and 5)

**41.** To date, there has been two occasions in which spending on National Network projects has been accelerated above levels previously agreed with the States:

- to assist reduce a higher than expected Budget surplus, in June 2006 $1.82 billion was paid to five States and the Northern Territory to accelerate work on parts of the National Network with a specified completion date by 31 December 2009; and
- projects identified as election commitments.

**42.** The limited prior consultation with the States before funding decisions were made in relation to 2004 election commitments for certain projects and the accelerated funding provided in June 2006 meant that the necessary planning and preconstruction work had not been completed and also made it difficult for work to be scheduled by the States. This situation, together with the specification of challenging delivery timeframes as a condition to the provision of Australian Government funding can lead to higher project and program costs because of the ability of States to schedule work whilst having regard to the prevailing market environment and works already underway or

[33] Reductions in project scope so as to constrain initial construction costs can increase total maintenance costs for the Network and/or require further construction work to be undertaken sooner.

committed. One flow-on effect can be requests for additional Australian Government funding.[34]

**43.** The National Guidelines advocate that all proposed projects, including those identified through political processes, should be subject to the same appraisal process[35] and that appraised proposals should be prioritised to develop a forward program of preferred initiatives through a transparent process that is founded on sound economic and business investment principles (whilst recognising that Ministers will have the final say over the initiatives to be included in any program or works).[36]

**44.** The Framework set out in the National Guidelines uses a three stage appraisal process (see Figure 3). The intention is that the projects that pass through all filters demonstrate strategic merit and fit, and perform well in a detailed appraisal. The AusLink Investment Program: National Projects *Notes on Administration* provide support for the adoption of the National Guidelines by placing an emphasis on risk assessment and Benefit Cost Analyses. The Notes on Administration also advocate the adoption of a phased approach to approving funding for National Network projects, based on Project Proposal Reports that include estimated cash flows and contingencies (risk adjusted to P90 confidence level).

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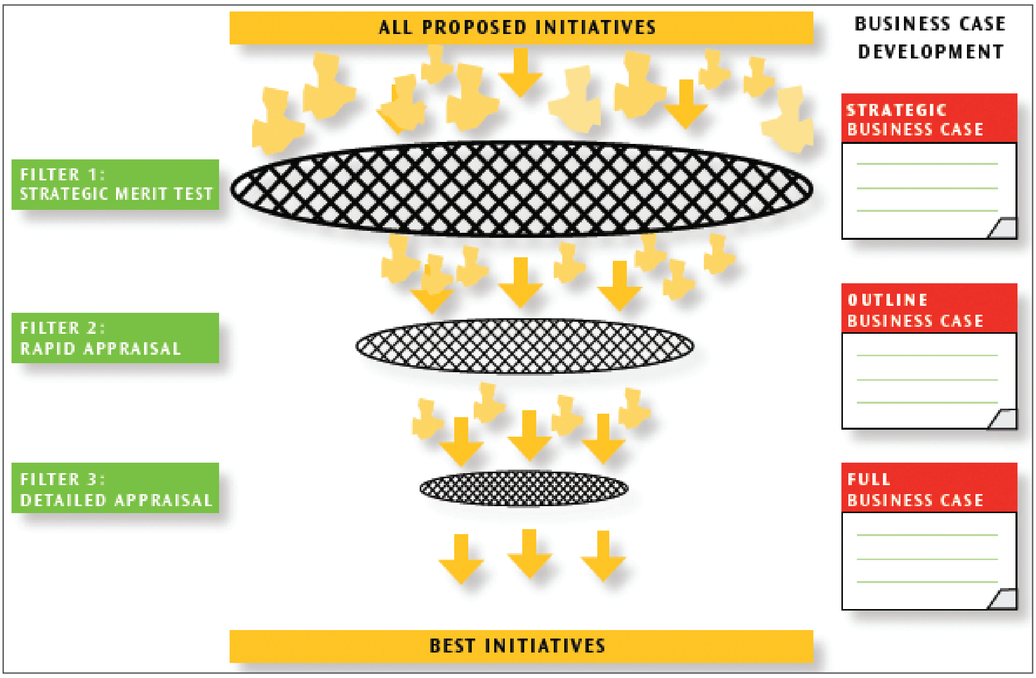
34 For example, due to a clash of tender closing dates with a large State-funded contract, the closing date for tenders on the Hume Highway—Coolac Bypass project (NSW) was extended. Of the six pre-qualified companies available to tender, three companies declined to tender because of resourcing issues. Further, the tender prices substantially exceeded the budget provisions in the cost estimate having been received by RTA at a time when tender prices in the construction industry were increasing well in excess of the general rate of inflation. As a result, an increase in project funding from $116.5 million to $141.3 million was sought by the RTA.

35 In relation to the accelerated funding of the Bruce Highway Tully floodworks, the Queensland Department of Main Roads (QDMR) advised ANAO on 28 July 2008 that 'QDMR had submitted a PPR and Stage 2 variation request but the approval process was overtaken with the announcement of the full funding for the project.'

36 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, pp. 18–20.

## Figure 3

### Three stage appraisal process for proposed projects




Source: Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 2—Strategic transport planning and development, December 2006, p. 54.

**45.** The process through which 'fast-tracked' funding for certain National Network road projects was progressed departed from that set out in the National Guidelines and the Notes on Administration. Specifically, after the Phase 4 ('Identification of infrastructure and non-infrastructure initiatives') decision had been made, Phase 5 ('Appraisal and Business Case') and Phase 6 ('Initiative prioritisation and program development') were bypassed (see Figure 1 earlier).

**46.** As noted above, historically, DITRDLG and the States have had difficulties in estimating the cost of land transport construction projects. It is generally recognised that costs are not able to be identified with any precision until after planning and scoping work has been undertaken. In circumstances where decisions may be taken to accelerate funding in a short period of time (such as in the light of better than expected Budget outcomes and election commitments with near-term horizons) it is commonly the case that planning and preconstruction work has not been completed, adding to the risk of time and cost blow-outs. This was the case for each of the accelerated projects examined by ANAO as part of this audit.

### *Improving the National Network program (Chapter 4)*

**47.** The $1.82 billion AusLink Improving the National Network administered program was announced in the context of the Portfolio Supplementary Additional Estimates Statements for 2005–06.[37] As noted earlier, the program involved June 2006 payments to five States and the Northern Territory to accelerate work on parts of the National Network with a specified completion date by 31 December 2009.

**48.** While the AusLink White Paper identified the first five-year program of works, the selection of projects to be funded under the Improving the AusLink National Network program did not originate through the corridor strategy development process foreshadowed in the White Paper, or otherwise in consultation with the States and Territories and other stakeholders.[38] Instead, the selection of projects was informed solely by advice from Australian Government agencies, in the context of Ministers seeking advice to assist to reduce higher than expected Budget surpluses.[39]

**49.** DITRDLG has advised ANAO that the then Government's aim under the Improving the National Network Program was to provide advance payment by 30 June 2006 to States. As indicated in paragraph 41, the then Government wanted payments made by 30 June so as to assist reduce a higher than expected Budget surplus and, accordingly, phased approval and linking payment to project needs was not an option. Against this background two key factors in the funding offers for the accelerated projects was that works be commenced early with completion by the end of 2009, and that the States bear the risk of cost overruns. However, there were two responses available to the States to mitigate the risk of cost increases, namely:

- ensuring that there was a broad description of the works being funded in the MoUs and Project Approval Instruments, therefore providing

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[37] DITRDLG, *Annual Report 2005–06*, p. 79. These funds were part of $2.4 billion in AusLink funding paid by DITRDLG in June 2006. The other two elements were: $270 million to the Australian Rail Track Corporation (ARTC); and $307.5 million in supplementary funding paid under the Roads to Recovery Program.

[38] While the AusLink White Paper stated the then Government's objective to duplicate the Hume Highway by 2012 (page 38); in partnership with the NSW Government, to duplicate the Pacific Highway by 2016 (page 36); and to extend the duplication of the Bruce Highway past Gympie by 2020 (page 45), only certain projects were specifically identified.

[39] See, in this respect, ANAO Audit Report No.22 2007–08, *Administration of Grants to the Australian Rail Track Corporation*, 14 February 2008, p. 16.

opportunities for the scope or standard of the work to be adjusted to maintain costs within the approved funding; and

- including sufficient contingencies in cost estimates for the projects to be delivered.

**50.** In each of the three accelerated project packages examined by ANAO (covering three States), the accelerated approval of Australian Government funding enabled work to be undertaken earlier than would have otherwise been the case. Nevertheless, the limited prior consultation with the States and payment of funds before a robust estimate and delivery timeframe had been established[40] also makes it more difficult for State delivery agencies to optimise the planning and scheduling of new works projects and to manage cash flows, with consequential risks arising in relation to:

- decision-makers not being provided with information on the uncertainty that is inherent in project estimates for 'fast track' projects,[41] creating unrealistic expectations concerning the delivery timeframe and cost;
- projects being broadly described in the MoU signed with each State and the related Project Approval Instruments, which provided opportunities for the scope and/or standard of the work to be adjusted to maintain costs within the amount of Australian Government funding that had been announced; and/or
- the available options for delivering major packages of works being reduced to project alliances and similar approaches—as outlined at paragraph 40, under project alliancing decisions on factors such as the project scope can be less transparent to the Australian Government than traditional contracting methodologies.

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40 In this respect, a recent report on scoping practices in Australian construction and infrastructure projects observed that the consequences from project scoping inadequacies are substantial, with survey respondents (36 per cent of whom were from the road or rail sectors) reporting cost overruns, delayed completion and disputes. The report commented that: 'Project timetables occasionally are driven or determined in light of political imperatives or commercial factors, which are not necessarily linked or assessed for the overall smooth running of the project. Such factors can arise in either the public or private sectors. Project delivery timetables should be determined with realistic time periods based predominantly on the project demands and requirements, and not influenced unnecessarily by external factors.' Source: Blake Dawson, Australian Constructors Association and Infrastructure Partnerships Australia, *Scope for Improvement 2008: A report on scoping practices in Australian construction and infrastructure projects*, 2008, pp. 7 and 24.

41 For example, this can result from factors such as a lack of clarity regarding the project scope, design and/or delivery timeframe.

### *Projects identified as election commitments (Chapter 5)*

**51.** During election campaigns, Ministers and other government and non-government candidates announce party election policies and commitments. Except where a Minister with the necessary authority has approved spending for the relevant project prior to the commencement of the caretaker period, party election policies and other election commitments announced during an election campaign represent political undertakings to provide certain funding, services or facilities in the event the relevant party is elected or re-elected to government.[42]

**52.** The financial framework requires that any decision by a Minister or authorised official to approve the expenditure of public money to satisfy an election commitment following an election must be undertaken in a manner that considers whether the proposed expenditure represents efficient and effective use of public money.[43] An important role for the department in putting election commitment projects forward for funding approval following an election is to ensure Ministers are appropriately informed as to the nature of the project and whether it is likely to make efficient and effective use of the public money. This assists Ministers in carrying out their statutory obligations in respect to approving the expenditure of public money.[44]

#### Costing of election commitments

**53.** To enable the electorate to be better informed of the financial implications of election commitments, the Charter of Budget Honesty Act includes provisions for the costing by the Department of Finance and Deregulation (Finance) of commitments affecting outlays and expenses. The main purpose of these provisions is to provide public confidence in costings by having independent parties undertake them.[45] However, it is up to the Government and the Opposition to decide which, if any, policies will be submitted for costing, and when. In this respect:

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[42] ANAO Audit Report No.14 2007–08, *The Regional Partnerships Programme*, Canberra, 15 November 2007, Volume 2—Main Report, p. 139.

[43] ANAO Audit Report No.14 2007–08, *The Regional Partnerships Programme*, Canberra, 15 November 2007, Volume 1—Summary and Recommendations, p. 56.

[44] ibid.

[45] Parliamentary Library, *Charter of Budget Honesty: Pre election Provisions*, Research Paper 10 of 2001–02, 25 September 2001.

- none of the ALP's land transport funding announcements in the 2004 or 2007 Elections were submitted to Finance for costing; and
- of the five (of eight) 2007 Coalition land transport policies that were submitted for costing, Finance did not complete a costing of any of the policies that had been submitted. This was because additional information requested[46] from the Coalition was not received for four of the policies and, for the final policy submitted for costing, the late stage at which it was submitted.

**54.** Accordingly, it was only in respect to the Coalition's 2004 land transport election commitments where Finance completed its costing work. Finance's costing was premised on an assumption that the commitments were to an absolute value of funding. However, this assumption was inconsistent with the nature of many of the commitments (some were to fully fund certain works with others involving an undertaking to fund a share of actual project costs). Because of the preliminary nature of the cost estimates underlying some of these commitments combined with increasing construction costs (a direct risk to the Australian Government where it is either fully funding a project, or contributing a share of actual costs) the amount of AusLink funding approved to meet the new funding commitments from the 2004 Election was $288 million higher than the $274 million in new commitments that had been announced. Delays have also occurred with the delivery of works, reflecting the limited planning that had been undertaken prior to the project being announced as an election commitment—an issue not addressed in Finance's costing.[47]

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46 In March 2009, Finance advised ANAO that it had created a spreadsheet that was used to track 2007 Coalition land transport funding commitments and outlined expenditure profiles for these commitments where these existed. This spreadsheet, as well as Finance's knowledge of the existing estimates, was the basis for seeking, and framing, questions for further information to undertake the costing. Finance considered that there was no need for further analytical work to be undertaken given the lack of supporting information on the 2007 Coalition land transport funding commitments.

47 In this respect, the cost estimation standard (*Best Practice Cost Estimation for Public Funded Road and Rail Construction*) referred to at paragraph 34 notes that outturn estimates, when prepared in an early phase of a project that may not be implemented for several years, are significantly influenced by the cost escalation component such that any changes to the implementation program or fluctuation in annual escalation rates can significantly alter an outturn estimate.

**55.** In the context of *Operation Sunlight*, the Government is undertaking a review of the Charter of Budget Honesty Act.[48] In March 2009, Finance advised ANAO that the review was at a formative stage and options to increase the likelihood of policies being submitted for costing will be considered by Government upon its completion. There would also be benefit in Finance giving consideration to an expansion of its published guidance on the information normally required for a costing to reduce the likelihood that costings are delayed (and, potentially, not completed) due to insufficient information being submitted with the original costing request. On this issue, Finance advised ANAO that expanding the guidelines required detailed consideration and that this would occur in the review of the Charter of Budget Honesty that is underway.

### Project delivery

**56.** ANAO's audit sample included two of the six new projects to which funding had been committed by the Coalition in the 2004 Election, and a further project which involved funding being brought forward for earlier construction. In each instance, the respective State moved quickly to give effect to the election commitment, however:

- in each instance, the amount announced as the election commitment was based on early estimates of project costs that were not prepared in 'dollars of the day' and would therefore inevitably become higher on an outturn cost basis (that is, once the estimate of the project at current prices includes estimated cost escalation for the period up to the physical completion of the works within a specified program). Subsequent planning work led to significantly higher project costs being estimated. As a result, in order for works to proceed, the amount of Australian Government funding being provided to each project is now substantially higher than that announced as the election commitment;
- there have also been delays in the delivery of one project (which further increased costs). Whilst the election commitment to bring forward the

[48] ANAO's Planned Audit Work Programme for 2008–09 includes a proposed audit of the administration of the costing of election commitments by the Department of the Treasury (in respect to policies affecting revenue) and Finance (in respect to polices affecting outlays and expenses). The proposed audit would assess the effectiveness of the costing of elections commitments under the Charter of Budget Honesty, with particular reference to the caretaker period for the 2007 general election. The audit will not commence until the results of the review of the Charter of Budget Honesty Act are known.

timing of funds for this project so as to accelerate works succeeded in initiating the tendering process and preconstruction activities, construction was unable to commence due to the need to meet planning consent requirements.

**57.** Similar to the 2004 election commitment projects, typical features of many of the 2007 election commitment projects were that the project was at a concept or preliminary planning stage[49] and reliable outturn estimates of the project cost had not yet been prepared (as planning and scoping activities had not yet been sufficiently progressed). It is generally recognised that, in these circumstances, the risk of time and cost blow-outs is increased.

**58.** At the time of the audit, DITRDLG advised ANAO that 2007 election commitments were being progressed as follows:

- Ministerial announcements concerning projects made in the 2008–09 Budget reflected a set of estimates and a statement of the Government's intent to fund the projects. These announcements were a precursor for the provision of information by the States to DITRDLG to enable the consideration of the project against relevant legislative requirements;
- project approval will occur at the time the Minister approves a project under the terms of the AusLink Act, at which time significant information[50] is required to have been examined by DITRDLG so as to enable the assessment of the project against the requirements of the

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49 The Notes on Administration provide that, except for small or straightforward projects, funding will not be approved for construction until the project has been scoped and detailed planning and design has been completed.

50 For example, the first stage of information gathering by DITRDLG for assessment purposes occurred in March 2008 when State transport agencies were requested to provide DITRDLG with 'project concepts' for the identified election commitment projects and any others that reflect Government commitments on which activity could commence in 2007–08 or 2008–09. DITRDLG asked that the 'project concepts':

  - address the information requirements set out in the AusLink Notes on Administration for the Strategic Merit Test;
  - include a best cost estimate (both in current dollars and outturn dollars), with the stage of estimation and risks clearly identified. In addition, a contingency was to be included in the estimate that was commensurate with all risk factors so that there would be a high degree of confidence that the risk estimate would not be exceeded;
  - provide a cash flow for the project reflecting the announced Australian Government contribution and State/Territory contributions (where the Australian Government contribution is capped or represents a share of the cost) as well as a benefit cost analysis; and
  - advise on the stage of development of the project, including when construction work is likely to commence.

AusLink Act and the *Financial Management and Accountability Regulations 1997*; and

- early commencement of a number of election commitment projects has been provided for on the basis of the readiness of the States to commence the projects, and where the potential risk exposure to the Australian Government could be limited. A number of these 'Early Start' projects were still at the development stage and are subject to the normal statutory requirements before DITRDLG provides advice to the Minister in relation to the necessary statutory approvals.

**59.** The staged decision-making framework for the 2007 election commitments is consistent with the National Guidelines and the Notes on Administration. The approach is also consistent with the principles of Ministerial discretion in deciding whether, and to what extent, they should approve funding for projects announced as election commitments, and Ministers' obligations under the financial framework to only approve funding after making reasonable inquiries that have satisfied themselves that the proposed expenditure represents efficient and effective use of public money.

**60.** In February 2009, DITRDLG advised ANAO that election commitment projects are required to meet all the eligibility and appropriateness tests as all other projects funded under the AusLink Act unless there is a Government policy decision to treat a project a specific way such as advanced funding. However, program administration has not adopted a consistent approach to requiring a Project Proposal Report (which is to include the proposed project scope, the estimated project cost and issues impacting on project risk) to be prepared—for some projects they were prepared for each approval stage by the relevant State, for others DITRDLG did not seek them. There would be benefit in the AusLink Investment Program: National Projects *Notes on Administration* being amended to address the truncation of approval stages and possibility of advance funding (and related risk management strategies) that are to be applied to projects such as those announced as an election commitment in 2007. Risks to program outcomes can be increased where agencies do not document and apply sound procedures to assess projects announced as election commitments, and/or do not effectively administer any funding that might be approved.

## Program and project evaluation (Chapter 6)

**61.** Program monitoring and review is a fundamental element of sound governance and quality management.[51] It supports ongoing assessment of progress and risks and informs decisions about whether program objectives are achievable, or whether the program's scope, timing or resourcing need to be reviewed.[52]

**62.** Consistent with these general principles, the final phase of the Framework promulgated by the National Guidelines (referred to as 'performance review') is to involve assessing the ex-post efficiency and effectiveness of decisions, planning and implementation processes, and transport system performance.[53] Post-completion evaluation of individual projects, or of entire programs, is expected to provide lessons from past experience that could lead to improvements in future capital investment decisions.[54]

**63.** One of the significant changes proposed to be made under the AusLink planning and administration framework compared to the predecessor land transport program was to involve the adoption of a comprehensive evaluation framework that would help improve the efficiency and effectiveness of program outcomes and delivery.[55] The AusLink White Paper had envisaged that evaluation of completed projects would be directed at achieving continuous improvement in project assessment, decision-making and implementation, and that they would reinforce the need for project proponents

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51 Department of the Prime Minister and Cabinet and ANAO, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide, Canberra, October 2006, p. 52.

52 Department of the Prime Minister and Cabinet and ANAO, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide, Canberra, October 2006, p. 52.

53 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, p. 20.

54 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 3—Appraisal of Initiatives, December 2006, p. 97.

55 In this respect, an April 2001 internal review of the management and administration of roads commissioned by DITRDLG following tabling of ANAO's third audit of the management of the predecessor National Highways Program found that, if a formal evaluation of the department's roads programs had been undertaken within a four to five year cycle, it could have established the existence of a number of administrative and management issues in a timely way and proposed initiatives for their resolution.

to be rigorous in their estimation of both benefits and costs in the economic assessments undertaken at the project proposal stage.[56]

**64.** Substantive work on the AusLink evaluation framework commenced in late 2005, some 18 months after the White Paper was issued. Specifically, in November 2005 DITRDLG decided to appoint consultants to develop the AusLink evaluation framework. The consultants provided the final report to DITRDLG in July 2006.

**65.** In a subsequent review of AusLink undertaken for the then Government, finalised by DITRDLG in October 2006, implementation of the AusLink Evaluation Framework was identified as a major priority for the next two years. At that time, the then Minister for Transport and Regional Services was advised by DITRDLG that evaluations of the various components of AusLink and the business processes that support them would commence in 2007, and that this would facilitate periodic review of AusLink policy to ensure AusLink outcomes and processes are effective and appropriately focused. However, there has been considerable slippage in the implementation of the evaluation framework. DITRDLG has advised ANAO that timing of evaluation activities was delayed due to the November 2007 Federal election and the need to establish and implement the priorities of the new Government. Of particular importance has been the absence of evaluations of completed projects.

### *Ex-post project evaluations*

**66.** The Bilateral Agreements outlined a process for the use of project-specific performance indicators so as to enable the regular measurement of achievement of the AusLink objectives. The final report of the AusLink evaluation framework consultancy envisaged that post-opening evaluations undertaken six to 18 months after opening of the project to traffic would comprise the majority of project evaluations. The report of the consultants engaged by DITRDLG (see paragraph 64) proposed that post-project evaluations would be ongoing from July 2006. The consultants' final report further noted that, in addition to the results of individual project evaluations, further insights can often be gained by grouping project results and identifying common trends or errors.

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[56] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon. Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. 120.

**67.** As of September 2008, there were 43 National Network projects that had been completed since August 2006 and had been open to traffic for at least six months. However, DITRDLG records examined by ANAO did not identify that any of the 43 projects (across six States) had been subject to a post-opening evaluation.[57] In addition, where project evaluations were undertaken by the States, DITRDLG did not obtain copies for its information and consideration.[58]

**68.** In February 2009, DITRDLG advised that a program of post-project reviews of 30 projects that had been completed by December 2007 (15 projects with a cost greater than $20 million, and 15 smaller projects) was underway with the final report expected in June 2009. In addition, DITRDLG has advised ANAO that improvements to its business processes will include:

- a draft project assessment checklist to ensure that all aspects of assessment are considered by staff before submissions to the Minister are prepared; and
- a template letter to the States advising of project approvals has been prepared to ensure that at the conclusion of a project a completion report is provided to the department summarising performance against scope, schedules, budget and quality. It is expected that the report will also articulate lessons learnt and any opportunities for improvement in current practices including organisational strategies, business processes, project planning and delivery.

## Summary of agency responses

**69.** A copy of the proposed report was provided to DITRDLG, Finance, the Department of the Prime Minister and Cabinet, and Infrastructure Australia. Extracts of the proposed report were also provided to the three State road transport authorities included in the audit, namely, the NSW Roads and Traffic

[57] DITRDLG advised ANAO that the Bureau of Infrastructure, Transport and Regional Economics has been undertaking an ongoing program of ex-post reviews of the economic and social impacts of specific projects under AusLink 1. However, ANAO comparison of the five project locations advised by DITRDLG and those project locations included in the AusLink White Paper and the Bilateral Agreements identified that none of the five projects were approved under AusLink or were considered continuing at the time of introducing AusLink 1.

[58] In December 2008, the NSW RTA provided ANAO with evidence of Project Completion Reviews for 37 of its projects (12 of which were projects federally funded in full or part). DITRDLG did not obtain these evaluations (which focus on the two main aspects of delivery and strategy and are conducted shortly after project opening).

Authority (RTA), Queensland Department of Main Roads (QDMR), and the Tasmanian Department of Infrastructure, Energy and Resources (DIER).

**70.** DITRDLG, Finance and Infrastructure Australia provided formal comments on the audit report. These are reflected in Appendix 1. Comments were also received from State road authorities, and are contained in Appendix 2. Summary comments received from Commonwealth entities were as follows:

## DITRDLG

The department agrees to the ANAO Report's four Recommendations and will put in place strategies for their implementation. The department is committed to continuously improving administration of the Government's land transport infrastructure investment program and notes the recognition in the ANAO's Report of the significant administrative improvements put in place by the department over the past eighteen months.

## Finance

Finance supports the general tenor of the report. Finance also supports the report's four recommendations. Nevertheless, the report could have better addressed the issue of election costings, particularly in regard to developments, such as clarification of the scope of work, which often occur subsequent to an election.

Finance considers that the report does not make sufficiently clear that costed election commitments are usually further considered after an election, for example, in the light of refined policy options or new proposals. This subsequent consideration may result in a revised scope of the proposals originating from election commitments and this may result in higher levels of expenditure. If such factors are not considered, incorrect inferences may be made about the precision of the costings provided under the Charter of Budget Honesty.

The points made in respect of the need to consider the provision of further advice in *The Charter of Budget Honesty, Costing of Election Commitments, Guidelines* to facilitate the costing process are valid and will be considered in the review of the Charter of Budget Honesty.

*ANAO comment*

**71.** It is the case that election commitments are usually considered after an election, as indicated by Finance, and reflected in the audit report.[59] The audit report also draws attention to Finance's role in independently costing election commitments prior to polling day, as the Charter of Budget Honesty intends that these costings are to assist the electorate be better informed about the financial implications of election commitments. For Finance's costings, the issue raised by the audit report does not relate to any clarifications or scope changes that may occur after the election, but to opportunities for Finance to improve its pre-election costing analysis. In this respect, the report recognises that additional information was sought by Finance so as to better inform its costing of 2007 election commitments (compared to the approach taken for the 2004 costings).

## Infrastructure Australia

**72.** Infrastructure Australia provided comments in relation to its own processes as well as noting a number of comments in light of the ANAO report. The latter are reproduced below, with Infrastructure Australia's full response in Appendix 1.

> There is of course an important read-across between projects being funded by AusLink and projects proposed to Infrastructure Australia.
>
> This read across is two-fold. First, from a transport planning perspective, to understand the case for certain projects we need to understand the associated AusLink investments and the impact on demand. Second, in a number of cases, States and Territories have requested support from Infrastructure Australia (and therefore the Building Australia Fund) for projects for which AusLink funding has either been committed or requested.
>
> However, as Infrastructure Co-ordinator, I do not have a role in the selection or delivery of AusLink projects.
>
> …
>
> Your letter notes that Infrastructure Australia's 2008 report to COAG identifies four weaknesses in submissions, and discusses various reasons for those weaknesses.

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59 For example, Chapter 5 of the audit report, paragraphs 5.55 to 5.74, outlines the processes adopted by DITRDLG to progress Ministerial consideration of projects announced as election commitments during 2007.

I do not believe that the reason that many of the analytical steps were missing from submissions can be explained by the nature or basis of the submissions process or the timetable.

First, it is entirely appropriate that different project proposals are at different stages of development. In some cases, projects will be "ready to go". In other cases, projects will be at the conceptual stage. Many more will be somewhere along the spectrum between these two points. Therefore variation in the depth and thoroughness of submissions is to be expected.

Second, the comments in the 2008 report relate to the quality of some submissions that proponents believed were ready for decision. I do not believe that the basis on which submissions were called nor the timeframe is an explanation. Whilst the original call for submissions was outside the control of Infrastructure Australia (as the call predated its inception), Infrastructure Australia moved quickly to publicise its framework and its methodology, giving proponents many months to meet our needs.

We engaged regularly with proponents, who had many opportunities to submit more information to Infrastructure Australia over a period of nearly 9 months.

Third—and perhaps more significantly—our process is not radically innovative in substance. The fundamental elements have long been central to good infrastructure policymaking. In short, all proponents should already have been going through the various analytical steps in the course of normal decision making.

Your letter also suggests that variable State or Territory planning processes, and issues of capacity, may be responsible for the weaknesses in submissions. I believe both to be true in some cases. One of the very positive roles Infrastructure Australia can play is to help States and Territories to improve their planning processes and to assist with capacity issues. Again, though, neither explanation suffices: good planning and sufficient capacity is crucial to good infrastructure policy, regardless of Infrastructure Australia's requirements.

Infrastructure Australia was set up to improve the quality of infrastructure planning and investment strategy in Australia. Perhaps we should not therefore be surprised that some of the submissions we received contained weaknesses. A number of explanations can be provided for those weaknesses. Ultimately, I believe it comes down to a simple choice. We can continue to take decisions on large infrastructure projects based on poor planning and insufficient evidence—or we can take those decisions following careful planning and rigorous assessments.

All the members of the Infrastructure Australia Council are committed to the latter approach. We will continue to implement that approach in our own processes; and we will continue to help the Commonwealth, States, Territories and other bodies to implement the approach in their own processes.

# Recommendations

*Listed below are recommendations discussed in the body of the report. The recommendations are directed at DITRDLG, which has responsibility for ensuring that Australian Government policy objectives and accountability responsibilities are satisfied. As summarised below, DITRDLG agreed to all of the recommendations. In addition Finance agreed that implementation of the recommendations will further assist in improving the effectiveness of the administration of projects on the AusLink National Network. Two of the three States road transport authorities also made comments in relation to the recommendations. The NSW RTA welcomed the recommendations as it considered they provide a framework for strengthening DITRDLG's program and project collaboration. The Tasmanian DIER supported the recommendations as, in its view, they will more than likely strengthen project governance planning, risk management and cost control. Where provided, detailed comments on individual recommendations have been included in the body of the report.*

**Recommendation No.1**

**Paragraph 3.26**

ANAO *recommends* that, the Department of Infrastructure, Transport, Regional Development and Local Government continue the process of improving the estimating rigour for National Network construction projects by:

(a) developing procedures and templates that will assist in providing greater clarity to Ministerial decision-makers concerning the level of confidence attaching to project estimates (including, as appropriate, information on the purpose of the estimate, its order of accuracy and how these factors are addressed in the project budget); and

(b) implementing a risk-based program of examining compliance by States with the recently promulgated cost estimating standard.

**DITRDLG response:** *Agreed*

**Recommendation No.2**

**Paragraph 3.79**

ANAO *recommends* that the Department of Infrastructure, Transport, Regional Development and Local Government, enhance the Notes on Administration to explicitly address the extent and nature of the department's role in circumstances where the Australian Government is providing funds to a project that may be delivered via an alliance contracting method.

**DITRDLG response:** *Agreed*

**Recommendation No.3**

**Paragraph 4.38**

ANAO *recommends* that the Department of Infrastructure, Transport, Regional Development and Local Government, in administering the payment of accelerated funding that is announced for projects on the National Network, improve its management of risks by:

(a) consistently documenting in Project Approval Instruments the scope of works to which the Australian Government is contributing funding; and;

(b) scrutinising the project delivery arrangements adopted by the States so as to advise Ministers on whether the work will be delivered in accordance with the scope and timelines expected at the time funding was approved, and to the desired quality standard.

**DITRDLG response:** *Agreed*

**Recommendation No.4**

**Paragraph 5.75**

ANAO *recommends* that the Department of Infrastructure, Transport, Regional Development and Local Government address in the Notes on Administration the appraisal and decision-making framework for projects on the AusLink National Network announced as election commitments.

**DITRDLG response:** *Agreed*

# Audit Findings and Conclusions

# 1. Introduction

*This chapter outlines the Australian Government's investment in land transport through the AusLink program; provides an overview of the significant funds allocated for expenditure under AusLink; and sets out the audit objective and approach.*

## Background

**1.1** Under the Constitution, the Australian Government has no specific responsibility for roads. Nevertheless, since the 1920s, the Australian Government has provided funds to the States and Territories for road construction and maintenance through specific purpose payments (under Section 96 of the Constitution)[60].

**1.2** In 1974, under the *Roads Grants Act 1974*, the Australian Government declared a series of capital city road links as National Highways. In addition, in recognition of the need to develop key routes with national benefit outside the national roads category, since 1996 the Australian Government has provided funding for Roads of National Importance (RONI).[61]

**1.3** At the time the Coalition won government in March 1996, the *Australian Land Transport Development Act 1988* (ALTD Act) provided the legislative framework for the Australian Government's development and management of road funding programs. In November 2002, through a Green Paper titled *AusLink: Towards the National Land Transport Plan*, the then Government announced its decision to change the arrangements for planning and funding land transport programs.

**1.4** The AusLink White Paper was released on 7 June 2004. It announced[62] that the AusLink National Network[63] would replace the existing separate

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[60] ANAO Audit Report No.15 1993–94, *The National Highway 'Lifeline of the Nation'*, 3 December 1993, p. 2.

[61] ANAO Audit Report No.21 2000–01, *Management of the National Highways System Program*, 8 February 2001, p. 24. With the introduction of AusLink, any outstanding RONI projects were incorporated into the AusLink Investment Program.

[62] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, pp. x.

[63] Section 5 of the AusLink Act specifies the network as the "AusLink National Land Transport Network". Throughout the report the term AusLink National Network and the term AusLink National Land Transport Network are used interchangeably.

National Highway System, RONI and the interstate rail network. It also defined the AusLink National Network, which was in October 2005 formally determined under the *AusLink (National Land Transport) Act 2005* (AusLink Act). The National Network is to be a single integrated network of land transport linkages of strategic national importance. At the time of audit fieldwork, it comprised 24 transport corridors that take in Australia's major roads and railways, as well as freight terminals at major sea and air ports (see Figure 1.1).[64]

### Figure 1.1

### The National Land Transport Network


Source: AusLink website <http://www.auslink.gov.au>

64 Department of Transport and Regional Services, *Annual Report 2004–05*, p. 64.

## AusLink funding

**1.5** AusLink National Network funding was to be guided and underpinned by five-year plans with an overall 20-year horizon.[65] The first five years (referred to in this report as AusLink 1) operates between 2004–05 and 2008–09. The funding envelope for the second five year stage (referred to in this report as AusLink 2) was announced in the May 2007 Budget, with payments to be made between 2009–10 and 2013–14.

### First National Land Transport Plan: AusLink 1

**1.6** In establishing AusLink, the then Government decided to supplement the then existing estimates for major projects by $630 million over five years to enable a range of projects to commence. The then Government also agreed to abolish the Fuel Sales Grants Schemes and redirect funding to AusLink National Network projects—this provided additional funds of $265 million per year commencing in 2006–07 and rising to $275 million per year (indexed) from 2008–09.

**1.7** The White Paper announced that a total of $11.8 billion would be provided for road and rail transport over the first five years to 2008–09.[66] Of this amount, $7.7 billion was for construction projects and maintenance on the National Network, predominantly ($6.7 billion) for road projects.[67]

**1.8** At the time this ANAO performance audit commenced, two further major tranches of decisions had been made to increase National Network spending in the first five year AusLink program, as follows:

- as part of its transport policy for the 2004 Federal Election, the then Government announced:

[65] Department of Transport and Regional Services, *Annual Report 2003–04*, p. 5.

[66] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. xi.

[67] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. xii.

- an additional $224 million to six new projects ($130 million) and increased funding to three existing AusLink projects ($94 million);[68] and
- an additional $186 million[69] in new funding for four projects (additional funding for three existing projects and an initial $5 million contribution to a new project) that the then Prime Minister had agreed to on 31 August 2004, the day the caretaker conventions for the 9 October 2004 Federal election took effect.

The aggregate of these amounts was included as part of an additional $896 million[70] over five years included in the 2004–05 Additional Estimates; and

- the $1.82 billion AusLink Improving the National Network administered program was announced in the context of the Portfolio Supplementary Additional Estimates Statements for 2005–06.[71] The program involved paying the funds in June 2006 to five States and the Northern Territory to accelerate work on parts of the National Network with a specified completion date by 31 December 2009.

## Second stage of the National Land Transport Plan: AusLink 2

**1.9** In the 2007 Budget, the then Government announced that $22.3 billion would be spent under the second stage of the National Land Transport Plan (AusLink 2, also now known as the Nation Building Program).[72] This amount included $16.8 billion over five years for projects on the National Network.

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[68] The transport policy also announced the bringing forward of the timing of payments to two projects amounting to $50 million.

[69] Also on 31 August 2004, the then Prime Minister agreed to bring forward $40 million of funds already committed to another project.

[70] The remaining $486 million included in the Additional Estimates were for two projects (a further $300 million for Brisbane Urban projects bringing the White Paper figure to $627 million and the Geelong Bypass with $186 million) added to the White Paper project listing after the 2004–05 Portfolio Budget Statements were finalised but before the White Paper was finalised and released publicly.

[71] DITRDLG, *Annual Report 2005–06*, p. 79. These funds were part of $2.4 billion in AusLink funding paid by DITRDLG in June 2006. The other two elements were: $270 million to the Australian Rail Track Corporation (ARTC); and $307.5 million in supplementary funding paid under the Roads to Recovery Program.

[72] *Building a Strong Future for Regional Australia 2007–08*, Statement by The Honourable Mark Vaile MP Deputy Prime Minister and Minister For Transport and Regional Services and Leader of The Nationals, the Honourable Jim Lloyd MP, Minister for Local Government, Territories and Roads and the Honourable De-Anne Kelly MP, Parliamentary Secretary to the Deputy Prime Minister and Minister for Transport and Regional Services, Canberra, 8 May 2007, p. 90.

**1.10** In July 2007, the then Shadow Minister for Transport, Roads and Tourism announced[73] that the Australian Labor Party was committed to the retention of all the AusLink programs. Accordingly, the forward estimates included in the 2008–09 Budget Papers continue to include substantial forward estimates for the AusLink Investment Program during the AusLink 2 period.[74]

## Audit objective and approach

**1.11** ANAO's performance audit priority in the Infrastructure, Transport, Regional Development and Local Government portfolio has been directed at the implementation of AusLink.[75] Accordingly, this audit is one of a series of audits ANAO is undertaking of the AusLink land transport initiative. Three audits have already been completed, namely:

- ANAO Audit Report No. 31 2005–06, *Roads to Recovery*;
- ANAO Audit Report No. 45 2006–07, *The National Black Spot Program*; and
- ANAO Audit Report No. 22 2007–08, *Administration of Grants to the Australian Rail Track Corporation*.

**1.12** Two other audits are underway. The first is examining the administration of the AusLink Strategic Regional Program. The second is examining the management of the AusLink Roads to Recovery Program (including a follow-up of implementation of agreed recommendations made by ANAO in its audit of the initial Roads to Recovery Program). In addition, following a request from Infrastructure Australia, in February 2009 ANAO commenced a performance audit of the integrity and robustness of the processes employed by Infrastructure Australia to determine the adequacy, capacity and condition of nationally significant infrastructure and in developing the infrastructure priority list.

**1.13** The audit objective of this performance audit of construction projects on the AusLink National Network was to assess the effectiveness of the

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73 Martin Ferguson MP, Shadow Minister for Transport, Roads and Tourism, *Federal Labour's Vision for Rail in a National Intermodal Transport System*, Australian Rail Summit, Sydney, 18 July 2007.

74 In particular, the Portfolio Budget Statements for the Infrastructure, Transport, Regional Development and Local Government Portfolio included (at page 30) estimated program expenses of $3.8 billion in 2009–10, $3.6 billion in 2010–11 and $4.2 billion in 2011–12. The AusLink Investment Program includes National Network projects.

75 ANAO, *Planned Audit Work Programme 2007–2008*, July 2007, p. 106.

administration by the Department of Infrastructure, Transport, Regional Develop and Local Government (DITRDLG) in working with the States to deliver the outcomes expected by the Government and the broader community. The audit scope included examination of governance and administration arrangements in relation to funded projects in terms of the identification and approval of projects, through to the delivery of works (in terms of both physical and financial completion).

**1.14** The delivery of projects on the AusLink National Network involves both DITRDLG and State road transport authorities[76]. DITRDLG is involved in the planning[77] and State road transport agencies manage programs of works within each state, with works being delivered by State agencies and contracted third parties. Accordingly, the audit was undertaken in a similar approach to that of the National Black Spot Program[78] by involving State and Territory road transport authorities. This involvement included discussions with State officials to provide them with an opportunity to share their perspectives on the management and delivery of the Program and, for the sampled projects, examination of State records pertaining to the planning and delivery of works together with site inspections. The audit sample comprised 21 projects being delivered in three States (New South Wales (NSW), Queensland and Tasmania).[79] The selection of projects to be examined in detail was discussed with both DITRDLG and the respective State road transport authorities.

**1.15** The audit was conducted under Section 15 of the *Auditor-General Act 1997*. The audit commenced in August 2007. Fieldwork for the audit was conducted between August 2007 and May 2008. Issues Papers were provided to DITRDLG, the Department of the Prime Minister and Cabinet and the Department of Finance and Deregulation (Finance) between July 2008 and November 2008. Relevant extracts of the Issues Papers were also provided to the State road transport agencies responsible for the sampled projects. An

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76 Consistent with the *AusLink (National Land Transport) Act 2005*, the term 'State' used throughout this report includes the Australian Capital Territory and the Northern Territory.

77 The Notes on Administration state that the Australian Government participates in project planning to ensure that its policy objectives and accountability responsibilities are satisfied.

78 National Black Spot projects are delivered both by State road transport authorities and local government authorities. State road transport authorities also play an important role as the Commonwealth's agent in respect to projects approved for delivery by local government authorities, including as the conduit through which funds are paid to local government.

79 The State selection provided audit coverage of 65 per cent of the AusLink National Network funding for the period 2004–05 to 2008–09.

advance version of the proposed audit report was provided to DITRDLG in February 2009 in order to afford the department a further opportunity to comment prior to issuing the formal proposed report. The formal proposed report was issued in March 2009 to the same parties that received the Issues Papers, as well as Infrastructure Australia.

**1.16** The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of $630 000.

# 2. Governance framework

*This chapter examines the hierarchy of administration and approval documents for the delivery of projects on the AusLink National Network, and the effectiveness of those documents in administering of projects.*

## Background

**2.1** The AusLink White Paper was published in June 2004, with implementation of the White Paper commencing on 1 July 2004. The AusLink policy was given formal effect by the *AusLink (National Land Transport) Act 2005* (AusLink Act), which was assented to on 6 July 2005. Parts 3 to 8 of the AusLink Act commenced on 28 July 2005, the date of proclamation by the then Minister for Transport and Regional Services. The *Australian Land Transport Development Act 1988* (ALTD Act), which was the previous primary land transport funding legislation, was effectively superseded by the AusLink Act from this date,[80] with transitional arrangements put in place through the *AusLink (National Land Transport – Consequential and Transitional Provisions) Act 2005* (Transitional Act).[81]

**2.2** Part 3 (sections 8 to 27 inclusive) of the AusLink Act sets out the legislative framework applying to AusLink National Projects. Section 8 of the AusLink Act defines an AusLink National Project as a project for which an approval by the Minister under subsection 9(1) is in force.[82] Project Approval Instruments made under section 9 of the AusLink Act are a key element in the governance framework for the delivery of projects on the National Network as:

- Subsection 9(1)(a) provides that the Minister may only approve a project as an AusLink National Project where he or she is satisfied that

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80 Continuing projects that were approved under the ALTD Act and did not form part of the new AusLink National Network continue to be administered under the ALTD Act.

81 The Transitional Act made provision for the Minister to determine that certain project approvals that had been made under the ALTD Act were to be taken to be approvals made under the relevant provisions of the AusLink Act. On 12 October 2005, the then Minister for Transport and Regional Services made a determination under the Transitional Act in respect of project approvals to be carried over to the AusLink Act.

82 The transitional arrangements put in place through the Transitional Act included making provision for projects that had been approved under the ALTD Act to be treated as if they had been approved under, and to therefore be administered under, the AusLink Act. The Transitional Act also amended the ALTD Act to provide that no new approvals of projects or programs under the ALTD Act were to be given by the Minister on or after 28 July 2005 (being the commencement date of Parts 3 to 8 of the AusLink Act).

the project is eligible for approval, with section 10 outlining the types of projects that are eligible for approval;

- Subsection 9(1)(b) provides that the Minister may only approve funding for projects where the Minister considers it appropriate to do so, with Section 11 outlining the matters the Minister may have regard to in making this decision; and
- Section 13 outlines that a Project Approval Instrument must identify the project, specify the maximum funding amount that the Australian Government may contribute to the project, identify the eligible funding recipient to which the funding may be paid and, if the approval is conditional on a funding agreement being entered into, contain a statement to that effect. Other terms and conditions of Australian Government funding may also be specified in Project Approval Instruments.

## Administrative processes

**2.3** Similar to the predecessor arrangements under the ALTD Act, Notes on Administration have been issued to set out program administration arrangements.

**2.4** From 28 July 2005 (when the AusLink Act commenced operation) to early October 2005, there were no Notes on Administration issued in respect of Part 3 of the AusLink Act. Accordingly, during this time, projects approved under Part 3 of the AusLink Act were only able to be administered in terms of the legislated provisions and, where signed, the relevant Bilateral Agreement (see below). However, in November 2008, DITRDLG advised ANAO that the former ALTD Act Notes on Administration continued to operate on a transitional basis (this situation was not explicitly noted in the Project Approval Instruments or letters to the States that advised of a project's approval).

**2.5** In October 2005, 'working draft' Notes on Administration were issued by DITRDLG to support the administration of AusLink National Projects under the AusLink Act. The working draft Notes set out processes to implement the requirements of the AusLink Act, including project approval and funding frameworks as well as reporting requirements for funding recipients.

**2.6** In March 2006, a revised version of the Notes on Administration entitled the *AusLink Investment Program: National Projects Notes on Administration* was issued.[83] The AusLink Notes are largely similar in content to the working draft version issued in October 2005. Major changes included:

- updated guidance on aspects of the project approval and appraisal process, including updated information on project phasing and revised thresholds for risk assessments to be undertaken;
- new and updated proformas for submitting project proposals and for reporting to DITRDLG; and
- the omission of references in several sections of the Notes to funding agreements where the funding recipient was not a party to a Bilateral Agreement.[84]

**2.7** The preface to the AusLink Notes states that:

> All funding recipients, including the Australian Rail Track Corporation and state road and rail authorities will be subject to these Notes. The Notes:
>
> - describe the framework governing the consideration, approval and funding of projects including the associated terms and conditions;
> - set out the administrative processes that the project proponents must follow when developing and submitting project proposals;
> - set out the administrative processes that funding recipients must follow to claim payments, seek variations to project approvals, and comply with the terms and conditions of funding;
> - describe the arrangements and processes associated with maintenance funding for the road component of the AusLink Network.

**2.8** The AusLink Notes reinforce the mandatory conditions set out in the AusLink Act. They also provide additional requirements for funding recipients in terms of the administration of AusLink National Projects, including in

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83 Further amendments were made to two of the appendices to the AusLink Notes in November 2006.

84 For example, the introduction to the October 2005 working draft Notes on Administration stated that '…where the funding recipient is not a signatory to a Bilateral Agreement, it is anticipated that Funding Agreements would be entered into. In these instances the Funding Agreement will set out the terms and conditions of AusLink National Project funding'. Also, in terms of dealing with project variations for funding recipients that are not party to a Bilateral Agreement, the October 2005 working draft Notes stated that '…the Funding Agreement will set out the arrangements for dealing with project cost variations and delays'. These, and other references to funding agreements, were removed in the March 2006 version of the AusLink Notes.

relation to reporting and accountability requirements. The 2005–06 AusLink Annual Report stated that the AusLink Notes:[85]

> Include instructions for assessing projects, the conditions of approval, tendering arrangements and contract specifications and the system of payments. They also cover audit and program evaluation issues to ensure taxpayers get value for money in the delivery of projects.

**2.9** However, the AusLink Notes on Administration are not binding on the States. This situation reflects a changed approach to that adopted under the ALTD Act. Specifically, section 37 of the ALTD Act had provided that the administering Minister may determine guidelines for the administration of approved programs or projects and required the States and Territories, as funding recipients for projects approved under the ALTD Act, to comply with the guidelines issued by the Minister. In November 2008, DITRDLG advised ANAO that:

> The department is working with its legal advisers to revise and strengthen the Notes on Administration to support the new Memorandum of Understanding framework *[with the States in respect to the second five year funding period]*. While the department is still currently considering the options, changes will include clearer information for the States on performance reporting requirements, cost estimation practices and project appraisal and approval frameworks.

## Bilateral Agreements

**2.10** The AusLink White Paper stated that the Australian Government would formalise its funding contributions through a bilateral infrastructure and funding agreement with each State and Territory.[86] Similarly, the Explanatory Memorandum for the AusLink Act stated that it was intended that arrangements covering funding contributions by States and Territories, the development of corridor strategies, future transport and land use planning, and assessment of projects would be set out in Bilateral Agreements to be negotiated between the Australian Government and each State.[87]

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85 AusLink Annual Report 2005–06, DITRDLG, April 2007.

86 The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. xiv.

87 *AusLink (National Land Transport) Bill 2005*, Explanatory Memorandum, Circulated by Authority of the Minister for Transport and Regional Services the Honourable John Anderson MP, p. 6.

**2.11** Negotiations with the States for the development of Bilateral Agreements were undertaken concurrently with the development of the AusLink legislation. A September 2004 progress report to DITRDLG's AusLink Implementation Board in relation to the preparation of the Bilateral Agreements stated that:

> Bilateral agreements are critical to establishing clarity on projects to be funded under AusLink, respective funding responsibilities, the conditions applying to Australian Government funding and agreed arrangements for identifying future investment priorities. States have argued for reduced importance of Bilateral Agreements and for their generic elements to be included in an IGA [Inter Government Agreement]. On the other hand, central agencies anticipate Bilateral Agreements to be the main defence against cost shifting and they are expecting substantial involvement before Bilateral Agreements are concluded with States. States have been asked to provide their views on a Bilateral Agreement framework, however not all have responded.

**2.12** Bilateral Agreements with each of the States were signed between 27 May 2005 (Victoria) and 8 December 2005 (Western Australia). The Bilateral Agreements have been published on the AusLink website.

### *Status of the Bilateral Agreements*

**2.13** The various Bilateral Agreements state that they operate in conjunction with the legislation and that the AusLink Act takes precedence, but they are not funding agreements under the AusLink Act. In this respect, whilst the Act permits funding agreements to be used for projects being delivered by the States or a local government authority, it does not require funding agreements to be used. In July 2004, DITRDLG advised the then Minister for Transport and Regional Services that the Bilateral Agreements should not be prepared as funding agreements under the AusLink Act, as follows:

> It is not proposed that the Bilateral Agreements to be concluded with the States be recognised in the legislation. This approach would leave them on the same footing as agreements previously concluded with States for shared funding arrangements, eg. Pacific Highway Agreement, which had no standing under the ALTD Act. Such agreements have operated effectively within a well established and understood Commonwealth/State framework. Realistically, the only lever the Australian Government could, or would, use against a State failing to comply, would be withholding funds. This could be done as well under a Bilateral Agreement as under an Act.

**2.14** However, as noted, the previous agreements with the States for shared funding had operated under a governance framework that included legally binding Notes on Administration. In this respect, the January 1996 Pacific Highway Reconstruction Program Agreement referred to by DITRDLG in its July 2004 advice explicitly (clause 11(f)) stated that administration of the program of projects to be delivered under the Agreement would be in accordance with the ALTD Guidelines.

**2.15** Notwithstanding their central importance to the implementation of AusLink, no legal advice was obtained by DITRDLG in the development, drafting and finalisation of the Bilateral Agreements. In this respect, when an amendment to the Tasmanian Bilateral Agreement was being prepared, legal advice obtained by DITRDLG from the Australian Government Solicitor office was that:

> The status of the Bilateral Agreement at law is unclear, but it seems likely that it has the effect of a Memorandum of Understanding (ie, it is not legally enforceable). If that is so, then there does not need to be the same level of precision in the drafting of the clauses in the agreement.

**2.16** Consistent with the Bilateral Agreements' status of not being a funding agreement under the AusLink Act and not being a legislative instrument,[88] they do not represent a binding commitment of Australian Government funding to the identified projects. This means, for example, that States have no legal entitlement to Australian Government funding for a project until the project and the funding amount have been reflected in a Project Approval Instrument under the AusLink Act. Against this background, section 13 of the AusLink Act outlines that a Project Approval Instrument must:

- identify the project;
- specify the maximum funding amount that the Australian Government may contribute to the project;
- identify the eligible funding recipient to which the funding may be paid; and

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[88] Section 5(1) of the Legislative Instruments Act defines a legislative instrument as one that is (a) of legislative character and (b) is or was made in the exercise of a power delegated by the Parliament. Section 5(2) provides that, without limiting the generality of section 5(1), an instrument is taken to be of a legislative character if (a) it determines the law or alters the content of the law, rather than applying the law in a particular case and (b) it has the direct or indirect effect of affecting a privilege or interest, imposing an obligation, creating a right, or varying or removing an obligation or right. Source: AGS Legal Briefing Number 69, *Legislative Instruments Act 2003*, 18 December 2003, p. 2.

- if the approval is conditional on a funding agreement being entered into, contain a statement to that effect.

**2.17** The AusLink Act does not prohibit other terms and conditions of Australian Government funding being specified in a Project Approval Instrument. However, to date, DITRDLG has not proposed to its Ministers that Project Approval Instruments include any terms and conditions other than those required by the Act.

**2.18** As a result of the Notes on Administration not being legally binding, and the Bilateral Agreements not being funding agreements under the AusLink Act, the only specific avenue for DITRDLG to require compliance with procedural and/or project specific terms and conditions is through the legislated Project Approval Instruments. The Act requires[89] that each Project Approval Instrument identify the project and the funding recipient and specify the maximum funding amount from the Commonwealth. Whilst the Act does not prohibit additional matters being specified in a Project Approval Instrument, DITRDLG has not used this power. For example, Project Approval Instruments have not:

- required compliance with the Notes on Administration;
- set out procedures to give effect to shared funding arrangements; or
- in many instances, clearly specified the scope of works to be delivered.

**2.19** Accordingly, compared to the predecessor approach, the governance arrangements for AusLink National Network projects have involved a diminution in Australian Government control over the terms and conditions under which land transport funding is being provided to the States.

## Program administration improvements

**2.20** In November 2008, DITRDLG advised ANAO that it had obtained legal advice on the form of future agreements with the States for the next AusLink funding period, as well as other governance arrangements, and that it had worked closely with the Department of the Treasury on the National Partnership Payment arrangements. DITRDLG further advised ANAO that its approach to the governance arrangements for the second five year period addresses specific issues raised as part of ANAO's performance audit. In

[89] Section 13(1).

particular, a new draft bilateral agreement in the form of a Memorandum of Understanding (MoU) has been prepared in order to meet the requirements of the National Partnership Payment process being rolled out under the Council of Australian Governments Commonwealth-State financial reform agenda. The new bilateral MoUs will include clauses covering the overarching reasons behind the MoU, statement of agreed objectives and outcomes, roles and responsibilities of each Party to the MoU, and application of Commonwealth and State laws.[90]

**2.21** On 5 February 2009, the Council of Australian Governments announced[91] that the States had agreed to finalise by 1 March 2009 National Partnership Agreements for the Program that was formerly known as AusLink, within the Commonwealth's exiting funding envelope. Additional funding of $150 million in 2008–09 to help the States fund additional regional road maintenance projects was conditional on the National Partnership Agreements being signed.

## Identifying the package of projects to be delivered and associated Australian Government funding commitments

**2.22** The Australian Government, in programs such as AusLink, negotiates State funding on a project by project basis.[92] In this respect, whilst the Bilateral Agreements identify individual projects and associated amounts of Australian Government funding, DITRDLG advised ANAO that the Bilateral Agreements do not represent a binding commitment of funds to individual projects in the amounts specified. Nevertheless, the Bilateral Agreements were a baseline document for the delivery of National Network projects.

**2.23** In light of the relatively limited requirements specified in the Project Approval Instruments that have been used for National Network projects, the Bilateral Agreements perform a crucial role in governing the terms and

[90] DITRDLG further advised ANAO that it had sought to strengthen the form of agreement by adopting a uniform MoU which will be executed bilaterally with each State/Territory. The MoU will include greater clarification of shared funding arrangements to reflect COAG's Commonwealth-State financial arrangements for National Partnership Payments. The financial arrangements will include provision for some cost sharing within overall project cost capping arrangements as well as funding for new projects and variations to projects and funding.

[91] Special Council of Australian Governments Meeting Communique, *Nation Building and Jobs Plan*, Canberra, 5 February 2009,

[92] Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 74.

conditions on which Australian Government funding is being provided. Accordingly, it was important that the Bilateral Agreement for each State accurately identify each project that the Australian Government has agreed to fund, or partially fund, and conditions under which the funding will be provided. In this respect, the AusLink White Paper stated that the Bilateral Agreements would:

> identify the package of projects to be undertaken during the first five-year plan, the funding contribution the Australian Government will make to each project, and the State or Territory contribution to each project.[93]

**2.24** Similarly, the 2005–06 AusLink Annual Report stated that:

> Each agreement covers the full package of proposed projects for which each jurisdiction will be responsible, and the policies and administrative arrangements by which these will be managed and future planning carried out.

**2.25** The Bilateral Agreements specified, for each State, the total amount the Australian Government would make available for projects in that State in the five years from 2004–05 to 2008–09. In aggregate, at the time they were signed, \$5.4 billion was to be made available for construction projects described in each Bilateral Agreement (up to the amounts specified in that schedule).[94] The Bilateral Agreements stated that the Australian Government may, at its discretion, add to the specified amounts with associated amendments to be made to the Bilateral Agreement.

## Bilateral Agreement project schedules

**2.26** With the exception of the Bilateral Agreement for the Australian Capital Territory, each of the Bilateral Agreements included a Schedule A which listed both continuing and new projects (if any) together with the amount of the Australian Government's contribution to National Network

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[93] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. xiv.

[94] The Bilateral Agreements also specified the annual amount that the Australian Government would make available to each State for road maintenance.

maintenance costs.[95] The data presented for each project included in Schedule A comprised:

- the total estimated project cost;
- the amount of Australian Government funding that was allocated to the project;
- for continuing projects, the amount of Australian Government funding that had been provided up to 30 June 2004 together with the amount of the Australian Government contribution (in outturn dollars) between 2004–05 and 2008–09;
- for new projects, the amount of Australian Government funding (in outturn dollars) that was to be provided between 2004–05 and 2008–09; and
- any conditions on the provision of Australian Government funding (such as the terms of any capping or cost sharing arrangement).

**2.27** In addition to an aggregate Australian Government contribution of $1.9 billion to 85 continuing projects, the Bilateral Agreements included 53 new AusLink projects with an aggregate total estimated cost of $12 billion with an Australian Government contribution of $3.4 billion committed towards these costs (see Table 2.1).[96]

**2.28** The new commitments included in the Bilateral Agreements for NSW and Queensland included four funding packages, namely:

- $205 million in Australian Government funding for further duplication of the Hume Highway in NSW and for other safety works which were to have a total estimated cost of $941 million. Priority projects for this funding were identified in Ministerial correspondence between the then Minister for Local Government, Territories and Roads and the

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95 The Schedule A to the Australian Capital Territory Bilateral Agreement included no continuing construction projects and no new AusLink construction projects but provided for maintenance funding. The body of the Bilateral Agreement stated that construction projects may be added to Schedule A but, at the time of the audit, no such projects had been approved.

96 These figures do not include the $5.43 million included across six Bilateral Agreements for expenditure on completing projects not budgeted for in the AusLink Program (no such amounts were included in the Bilateral Agreements for the Northern Territory or the Australian Capital Territory) or $1486.47 million provided in aggregate across the Bilateral Agreements as a contribution towards maintenance of the National Network.

then NSW Minister on 24 December 2004 (some nine months prior to the signing of the Bilateral Agreement);

- an Australian Government contribution of $480 million over three years, with the NSW Government to provide matching funding, towards a new proposed joint-funded 10-year $3.2 billion agreement to upgrade the Pacific Highway in NSW. Further Australian Government funding was to be sought from future Budgets;
- an Australian Government contribution of $136 million reflecting the unallocated balance of a total $332 million commitment to a five year upgrading program for the Bruce Highway in Queensland. The Bilateral Agreement stated that the projects to be funded would be identified following assessment of priorities (which was reflected in the Bilateral Agreement not including a total estimated cost for the yet to be identified works); and
- $2.5 billion as the total estimated cost for works on the Brisbane Urban Connectors (including the Ipswich Motorway). The Bilateral Agreement for Queensland identified six specific projects together with an unallocated Australian Government contribution of $391.7 million for which specific projects would be identified, following assessment of priorities.

## Table 2.1

### Investment Program Specified in Bilateral Agreements for AusLink 1

| State | Continuing Projects | | | New AusLink Projects | | |
|---|---|---|---|---|---|---|
| | Number of Projects | Total Estimated Cost ($m) | Australian Government Base Funding Contribution ($m outturn) | Number of Projects | Total Estimated Cost ($m) | Australian Government Base Funding Contribution ($m outturn) |
| New South Wales | 26 | 4 618.2 | 822.3 | 9 | 6 600.5 | 1 123.6 |
| Victoria | 6 | 782.9 | 367.7 | 8 | 1 403.0 | 575.0 |
| Queensland | 25 | 1 719.7 | 422.8 | 23 | 2 719.0 | 1 098.6 |
| Western Australia | 9 | 313.0 | 209.8 | 5 | 560.1 | 260.5 |
| South Australia | 9 | 161.2 | 58.2 | 4 | 628.0 | 273.0 |
| Tasmania | 4 | 89.9 | 35.2 | 1 | 42.0 | 42.0 |
| Northern Territory | 6 | 49.9 | 21.1 | 3 | 67.3 | 53.7 |
| Australian Capital Territory | Nil | Nil | Nil | Nil | Nil | Nil |
| **Total** | **85** | **7 734.8** | **1 937.1** | **53** | **12 019.9** | **3 426.4** |

Source: ANAO analysis of Schedule A to each of the Bilateral Agreements.

**2.29** After deducting the amounts included for funding packages, there were 49 individual new projects specified in the Bilateral Agreements, with a total estimated cost of $5.4 billion with an Australian Government contribution of $2.5 billion.

**2.30** The body of three of the Bilateral Agreements also included project funding commitments. Specifically:

- the Tasmanian Agreement included a commitment to provide the higher of $100 million of 80 per cent of the cost of a new two-lane Bridgewater Bridge, of which $57 million[97] would be provided up to 30 June 2009;
- the NSW Agreement included a commitment to meeting the full estimated cost of $30 million (less $500 000 allocated in Schedule A to the bridges at Paddy's River) for an agreed bridge upgrading program so as to extend the Higher Mass Limits network in NSW commencing from 1 July 2006; and
- the Victorian Agreement acknowledged an additional Australian Government commitment of $541.53 million to the Scoresby Freeway (also referred to as EastLink) as a toll free road in accordance with an October 2001 Memorandum of Understanding.[98]

### *Estimated project costs*

**2.31** An accurate understanding of the total estimated project cost is important to inform decisions concerning the commitment of Australian

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97 In September 2006, as a consequence of the rail rescue package agreed with the Tasmanian Government, this figure was amended to $20 million with the amount of $37 million included in the $78 million Australian Government commitment to the rail rescue package (which was included as a new project in a revised Schedule A to the Bilateral Agreement).

98 The Victorian Bilateral Agreement was amended in May 2006 to omit this clause with $310.7 million of the $541.53 million reallocated to provide additional funding to four projects where costs had increased, namely:

- the Deer Park Bypass (a new AusLink project), where the Australian Government contribution was increased by $185 million from $80 million to $265 million;
- the Calder Highway between Faraday and Ravenswood (a new AusLink project), where the Australian Government contribution was increased by $82 million from $25 million to $107 million;
- duplication of the Goulburn Valley Highway at Arcadia (the Bilateral Agreement included a $15 million continuing project for upgrading of the Goulburn Valley Highway with $23.5 million added to this amount with the project reclassified as a new AusLink project); and
- an additional $20.2 million towards the costs of the continuing Albury/Wodonga upgrade project (taking the Australian Government contribution from $106.35 million to $126.55 million).

Government funding to individual projects. Including accurate data on total estimated project costs in the Bilateral Agreements was also important:

- in circumstances where the Australian Government is either fully funding a project, or funding an uncapped percentage of project costs given the risks involved where total project costs increase; and
- to provide an accurate baseline against which to assess the management of the Program. For example, as explained in Chapter 6 (at paragraph 6.42), it was envisaged that new data such as variations to Schedule A in the respective Bilateral Agreements would be used to update a database to be used for project evaluation purposes.

**2.32** In addition, including the most current data for projects at the time of finalising the Bilateral Agreement ensures that the individual State program baseline contains a realistic number of projects and/or percentages of shared funding available to be delivered within the agreed funding envelope.

**2.33** However, the procedures adopted by DITRDLG in preparing and finalising the Bilateral Agreements did not ensure that the stated total estimated cost for each project included in the respective Bilateral Agreement schedules was accurate and up-to-date. Some of the understatements were substantial in monetary terms. For example, the NSW Bilateral Agreement included a new AusLink project to construct a link from the F3 Freeway to Branxton. The NSW Roads and Traffic Authority's (RTA) most recent project estimate at the time the White Paper was finalised was $577 million (in 2003 dollars). The RTA's estimate of project costs was increased in May 2005 to $765 million (in 2005 dollars based on detailed engineering and environmental information). However, the Bilateral Agreement signed four months later with NSW (on 29 September 2005) included an estimated project cost of $382 million (which was a 2001 concept estimate adjusted to 2003 dollars). As a result, the then-current estimate of costs was $383 million higher (or more than double) the amount included in the Bilateral Agreement.

**2.34** The procedures adopted by DITRDLG also did not ensure that the Bilateral Agreements included current Australian Government funding amounts at the time of agreement. An example of where this occurred involved the Bogan to Cobang Upgrade project on the Newell Highway included in the NSW Bilateral Agreement as a continuing project. The Bilateral Agreement signed on 29 September 2005 included a $19 million estimated cost for the project which was to be fully funded by the Australian Government. This figure was based on a concept design in 2003–04 dollars. In May 2005, following refinement of the design, the RTA sought an increase in funding approval to $20.9 million to enable construction of the project (with savings to be found from savings in, or delays to, other projects in NSW). The request for additional Australian Government funding was approved on 31 July 2005 by the then Minister for Local Government, Territories and Roads with the Project Approval Instrument showing an approved cost of $20.9 million. While the increased project cost had been approved some two months prior to the Bilateral Agreement being signed, the Agreement reflected the outdated project cost estimate of $19 million.[99]

## Packages of projects

**2.35** As noted, the new commitments included in the Bilateral Agreements for NSW and Queensland included four funding packages. The NSW Bilateral Agreement included a fifth package of works relating to extending the Higher Mass Limit (HML) network within that State. The Bilateral Agreement also explicitly stated that the Australian Government undertook to meet the full estimated cost of $30 million to fund the agreed bridge upgrading referred to in these clauses.

**2.36** In respect to this package, the AusLink Investment Program: National Projects *Notes on Administration*[100] state that a program of related low value works may be treated as a single project. The Notes on Administration explain that works are likely to be considered related if each one addresses a similar need and is located in close proximity to the other; and that works are likely to be considered 'low value' if no one project costs more than $5 million.

**2.37** The HML bridge upgrading package included in the Bilateral Agreement did not satisfy the tests outlined in the Notes on Administration for packaging works. Specifically:

- while the individual works were addressing a similar need, the works were not located in close proximity but were instead spread across six different highways (ranging from Allgomera Creek 38km north of

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99 The Bogan to Coobang Upgrade project on the Newell Highway was completed in 2007 at a final cost of $17.5 million. One of the factors contributing to the level of savings between the final cost and the concept estimate was a change in the pavement design. The accepted (alternative) tender proposed to replace the 50mm asphalt with a 40mm increase thickness in base material and a 7/14mm single/double bitumen seal. The cost difference between the conforming tender and the accepted alternative was $1.54 million (plus GST).

100 See Notes on Administration, section 3.2.4 *Program of related low value works*, p. 17.

Kempsey in Northern NSW, rail overpasses on the Mitchell Highway at Molong to the west; and the Wollogorong Creek 18.8km south of Goulburn in South East NSW); and

- two upgrades were expected (as of February 2006) to cost in excess of $5 million.

**2.38** Nevertheless, DITRDLG decided to treat the package of works as one project approval under the AusLink Act. The individual cost of each bridge project was also not included in the advice seeking Ministerial approval.[101]

**2.39** The approach taken to the NSW HML package of works also highlighted further issues relating to identifying the extent and nature of works to be undertaken. The package of works referred to in the Bilateral Agreement was based on 13 bridges requiring immediate bridgework to carry the proposed mass limits. In February 2006, the RTA provided an updated schedule for the original 13 bridges to DITRDLG. One of the identified bridges was to be bypassed by another project. In addition, as a result of 'detailed investigation' three other bridges were assessed by the RTA as not requiring strengthening. This correspondence reallocated the $30 million to the remaining nine bridges. By September 2007, the RTA's investigations revealed that a further bridge replacement project was no longer required. In this regard, the RTA advised ANAO in March 2008 that:

> The recommended works to bring the Market Street bridge to HML standard are scheduled and will be completed by late 2008. Because of the minor nature of these works, they are being undertaken as part of the RTA's routine bridge maintenance program, and not as part of the HML Package.

**2.40** The way in which packages of projects were captured in the agreed Bilateral Agreements also differed both within, and between, States. For example, in NSW, packages of works were presented in three ways:

- Schedule A included one package of works (Hume Duplication and Safety Works) as a single line item. The comments field in the Bilateral Agreement noted that a program of works had been agreed but the projects were not listed. The Coolac Bypass on the Hume Highway was one project delivered through this package but it was not identified

[101] In this respect, in September 2008 DITRDLG advised ANAO that: 'An example where a separate approval will be sought is the Aberdeen bridge replacement on the New England Highway (original cost estimate $16.1 million out of the $30 million).' However, the Aberdeen bridge project had already been approved as it was included in the $30 million project approval for the initial package of works.

anywhere in the Bilateral Agreement. DITRDLG has required each project in the agreed package of works to have individual funding approval except for the $3.9 million 'other minor works' (intersection upgrades, bridge safety barrier upgrades, road shoulder widening and signage/ delineation) that remained as a package;

- the body of the Bilateral Agreement included specific clauses relating to extending the HML network but only one of the bridges to be upgraded as part of this package was identified in the Bilateral Agreement; and
- Schedule A also included another package of works (Pacific Highway – Contribution to new agreement) as one line item and there is a separate governing arrangement associated with the package. In this example, the comments field in the Bilateral Agreement noted that this funding was for the first three years of a 10 year agreement and that Australian Government funding for the balance of the agreement would be sought in future budgets. In August 2008, the RTA advised ANAO that:

  > The funding arrangements and associated administrative requirements governing the Pacific Highway upgrade projects referred to in your letter are outlined in the *AusLink Act 2005*, *AusLink National Projects Notes on Administration*, the NSW Bilateral Agreement 2004–2009 and the *Pacific Highway Reconstruction Program Agreement*. … there are no specific restrictions/requirements contained in these documents regarding the timing and profile of expenditure for individual projects in the Pacific Highway upgrade program.

**2.41** In respect to packages of works on the Hume and Pacific Highways included in the NSW Bilateral Agreement, in November 2008 DITRDLG advised ANAO that the view was taken that cost estimates were not sufficiently developed for individual projects to warrant listing in the Bilateral Agreement at the time they were signed.

**2.42** By way of comparison to the three NSW packages, Schedule A to the Queensland Bilateral Agreement listed the projects that had been identified to be delivered as part of the Bruce Highway five-year upgrading program, with an additional line item reflecting the balance of available funding that had not yet been committed. The comments field in the Bilateral Agreement noted that specific projects were to be identified following assessment of project priorities.

**2.43** The variability in how project packages have been identified in Bilateral Agreements can risk further increases in the level of complexity in managing the agreed deliverables in the agreed manner. For example, ANAO analysis revealed that it is not possible from the monthly progress reports to reconcile the individual approved projects in each package of works (including both the Total Estimated Cost and the maximum funding amount that the Australian Government may contribute) to the terms of the package reflected in the Bilateral Agreement. As a result, some State road transport authorities provide DITRDLG with additional program reviews on a quarterly basis which include a reconciliation of the packages of work being delivered by the State.

**2.44** For example, by treating the NSW HML package of works as one project, and having only one project approval instrument for the eight project locations, the package is reported on as a whole rather than providing information for each specific project required to be done. Analysis of the monthly reports from the project's commencement to July 2008 found that no information had been provided on the Princes Highway project at Kirrawee through this method. Further, the expenditure to date and estimated expenditure is not identified for individual projects, only the package as a whole. The only information provided to DITRDLG on this project was in March 2007 which stated 'Strengthening of bridge over the railway at Kirrawee will be undertaken in conjunction with NSW RailCorp's proposed rail duplication and bridge extension.'

**2.45** Where additional project status reports were provided by the RTA to DITRDLG, these reports did not reflect actual cost of the works. For example, the Paddy's River projects were completed for $0.339 million (but were still reported with a cost of $1.2 million), and the Federal Highway bridges cost $1.769 million (but were still reported with a cost of $0.7 million).[102] In this respect, RTA advised ANAO that separate advice on the HML package of works did not reflect the actual cost of each of the works (but continued to report the earlier estimated cost of each of the works) until April 2008.

[102] Further, the actual cost of delivering the increased HML capacity within NSW through the upgrade of eight bridges is expected to be some $38 million, with the Australian Government contributing $30 million and the NSW government funding the difference. This is some 27 per cent greater than the amount of funding initially identified as required to bring the AusLink National Network in NSW up to a HML standard. The increase is greater (32 per cent) when comparing the original cost of the eight bridges that have been upgraded to the final cost for these eight bridges. The RTA considered that it should be recognised that the $30 million Federal funding included in the Bilateral Agreement was based on strategic estimates of cost that required refining as detailed investigations proceeded.

## Relationship with Project Approval Instruments

**2.46** The Bilateral Agreements recognise there is an interrelationship between them and the project submission and approval process that culminates in the Project Approval Instrument being signed. In particular, the Bilateral Agreements state that:

> The scope of each project in Schedule A will be agreed in writing by both parties in conjunction with the project submission and approval process described in the AusLink Notes on Administration.

**2.47** Consistent with the Notes on Administration, the AusLink Investment Program: Monthly Progress Reports submitted by State road authorities are based upon information contained in the approved Project Approval Instruments rather than the projects and associated funding amounts identified in the Bilateral Agreements.[103] The reporting arrangements require that, where there is a Project Approval Instrument for a package of works (such as the HML bridges in NSW), only one line item is to be reported against. By way of comparison, where there are multiple Project Approval Instruments for the one project identified in the Bilateral Agreement, multiple line items are reported against (this occurs, for example, with the Gympie four-laning project in Queensland). As a result, there is no 'clear read' between the monthly progress reports and project status; and the projects identified in the Bilateral Agreements, as illustrated by the four Queensland examples in Table 2.2 (similar issues were identified in NSW). Specifically:

- for the Eight Mile Intersection project, the name of the project and the amount are relatively consistent in both the Bilateral Agreement and the monthly progress report;
- the Townsville Ring Road project name can clearly be identified in both documents, however the intended allocation of funds and the approved amount differ; and
- in the remaining two examples, it was more difficult to determine which approved projects in the monthly report relate to the project line item in Schedule A to the Bilateral Agreement. Specifically:

[103] State road authorities report expenditure to date and estimated expenditure for each project. System controls are intended to cap the amount of payment for each project at the maximum amount of Australian Government funding as approved in the Project Approval Instrument(s).

- the Gympie four-laning project initially involved $12 million for planning and preconstruction. Following this work, it was decided that the project would be undertaken in several phases, with the first phase valued at $30.6 million. As a result, the first phase was approved under a different project code. When the combined phases two and three were approved in September 2007, the initial project code (for $12 million) for the planning and preconstruction was varied to $40.2 million[104]; and
- the Bilateral Agreement identified that the Australian Government would fully fund the Caboolture Motorway project. However, Schedule A to the Bilateral Agreement did not contain any information on the scope of this project. The monthly progress report includes five projects related to works on the Caboolture Motorway. One of these projects (with an approved amount of $13 million) has no expenditure against it[105], and another (for $33.5 million) related to Stage 1: Gateway Motorway to Dohles Rocks Rd. The remaining three projects relate to the project included in the Bilateral Agreement.[106] In aggregate, the amount of approved funding ($291 million) through Project Approval Instruments significantly exceeds the amount identified in the Bilateral Agreement ($199.68 million).

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[104] Additional funding for the cost increases above the amount identified in the Bilateral Agreement was to be offset from the unallocated funds for the Bruce Highway.

[105] The costs of planning were reallocated to specific project sections.

[106] The difficulty in identifying related projects is further complicated when the term Bruce Hwy is used in the monthly progress report rather than the term Caboolture Motorway, for example the *Bruce Hwy – upgrading between Boundary Rd & Ulmann Rd, includes widening of bridges, interchange & upgrading to 6 lanes* project for $108 million. In addition, DITRDLG advised that the section of the Bruce Highway from Dohles Rocks Road to Boundary Road received Centenary of Federation funds.

### Table 2.2

**Comparison of projects identified in the Queensland Bilateral Agreement and the June 2008 Monthly Progress Report**

| Bilateral Agreement | | June 2008 Monthly Progress Report | | |
|---|---|---|---|---|
| **Project** | **Australian Government funding ($m)** | **Project number** | **Project name** | **Australian Government funding ($m)** |
| Eight Mile Intersection (continuing) | 4.25 | 000737-08QLD-NP | Cunningham Hwy/New England Hwy Intersections safety improvements (8 mile intersection) | 4.25 |
| Townsville Ring Road (new project) | 40.00 | 000694-07QLD-NP | Townsville Ring Road between Condon and Shaw Road | 79.50 |
| Gympie four-laning (new project) | 35.00 | 000646-06QLD-NP | Bruce Hwy – Gympie 4 lane upgrade between Monkland St and Channon St and between Cross St and Pine St | 40.20 |
| | | 000736-08QLD-NP | Gympie 4 lane upgrade: Kidgell St to Albert Park Bowls Club | 30.60 |
| Caboolture Motorway (new project) | 199.68 | 000634-06QLD-NP | Bruce Hwy – upgrading between Boundary Rd & Ulmann Rd, includes widening of bridges, interchange & upgrading to 6 lanes | 108.00 |
| | | 000735-08QLD-NP | Caboolture Motorway – Upgrade of section between the Caboolture/Bribie Island Road and the Caboolture (northern) bypass connection | 40.20 |
| | | 000755-09QLD-NP | Caboolture Motorway: Uhlmann Road to Bribie Island Road | 142.80 |

Source: ANAO analysis of Bilateral Agreement and the QDMR June 2008 Monthly Progress Report.

## Program administration improvements

**2.48** As part of improvements it is making to program governance arrangements (see paragraph 2.20), in November 2008, DITRDLG advised ANAO that:

- a work flow analysis chart and supporting notes have been produced to assist staff better understand the stages for project development, assessment, approval and monitoring;
- a document hierarchy chart has been prepared to identify the key framework documents guiding project assessments;
- a project assessment checklist has been prepared to ensure that all aspects of assessment are considered by staff before submissions to the Minister are prepared; and
- templates have been prepared for project assessment reports and briefs to the Minister.

**2.49** Implementation of these improvements can be expected to assist DITRDLG enhance the assessment and approval processes for Australian Government funding of projects on the AusLink National Network.

## Project variations

**2.50** The ANAO's *Developing and Managing Contracts* Better Practice Guide states that it is important that the most-up-to-date version of the contract,[107] incorporating any variations is formally evidenced in writing and appropriately stored as this provides the basis for making payments and the ongoing management of the contract.[108] Consistent with these principles, the Bilateral Agreements each provide that they may be amended in writing. The Bilateral Agreements note that this can be so that the Australian Government could add to its funding or to vary some of the project details as project proposals are further developed and refined, or in response to circumstances that may potentially affect the scope, cost (and respective funding contributions) and expected timelines.

**2.51** Schedule A to most Bilateral Agreements (but not the Victorian and South Australian Agreements, which were the first two signed) noted that the schedule was a baseline document that did not reflect cost increases or project savings, although the Australian Government contribution was specified to be in outturn dollars. DITRDLG's stated intention advised to the then Minister for

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[107] The Better Practice Guide explains that, even though MoUs do not have the same legal status as contracts, entities should manage MoUs with the same degree of rigour as they manage contracts. Source: ANAO Better Practice Guide, *Developing and Managing Contracts*, February 2007, p. 24.

[108] ANAO *Developing and Managing Contracts* Better Practice Guide, February 2007, p. 81.

Transport and Regional Services in April 2006[109] was that Schedule A should be modified when new projects were added, project details altered significantly, additional Australian Government funding provided or significant reallocations of funds were made between projects. The then Minister agreed to this approach on 5 May 2006.

**2.52** The then Minister was also advised in April 2006 that, subject to his agreement of the approach to variations of Bilateral Agreements, DITRDLG would prepare amendments to the Queensland and Western Australian Bilateral Agreements. Other amendments were to follow in NSW, South Australia, Northern Territory and Tasmania. Consistent with this agreed approach, the AusLink Evaluation Framework finalised in July 2006 proposed that a projects database be developed and updated with new data (including that resulting from Schedule A project variations) to provide the necessary data for post-project evaluation activities.

**2.53** However, the AusLink website indicates that only three of the Bilateral Agreements have been amended: Victoria (amended in May 2006); Tasmania (amended in September 2006); and Western Australia (amended in January 2007). Each amendment was transacted through an exchange of letters between Ministers in which amendments to the body of the Bilateral Agreement were agreed and a revised Schedule A prepared. No other changes to these or any of the other Bilateral Agreements have been published on the AusLink website.

## Project additions and deletions

**2.54** As outlined in Chapter 4, an explicit decision was taken that projects to be funded by the $1.82 billion paid in June 2006 to five States and the Northern Territory to accelerate work on parts of the National Network would not be added to the respective Bilateral Agreements but that separate MoU would be entered into. However, DITRDLG has not adopted a consistent practice of developing a new funding document or otherwise adding new projects to the relevant Bilateral Agreement.

**2.55** For example, in November 2005 the then Minister for Transport and Regional Services had announced an additional $67 million in AusLink 1

[109] This specific advise to the then Minister was in relation to a variation of the Victorian Bilateral Agreement, but also related to variations more broadly of Bilateral Agreements with the States and Territories.

funding for rail projects in Western Australia, South Australia and Queensland, as follows:

- capped funding of $2.5 million to South Australia for the rail realignment associated with the replacement of the Bakewell Bridge at Mile End—the South Australian Bilateral Agreement has not been amended to include this project;
- capped funding of $25 million to Queensland towards the cost of the Beaudesert Road rail overpass at Acacia Ridge—the Queensland Bilateral Agreement has not been amended to include this project; and
- capped funding totalling $39.6 million to Western Australia towards the cost of three projects[110]—the Western Australian Bilateral Agreement was amended through an exchange of letters in December and January 2006 to include the three additional projects.

**2.56** In relation to the deletion of projects, ANAO's audit sample included the project to address flood immunity on the Bruce Highway in Queensland. Australian Government funding of $80 million for this project being fully funded by the Australian Government up to that amount had been included in the Queensland Bilateral Agreement signed on 28 November 2005. This project was subsequently included in those projects that received accelerated funding in June 2006 with $128 million in Australian Government towards an estimated project outturn cost of $172.8 million included in a Memorandum of Understanding with the Queensland Government. However, whilst this funding usurped the $80 million project included in the Bilateral Agreement, the Bilateral Agreement has not been amended to remove the project.

**2.57** Where individual projects are packaged together in the Bilateral Agreement, the level of visibility is further diminished for project deletions. For example, in relation to the HML package of works in NSW, through audit fieldwork in March 2008, ANAO identified that only one bridge (Wellington Street) was being replaced on the Mitchell Highway at Molong rather than the two bridges (Wellington Street and Market Street) initially advised as required and that underpinned Ministerial approval of Australian Government funding

[110] Namely: the Urban – Daddow Road Grade Separation ($11.5 million); East-West Rail Link Re-sleepering track between Koolyanobbing and Kalgoorlie ($20.1 million); and East-West Rail Link Passing Loops between Kewdale and Kalgoorlie ($8 million).

for the works package.[111] As the individual projects were not identified in either the Bilateral Agreement or the Project Approval Instrument, there has been no variation as a result of the project being deleted from the package.

**2.58** In November 2008, DITRDLG advised ANAO that it agreed that the way project deletions and additions had been handled could be improved, and the department was in the process of developing procedures to assist staff in this regard. DITRDLG also considered that it should be noted that a fully up to date record of projects has been maintained in the AusLink Investment Program, which is provided to the States annually. However, the example of DITRDLG only becoming aware through the ANAO audit work that there was a reduction in the number of bridges being upgraded for HML in NSW highlights that records have not been as up to date as is needed.

## Reallocation of funding between projects

**2.59** In circumstances where savings have been realised for particular projects, the Bilateral Agreements provide that:

- for fully Australian Government funded projects, the savings are to be applied as an agreed Australian Government contribution to another project or projects listed in Schedule A of the Bilateral Agreement for that State; and
- for projects where the Australian Government and the State are making a specified funding contribution, the savings are to be divided on a pro-rata basis and agreement reached on their application to another project or projects included in Schedule A of the Bilateral Agreement for that State.

**2.60** However, DITRDLG has not had effective procedures in place for reallocations to be reflected in an amendment to the relevant Bilateral Agreement. For example, the Tasmanian Bilateral Agreement signed on 31 October 2005 included one new AusLink project, being Stage 2 of the Bass Highway duplication between Penguin and Ulverstone at a total estimated project cost of $42 million to be fully Australian Government funded. This figure included a 20 per cent contingency and, notwithstanding that it held

[111] The RTA advised ANAO on 3 December 2008 that further structural assessment of the existing bridge on Market Street at Molong was completed by the RTA in September 2007 which confirmed that the bridge is adequate for HML loading subject to some relatively minor works being undertaken, but that the RTA did not formally convey this advice to DITRDLG until April 2008.

concerns about the reliability of the estimate, DITRDLG did not seek details from the Tasmanian Department of Infrastructure, Energy and Resources (DIER). After preconstruction work was completed, the Stage 3 Project Proposal Report submitted to DITRDLG by DIER maintained a cost estimate of $42 million (including a budget allocation of $4 million for DIER corporate overheads—9.5 per cent)[112] with various unexplained differences between the detailed cost estimate prepared by DIER and the information provided to DITRDLG.[113]

**2.61** In September 2007, the then Minister for Local Government, Territories and Roads approved Project Approval Instrument variations under the AusLink Act to use some of the $11.9 million[114] in savings expected to be realised for the Penguin to Ulverstone duplication Stage 2 project. The project variations were to:

(a) increase the Australian Government funding contribution to the Bass Highway and Midlands Highways—Junction Improvement project by $270 000 to $6.77 million. This project was a continuing project in Schedule A;

(b) increase the Australian Government funding contribution to the Penguin to Ulverstone duplication Stage 1 project by $275 000 to $28.77 million. This project was a continuing project in Schedule A;

(c) reduce the Australian Government funding contribution to the Penguin to Ulverstone duplication Stage 2 project by $535 000 to $41.46 million to offset the project increases in (a) and (b); and

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112 The wording of the Tasmanian Bilateral Agreement is different to the other states in that it allows 'direct costs of the supervision within the program of works' to be charged to a project. Under section 36(2)(b) of the ALTD Act, State road authorities were able to charge up to 4 per cent of the money otherwise expended on that project or program, for the purpose of meeting administrative costs incurred directly in connection with the construction or maintenance of national highways in the State. The introduction of the AusLink Act removed the ability of State road authorities to charge this administrative fee. In this respect, on 31 March 2009, DIER advised ANAO that 'in negotiating the terms of the Bilateral Agreement with the Australian Government, the State was able to clearly demonstrate a fair and equitable process for the handling of agency costs directly related to the program of works.' Further, 'the quoted $4 million corporate overhead cost was only partially levied against the project which contributed to further savings.'

113 For example, the estimated construction cost (including contingencies) varied by 15 per cent and, while the delivery period for the project had not changed, there was a difference of 7 per cent in the amount allowed for cost escalation.

114 Including $3.9 million for the Castra Ramps works that were then added to the project.

(d) vary the project scope of the Penguin to Ulverstone duplication Stage 2 to include the construction of ramps at Castra Road to provided access to the Bass Highway which had a P90 estimated cost of $3.9 million.[115]

**2.62** However, no amendment was made to the Bilateral Agreement to reflect these changes.

**2.63** Another example of funding being reallocated involved funds identified in the Bilateral Agreement to be spent on the F3 to Branxton project in NSW (see paragraph 2.33), the progress of which was delayed due to increasing estimates of its cost. The Bilateral Agreement had included a new AusLink project with an estimated cost of $115 million for Stage 2 (Cowan to Berowra) of the widening of the F3 to be funded 80 per cent by the Australian Government and 20 per cent by the NSW Government. It was originally envisaged that there would a separate third stage to the F3 widening work (from Berowra to Mt Colah) but, after the Bilateral Agreement was signed, the two Governments agreed to accelerate the widening of the F3, building it as one project from Cowan to Mt Colah on the basis of funds being reallocated from the F3 to Branxton project to supplement the funds originally specified for F3 Widening in Schedule A to the Bilateral Agreement.

**2.64** Based on the Australian Government meeting 80 per cent of the RTA's estimated outturn cost of $139 million (including 33 per cent for contingencies),[116] in September 2006 the then Minister for Local Government, Territories and Roads approved an increase in the maximum funding amount from the Australian Government to $111.2 million. The Project Proposal Report submitted by the RTA expected that the works would be open to traffic with all payments made prior to the end of the first five year AusLink period covered by the Bilateral Agreement. However, the Bilateral Agreement was not amended to reflect:

---

115 On 13 November 2006 the then Minister for Local Government, Territories and Roads jointly announced with the Federal Member for Braddon (the local member) that ramps at Castra Road providing access to the Bass Highway at Ulverstone would be constructed as part of the Penguin to Ulverstone duplication Stage 2, and that the Australian Government was meeting 100 per cent of the cost of the project. The risks with committing to a project prior to consideration of the requirements of both the financial framework and the AusLink Act are discussed in Chapters 4 and 5 of this report.

116 The Project Proposal Report (page 5) advised DITRDLG that the outturn estimate was based on escalation (inflation) of 3 per cent annum but that 'a more realistic escalation factor would be 6 per cent'. Using this 'more realistic' adjustment factor, the overall project cost estimate would have been $7 million higher (at $146 million) with an increase in the estimated cost to the Australian Government of $5.6 million.

- the increase scope and cost of the project (Stages 2 and 3 at an estimated cost of $139 million);
- the increased Australian Government contribution of $111.2 million with the Australian Government to fully fund project costs up to and including 2006–07, followed by joint funding of costs in 2007–08 and the NSW Government then meeting the remaining costs (the Bilateral Agreement was drafted such that the Australian Government funding over the five year program was subject to NSW making a 20 per cent contribution to the construction costs in that period); or
- that all costs will be met in the first five year AusLink period.

**2.65** Further changes to the details for this project were agreed in November 2006, after the RTA recalculated the estimated cost taking into account the tenders that had been received in October 2006 and a review of other components of the project. Specifically, DITRDLG agreed to an RTA request that the maximum amount of Australian Government funding for the F3 Widening project be reduced from $111.2 million to $95.2 million as a consequence of the estimated outturn cost of the project being reduced to $119 million (including 25 per cent for contingencies). The Project Approval Instrument was amended to reflect the reduced maximum Australian Government contribution but the Bilateral Agreement was not. As a result, the Bilateral Agreement continues to only include Stage 2 of the F3 Widening works with an estimated cost of $115 million and an Australian Government contribution in the first five years of $50 million with the NSW Government to provide $12.5 million in this period.

**2.66** By way of comparison to the Penguin to Ulverstone duplication Stage 2, F3 to Branxton and F3 Widening (Stages 2 and 3) projects, some other agreed reallocations of Australian Government funding have been reflected in amendments to the respective Bilateral Agreement. Specifically, the Victorian and Tasmanian Agreements were amended (in May 2006 and September 2006 respectively) to reallocate funding due to a project not proceeding.[117]

[117] Similar to the amendment to the Western Australian Bilateral Agreement, each amendment was transacted through an exchange of letters between Ministers in which amendments to the body of the Bilateral Agreement were agreed and a revised Schedule A prepared.

## Program administration improvements

**2.67** In November 2008, DITRDLG advised ANAO that approved variations to projects in the schedule to the MoUs for the second five-year funding period (see paragraph 2.20) will be recognised and recorded by written letter to the States such that, in general, variations will not necessitate amendments to the schedule or the body of the MoU. More broadly, DITRDLG advised ANAO of a series of program management improvements it had made, or was making. These administrative improvements were in addition to the changed governance documentation envisaged for the second five-year AusLink funding period (see paragraph 2.20), and comprised:

- implementation in November 2007 of the APMS so as to enable improved reporting for program management such as timeliness and enforcement of report submissions, trend monitoring with respect to payments and information submitted, and financial reporting. DITRDLG further advised ANAO that a number of reporting enhancements are currently being made to the APMS product suite including project performance, project forecasting and traffic light reports;
- developing a procedures manual and developing relevant training to assist staff to consistently apply legislative and administrative requirements; and
- the Infrastructure Intranet site has been upgraded to reflect changes in the Network Program and to enable the dissemination of program information and guidelines quickly and efficiently to staff involved in program management.

**2.68** DITRDLG further advised ANAO that, within the Infrastructure Investment Division, it had established the Business Improvement Section and the Program Support Section to review and develop business processes to enhance oversight, assessment and reporting within the Division. In addition, a cross-Division Business Improvement Working Group has been established to work with the Business Improvement and Program Support Sections on the review of existing procedures and development of new processes. An Audit Working Group has also been established, which meets regularly to review progress. Further, a consultant has been engaged to review the Division's business improvement initiatives in oversight, assessment and reporting and to identify any further requirements necessary.

**2.69** As part of improvements it is making to program governance arrangements, in November 2008, DITRDLG advised ANAO that it was developing:

- a project assessment checklist to ensure that all aspects of assessment are considered by staff before submissions to the Minister are prepared; and
- templates for project assessment reports and briefs to the Minister.

## Shared Funding Arrangements

**2.70** During 2004 preparations for the introduction of AusLink, DITRDLG recognised that the approach to shared funding of projects would become a pivotal element of AusLink implementation. This was consistent with the policy objective outlined in the AusLink White Paper of increased sharing of costs with the States. Specifically, the White Paper had stated that:

> The Australian Government will invest in those projects on the National Network that are of national priority and have substantial national benefits. The Government has a clear expectation that States and Territories will invest in those projects on the National Network which provide benefits at the State or Territory level. In many cases, this means that project costs will be shared with State and Territory Governments.
>
> The Government will tailor its approach to cost sharing with States and Territories according to categories of links. For example, remote interstate links of the National Network are likely to receive a higher proportion of Australian Government funding. This would be because of their importance in providing national connectivity and the minor effect of local issues in driving their costs. The Government also wishes to protect the benefits it has achieved by its high levels of investment in the National Highway System over the years. Accordingly, it will continue to fully fund many projects on the former National Highway System during this first five-year plan. Variations in cost sharing, based on the specific characteristics of individual projects, may also be warranted.[118]

**2.71** The objective of greater sharing of project costs with States was reflected in the Bilateral Agreements. Specifically, the proportion of projects

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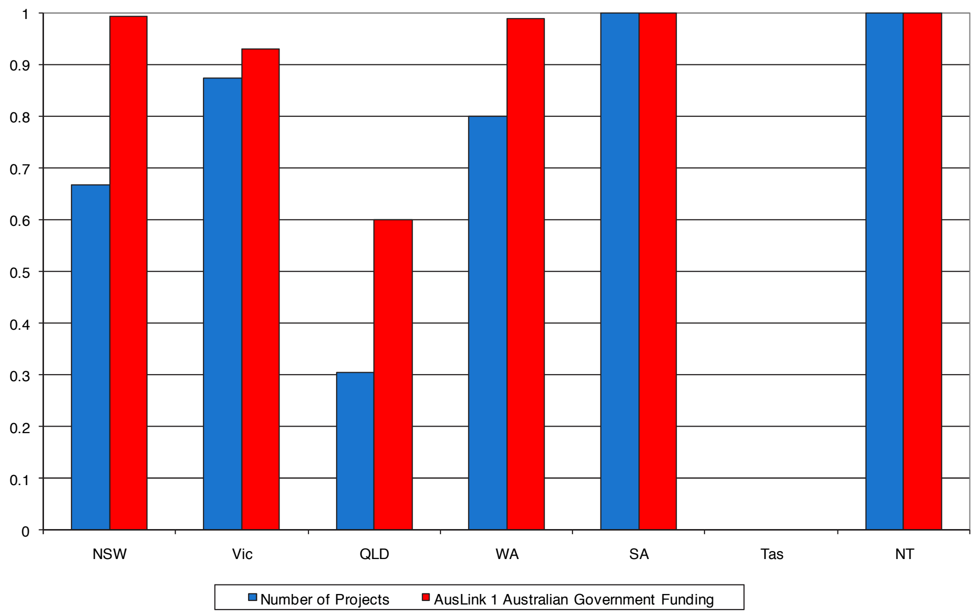
[118] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. 23.

included in Schedule A where costs were to be shared was increased from 29 per cent for continuing projects to 58 per cent of new AusLink projects (representing 84 per cent of AusLink 1 funding). As illustrated by Figure 2.1, the proportion of projects and AusLink 1 funding where costs were to be shared varied considerably between the States.[119]

### Figure 2.1

### New AusLink 1 projects where costs were to be shared with States




Source: ANAO analysis of Bilateral Agreements.

Note: Australian Capital Territory is not shown as there were no continuing or new AusLink projects. The single new Tasmanian project was fully Australian Government funded.

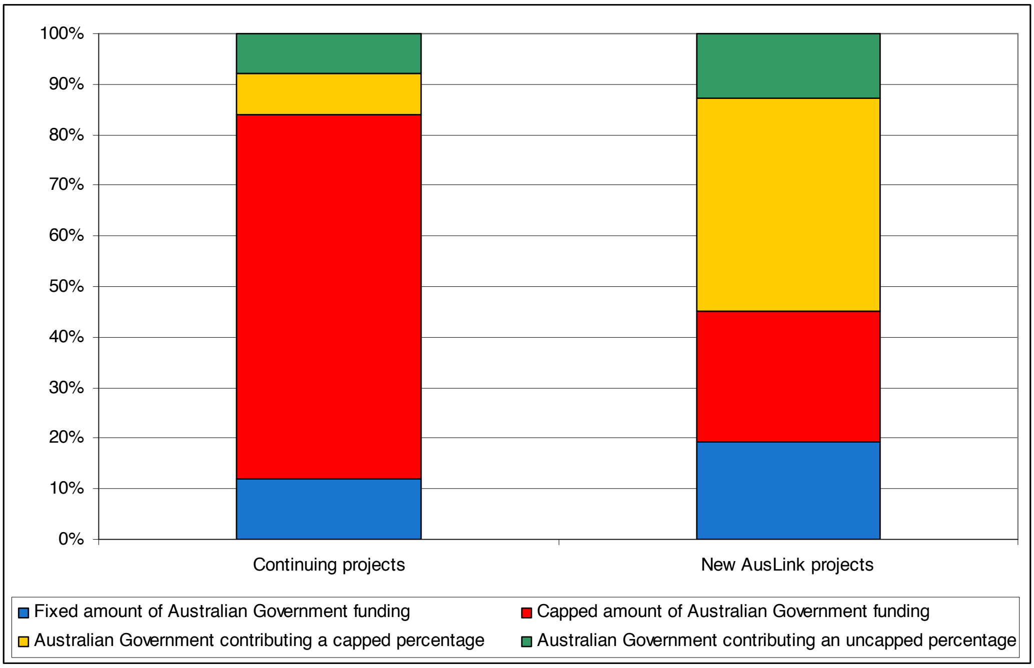
**2.72** In addition to an increased proportion of new AusLink projects being funded on a shared basis compared to continuing projects, there was a noticeable change in the nature of the intended cost sharing arrangements. As illustrated by Figure 2.2, the significant majority (72 per cent) of shared funded projects continuing from the predecessor ALTD program involved capping the Australian Government contribution at a specified amount. For new AusLink 1 projects, it was more common (55 per cent compared to 26 per cent) for the

[119] Similarly, a number of the AusLink 'Early Start' Election Commitments involve the Australian Government providing a contribution to project costs rather than fully funding all projects.

shared funding arrangements to involve the Australian Government contributing a percentage of actual projects costs. For 76 per cent of these projects, the Australian Government's share of costs was capped at a specified amount. Accordingly, the integrity and quality of reporting by the States against project expenditure was now more important.

### Figure 2.2

### Nature of shared funding arrangements




Source: ANAO analysis of Bilateral Agreements.

## Governance arrangements

**2.73** The AusLink Act did not include provisions directly addressing the administration of shared funding for National Network projects. At the next level in the hierarchy of the AusLink governance framework, the Notes on Administration recognised that there would be a need to document how shared funding arrangements for individual projects were to be administered. Specifically, the Notes stated that:

> The Australian Government may have shared funding arrangements for a project with the funding recipient and/or other parties. The timing of the provision of respective funding obligations will be articulated in agreements between relevant parties. As stated in Section 3.3, any understanding between a project proponent and the Australian Government in the context of the

project approval or variation will be set out in correspondence. This correspondence will form part of the project approval conditions.[120]

**2.74** The AusLink 1 Bilateral Agreements sought to address the financial risk to the Australian Government of project cost increases through cost sharing and cost capping arrangements. Specifically, for all projects, including those subject to shared funding arrangements, Schedule A to each Bilateral Agreement identified for each project whether the Australian Government was fully funding project costs and, where this was not the case, the nature of the cost sharing arrangement. However:

- the Bilateral Agreements are not legally binding;
- some National Network projects have not been included in the Bilateral Agreements and, in other instances, a package of works approach has been adopted (see, for example, paragraph 2.40);
- for some projects (as outlined above), the estimate of total costs included in Schedule A to the Bilateral Agreements was understated; and
- the Bilateral Agreements do not address the timing of the provision of respective funding obligations.

**2.75** The shortcomings evident in relying on the Bilateral Agreements to administer shared funding of project costs were evident from ANAO analysis of projects in the audit sample.

**2.76** For example, the aforementioned F3 Widening Project was included in the Bilateral Agreement with Australian Government funding over the five year program, subject to NSW making a 20 per cent contribution ($12.5m) to project costs in that period. As noted at paragraphs 2.64 and 2.65, the Bilateral Agreement was not amended to reflect the increased project scope, estimated cost and respective funding contributions and timing. The cost sharing arrangements were also not reflected in the Project Approval Instrument (see Figure 2.3).[121]

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[120] DITRDLG, *AusLink Investment Program: National Projects Notes on Administration*, March 2006, p 25.

[121] The Project Approval Instrument was later amended to $95.2 million maximum Australian Government contribution (see paragraph 2.65).

## Figure 2.3

### F3 Widening project (Stages 2 and 3) Project Approval Instrument

| | |
|---|---|
| **Project No.** | NAN010 |
| **Project Name** | F3 Freeway - widening, Stages 2 & 3 (Cowan to Mt Colah). |
| **Project Description** | Widening of the F3 Freeway to 3 lanes in each direction south of the Hawkesbury River. |
| **Variation** | Increase the maximum funding amount that the Australian Government may contribute from $10.9 million to $111.2 million. |

Source: ANAO analysis of DITRDLG records.

**2.77** Similarly, as mentioned in paragraph 2.55, the Australian Government agreed to provide additional funding (capped at $25 million) to Queensland towards the cost of the Beaudesert Road rail overpass at Acacia Ridge. The Queensland Bilateral Agreement was not amended to include this project. Notwithstanding the requirement in the AusLink Notes on Administration, and similar to other projects where the Australian Government is only providing part of the required project funding, project records examined made no mention on how the shared funding arrangements were to operate. In this respect, as at February 2008, the expenditure over the life of the project was $16.4 million and the Australian Government had paid $18.5 million to the Queensland Department of Main Roads (QDMR) against the project. The Australian Government contribution had been fully paid out to QDMR by May 2008.

**2.78** Another example related to the Townsville Ring Road project where the final agreed cost sharing arrangement involved the Australian Government funding $40 million plus 50 per cent of costs above this amount with the Queensland Government to fund the other 50 per cent of costs above $40 million. However:

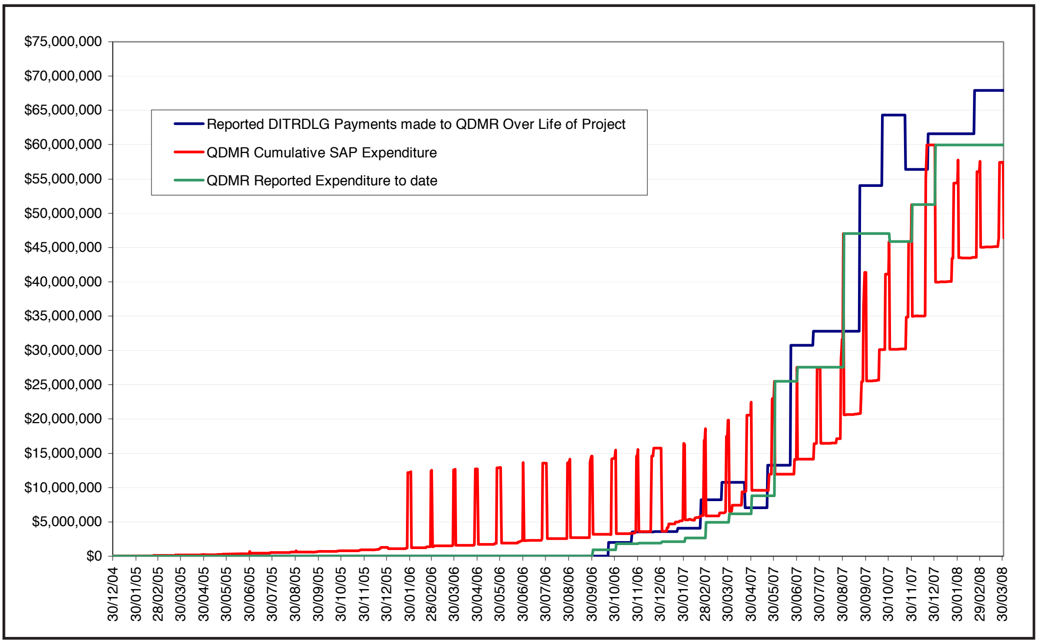
- while there was considerable correspondence between QDMR and DITRDLG in relation to the shared funding of estimated costs as a result of the increase in the estimated project cost, the timing of the payments was not addressed, nor was the way in which any shortfall or increase in actual costs (compared to the estimated cost) was to be addressed;
- the Bilateral Agreement was not amended to reflect the increase in estimated project cost from $40 million to $119 million. The Bilateral

Agreement was also not amended to reflect that the changed cost sharing arrangement (it continues to refer to an Australian Government contribution of $40 million over four years);

- the Project Approval Instrument states that the approved cost of the project is $79.5 million, with no reference to the cost sharing arrangements; and
- DITRDLG's administration has resulted in the Australian Government funding all of the first $79.5 million in project costs (see Figure 2.4). This has exposed the Australian Government to a risk that, in the event actual costs were less than estimated by QDMR, the Australian Government would contribute more than 50 per cent of the actual costs above $40 million.

### Figure 2.4

**DITRDLG payments to QDMR for Townsville Ring Road project**




Source: ANAO analysis of DITRDLG and QDMR data. Note: the cumulative expenditure includes accrued expenditure being captured in the state financial management system at the end of each month, and removed at the beginning of the following month.

## Monitoring and managing shared funding arrangements

**2.79** ANAO's third audit of the management of the predecessor National Highways Program (completed in February 2001) found that 55 per cent of sampled projects had been completed within the original estimate of costs but that 45 per cent had been completed above the original estimate.[122] The audit concluded that an effective management system was not in place to promptly identify project cost changes with DITRDLG agreeing to a recommendation that it monitor estimated versus actual project costs and revise its systems to retain the original estimated cost of each approved project for comparison and accountability purposes.[123] An April 2001 internal review of the management and administration of roads commissioned by DITRDLG following tabling of the ANAO report found that appropriate steps had been taken to implement the recommendation.

**2.80** However, in administering the AusLink National Network Program, DITRDLG has not adopted a consistent approach to reporting by States on project costs for shared funded projects. Prior to the introduction of the APMS in November 2007, it had been relatively common for DITRDLG to obtain reports of State expenditure up to the maximum amount the Australian Government has agreed to contribute, but not the total project costs. This meant that DITRDLG was not monitoring total project costs which prevented it from:

- monitoring whether cost estimates for the project proved to be reliable; and
- ensuring the agreed cost sharing arrangement is implemented.

**2.81** Since the introduction of APMS, the monthly project status report enables the 'State Government' or 'Other Source' funding to be captured. However, in respect to the Townsville Ring Road project, at the time of audit fieldwork this section of the template has not been completed (as shown in Figure 2.5). As a result, the Australian Government is exposed to a risk that, in the event actual costs are less than estimated, the Australian Government contribution will be greater than the proportion that was agreed as the final cost of the work is not being monitored.

**2.82** Another example in this regard is the aforementioned F3 Widening project where the Australian Government has approved a contribution of $95.2 million (as an 80 per cent share of the total estimated cost). The RTA June

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122 ANAO Audit Report No.21 2000–01, *Management of the National Highways System Program*, Canberra, 8 February 2001, p. 53.

123 ANAO Audit Report No.21 2000–01, *Management of the National Highways System Program*, Canberra, 8 February 2001, p. 54.

2008 project status report states that the F3 Widening project is joint funded, but it is silent on the timing of contributions. As illustrated in Figure 2.5 the information contained in both reports shows that, to date, the Australian Government has fully funded the projects.

### Figure 2.5

### Project status reports for Townsville Ring Road and F3 Widening projects

Australian Government
Department of Infrastructure, Transport, Regional Development and Local Government

AusLink
Building our National Transport Future

Project Number **000694-07QLD-NP**
Project Name **Townsville Ring Road between Condon and Shaw Road**
Project Status **Construction continuing**

| | |
|---|---|
| Approved Australian Government Funding | **$79,500,000** |
| Total Payments To Date | **$71,525,782** |
| Balance of Approved funds | **$7,974,218** |
| YTD Total Payments | **$40,765,782** |

| | State Government | Other Sources | Australian Government | Total |
|---|---|---|---|---|
| Total Expenditure | **$0** | **$0** | **$68,273,622** | **$68,273,622** |
| YTD Expenditure | **$0** | **$0** | **$40,713,593** | **$40,713,593** |
| Estimaed Expenditure | **$0** | **$0** | **$5,000,000** | **$5,000,000** |
| Estimated Expenditure | **$0** | **$0** | **$5,000,000** | **$5,000,000** |

Was the Construction Code breached? **No**

**Assessment**

Review Outcome **Accepted**
Recommended Payment **$5,497,840**

Australian Government
Department of Infrastructure, Transport, Regional Development and Local Government

AusLink
Building our National Transport Future

Project Number **000632-06NSW-NP**
Project Name **F3 Freeway - widening, Stages 2 & 3 (Cowan to Mt Colah).**
Project Status **Detailed cost estimate $119.0M(OT). Project joint funded (80% Federal and 20% NSW). Contract awarded to BMD Major Projects on 19 Dec 2006. Event for commencement of works held 20 Feb 2007. First section (Cowan to Berowra) expected to open July 2008 (southbound) and Aug 2008 (northbound). Full opening to traffic anticipated June 2009.**

| | |
|---|---|
| Approved Australian Government Funding | **$95,200,000** |
| Total Payments To Date | **$42,448,531** |
| Balance of Approved funds | **$52,751,469** |
| YTD Total Payments | **$14,570,622** |

| | State Government | Other Sources | Australian Government | Total |
|---|---|---|---|---|
| Total Expenditure | **$0** | **$0** | **$43,971,793** | **$43,971,793** |
| YTD Expenditure | **$0** | **$0** | **$19,087,719** | **$19,087,719** |
| Estimaed Expenditure | **$0** | **$0** | **$2,800,000** | **$2,800,000** |
| Estimated Expenditure | **$1,500,000** | **$0** | **$0** | **$1,500,000** |

Was the Construction Code breached? **No**

**Assessment**

Review Outcome **Accepted**
Recommended Payment **$4,323,262**

Source: DITRDLG records of RTA and QDMR June 2008 project status reports contained in the Monthly Progress Reports downloaded from APMS.

**2.83** As mentioned in paragraph 2.77, the Australian Government contribution to the Beaudesert Road rail overpass at Acacia Ridge in Queensland was fully paid out to QDMR by May 2008. Subsequently, in July 2008 a negative $7.68 million was attributed to the project. The comment added by a DITRDLG officer on 17 July 2008 in the APMS record stated:

> The AG [Australian Government] contribution had been fully paid out (May 2008 payment) and no further payments were expected. The negative payment[124] for this month has arisen through a contribution being made by QR [Queensland Rail] that appears to have had a significant impact on the distribution of expenditure against the various funding sources. We expect this to be balanced out over the new [sic] 2 to 3 months and are currently seeking formal advice on this matter.

[124] DITRDLG advised ANAO that the negative payment identified in the July 2008 APMS report did not constitute an overpayment to the State as this was offset against payments owing to the State for the program of works and, in addition, the shortfall for the project was made up over the subsequent three to four months.

**2.84** Notwithstanding the adjustment in reported project expenditure, and the increased contribution by Queensland Rail, the column in APMS regarding 'Other Sources' expenditure was reduced from the June 2008 status report. The following figure shows a comparison between the June 2008 and the July 2008 monthly status reports for this project.

## Figure 2.6

### Project status reports for Beaudesert Road rail overpass at Acacia Ridge

**Extract: June 2008**

| | |
|---|---|
| Project Number | 000757-09QLD-NP |
| Project Name | Acacia Ridge open level crossing grade separation at Beaudesert Road. |
| Project Status | Clearing completed. Earthworks continuing. |
| Approved Australian Government Funding | $25,000,000 |
| Total Payments To Date | $25,000,000 |
| Balance of Approved funds | $0 |
| YTD Total Payments | $25,000,000 |

| | State Government | Other Sources | Australian Government | Total |
|---|---|---|---|---|
| Total Expenditure | $0 | $2,701,197 | $25,000,000 | $27,701,197 |
| YTD Expenditure | $0 | $0 | $27,701,197 | $27,701,197 |
| Estimaed Expenditure | $0 | $0 | $0 | $0 |
| Estimated Expenditure | $0 | $0 | $0 | $0 |
| Was the Construction Code breached? | No | | | |

**Assessment**

| | |
|---|---|
| Review Outcome | Accepted |
| Recommended Payment | $0 |

**Extract: July 2008**

| | |
|---|---|
| Project Number | 000757-09QLD-NP |
| Project Name | Acacia Ridge open level crossing grade separation at Beaudesert Road. |
| Project Status | Clearing completed. Earthworks continuing. Contribution from QR received. Separate project status report to be submitted. |
| Approved Australian Government Funding | $25,000,000 |
| Total Payments To Date | $25,000,000 |
| Balance of Approved funds | $0 |
| YTD Total Payments | $0 |

| | State Government | Other Sources | Australian Government | Total |
|---|---|---|---|---|
| Total Expenditure | $0 | $0 | $10,315,578 | $10,315,578 |
| YTD Expenditure | $0 | $0 | $10,315,578 | $10,315,578 |
| Estimaed Expenditure | $0 | $0 | $4,000,000 | $4,000,000 |
| Estimated Expenditure | $0 | $0 | $4,000,000 | $4,000,000 |
| Was the Construction Code breached? | No | | | |

**Assessment**

| | |
|---|---|
| Review Outcome | Accepted |
| Recommended Payment | -$7,684,422 |

Source: DITRDLG records of QDMR June 2008 and July 2008 project status reports contained in the Monthly Progress Reports downloaded from APMS.

**2.85** ANAO has also identified how the management of cost sharing arrangements can differ across two similar projects. Specifically, the audit sample included two projects on the Pacific Highway in NSW, namely Brunswick Heads to Yelgun and Bonville Deviation. Similarities in the projects include:

- both projects are included in the general group of projects along the Pacific Highway within the AusLink Bilateral Agreement;
- both are part of the current Pacific Highway – Joint Australian and NSW Government Upgrading Program[125]; and

[125] In December 2008 the RTA advised ANAO that the Brunswick to Yelgun project was originally included in the joint Pacific Highway Upgrade Program, covering the 10 years 1996–97 to 2005–06 and subsequently carried over as the 'balancing project' into the joint Pacific Highway Upgrade Program covering the three years 2006–07 to 2008–09. The Bonville project was included only in the latter Program.

- both are joint funded under AusLink and involve sharing of project costs between the Australian Government and the NSW Government.

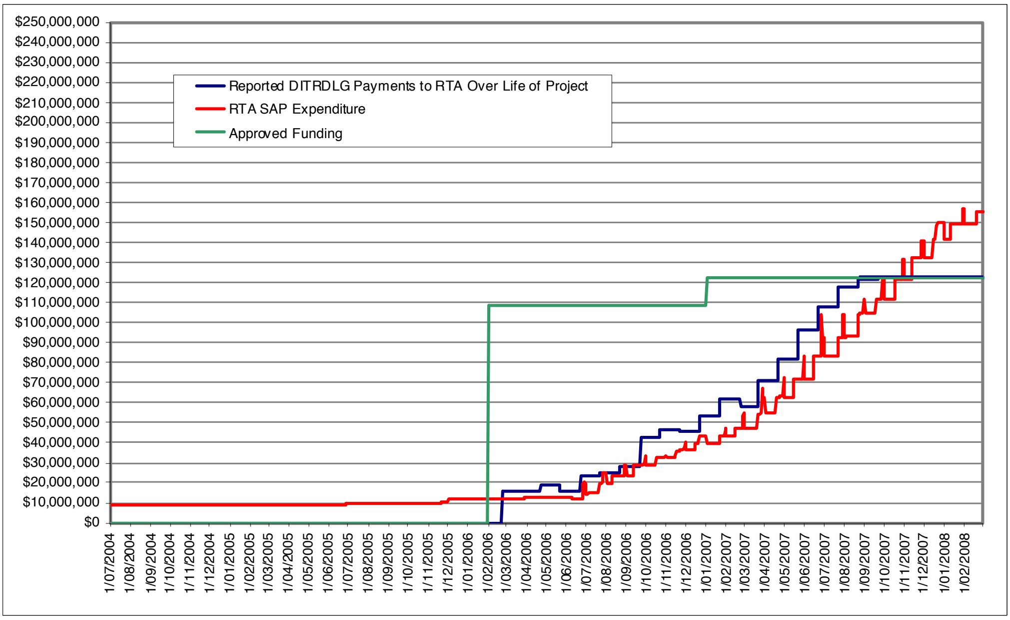
**2.86** No project-specific shared funding arrangement was put in place for either the Bonville Deviation project or the Brunswick Heads to Yelgun project.[126]

**2.87** Comparing RTA's financial records with the financial information included in the monthly progress reports provided to DITRDLG revealed that the RTA paid expenses for the Bonville Deviation project from Australian Government funding first, with the State's 50 per cent contribution towards the project cost occurring only once the Australian Government had contributed the maximum funding amount it had agreed to provide. This is illustrated in Figure 2.7. This analysis was confirmed by the information contained in the APMS project status reports which now include the level of State expenditure on a monthly basis.

[126] In this respect however, in December 2008 the RTA advised ANAO that program reviews provided by the RTA to DITRDLG as mentioned in paragraph 2.43 included anticipated timing of Federal and State funding contributions as annual cash flows.

## Figure 2.7

### Actual expenditure and Australian Government funding—Bonville Deviation

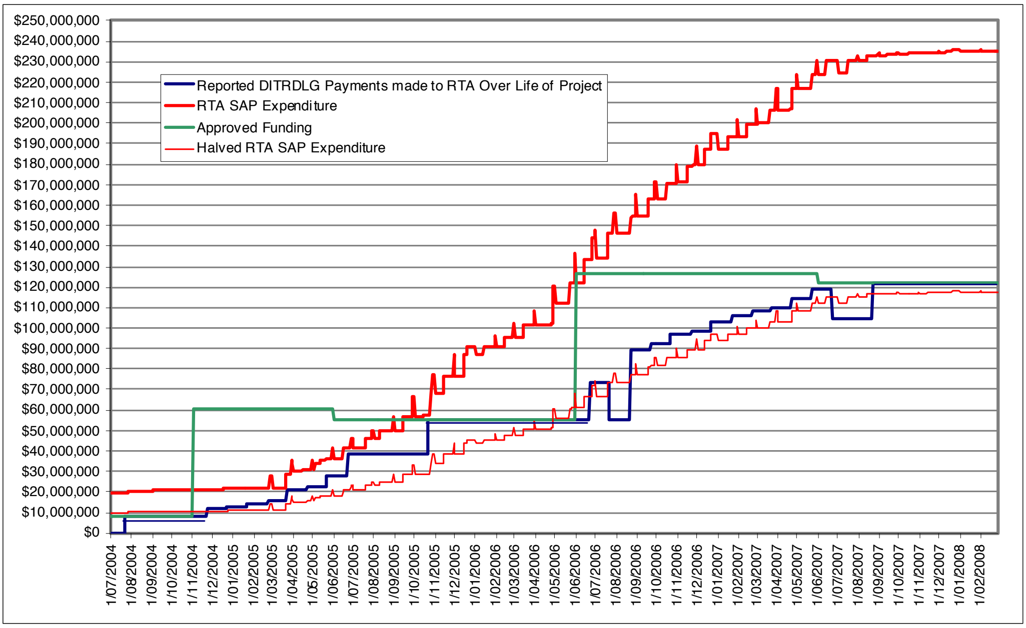



Source: ANAO analysis of DITRDLG and the RTA records.

**2.88** The Bonville Deviation project differs substantially to the situation for Brunswick Heads to Yelgun. In Brunswick Heads to Yelgun, both Australian Government and State funding were used from the outset of the AusLink National Network Program. ANAO found that the actual expenditure incurred was greater than the payments made by DITRDLG 99.4 per cent of the time. Over the entire life of the project, it became apparent that the trend of the payments made by DITRDLG followed that of 50 per cent of the actual accrual expenditures made by the RTA. Figure 2.8 illustrates the relationship between RTA's actual expenditure and payments made by DITRDLG for Brunswick Heads to Yelgun.

## Figure 2.8

### Actual expenditure and Australian Government funding—Brunswick Heads to Yelgun




Source: ANAO analysis of DITRDLG and the RTA records.

**2.89** The Brunswick Heads to Yelgun and Bonville Deviation projects highlight that monitoring and managing can be further complicated where projects are identified in a Bilateral Agreement as a package of works and there is a separate agreement associated with the package (as mentioned in paragraph 2.40). In the context of Project Approval Instruments, the Notes on Administration state (section 3.2.3) that AusLink National Project commitments that have been expressed at a high level (such as the Pacific Highway upgrading program and the Bruce Highway upgrading program) will require identification of the specific projects to be funded. In this respect, in August 2008, the RTA advised ANAO that:

> The Pacific Highway upgrade program consists of a large number of projects for which the Australian Government provides significant funding for only a select number of projects, with the remainder being fully or largely funded by State sources. By the end of the current AusLink program the State Government will have funded $2.45 billion, whereas the Australian Government will have funded only $1.45 billion towards the Pacific Highway program. This funding is in accordance with the agreements covering this program, including the NSW Bilateral Agreement. Furthermore, the *Pacific Highway Reconstruction Program Agreement* includes a provision (Clause 12)

> recognising the need for flexibility in programming and allowing for a 'running total' over the ten year period through annual program reconciliation in the following year. Funding for individual projects is managed through the project funding approval process, the annual Federal Budget allocation and through a cooperative approach to program management on behalf of the State and Australian governments. Whilst individual project funding profiles may vary between projects, they reflect the overall program. Therefore, it is within this context of higher-level program management that the funding arrangements for Brunswick Heads to Yelgun and Bonville upgrade projects should be considered.
>
> Managing projects as a 'Program of Works' within an agreed funding level at a program level in advance of funding limits for projects within the program provides greater programming flexibility for both the NSW and Australian Governments. It allows the program to respond to variations in project funding requirements and allocations resulting from changes in the timing of individual projects and changes in government or community priorities. Extending these funding arrangements to the project level, whether on a monthly or yearly basis, would add unnecessary complexity and reduce flexibility both in terms of managing the overall program and in terms of individual project delivery. Inefficiencies in project delivery would result in increased project costs.

**2.90** By way of comparison, the 2006 AusLink evaluation undertaken by DITRDLG concluded that the inclusion of large costly projects or package works within the funding envelopes had reduced AusLink program flexibility and increased program management risks.

**2.91** The introduction of APMS[127] in November 2007 and the increased ability to monitor the actual level of cost sharing on a given project is an improvement over previous AusLink Investment Program: Monthly Progress Report arrangements. However, in order to manage the agreed percentage of project cost sharing, this information needs to be captured, monitored, and a financial acquittal undertaken once a project has been completed. A comprehensive acquittal should be undertaken in order to be assured that the

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127 On 1 October 2008, QDMR advised ANAO that: 'Main Roads has highlighted a number of criticisms with the new APMS system. In particular, issues such as the hard-keying of data required and the loss of the capability to show audited carry-over funds and yearly allocations against approved projects. As a result, the APMS does not lend itself to the calculation of carry-overs as at 30 June, as required under the AusLink Notes on Administration.' In February 2009 DITRDLG advised ANAO that the carryover of funds is determined when the project is reconciled at the end of the financial year and the carryover amount is then entered into APMS for the next financial year. DITRDLG considered that this process addressed the need for control to ensure that funds are carried over correctly.

intended shared funding arrangements were implemented. The attendant risks of paying the full Australian Government contribution to a project prior to State expenditure are illustrated by the Brunswick Heads to Yelgun project.

**2.92** On 5 June 2007, the RTA wrote to DITRDLG finalising two Pacific Highway (former Roads of National Importance) projects[128] and seeking a reduction in the Australian Government funding approval limit from $126 880 000 to $121 936 647 for the Brunswick Heads to Yelgun project. Department records to the Minister's delegate dated 20 June 2007 note that it would be necessary to adjust the funding approvals following completion of each project to match the final expenditure claim from NSW.

**2.93** The reduced Australian Government funding limit of $121 936 647 was calculated using the 25 August 2005 advice from the RTA that the anticipated estimated cost, reflecting the impact of the contract price, was $256.0 million (in outturn dollars), including 7.8 per cent for contingencies. The DITRDLG correspondence of 20 June 2007 to the RTA advised that 'the part of the Brunswick Heads to Yelgun funding that can be met from the former ten-year program funding increases to $72 299 828 with the balance of $49 636 819 to be met from AusLink funding, subject to adjustment on finalisation of expenditure for this project'.

**2.94** The August 2007 AusLink Investment Program payment to the RTA brought payments over the life of the project to the maximum Australian Government funding amount. However, the RTA records demonstrated that, at that time, 50 per cent of the actual costs of the Brunswick Heads to Yelgun project were not high enough to warrant payment by DITRDLG up to the Australian Government maximum funding limit.

**2.95** As of 26 February 2008, there remained a $10.28 million surplus of Australian Government payments over the 50 per cent of project costs to be met by the Australian Government. Using the State and Australian Government expenditure information contained in the APMS July 2008 monthly project status report, as illustrated in Figure 2.9 a surplus of Australian Government payments of $4 764 006 was still outstanding. In this respect, the RTA advised ANAO in August 2008 that, in the event that the 50 per cent is not achieved, the program will be reconciled upon financial completion of the project.

[128] Namely Karuah to Bulahdelah Section 1 and Bundacree to Possum Brush.

## Figure 2.9

### Project status report for the Brunswick Heads to Yelgun project

Australian Government
Department of Infrastructure, Transport, Regional Development and Local Government

AusLink
Building our National Transport Future

| | |
|---|---|
| Project Number | **000400-02NSW-NP** |
| Project Name | **Pacific Hwy - Brunswick Heads to Yelgun.** |
| Project Status | **Detailed cost estimate $256.0M(OT). Project joint funded. DCM contract awarded to Abigroup Contractors P/L on 10 Feb 2005. Community event held 8 July 2007 and opened to traffic 11 July 2007. Revised federal funding limit of $121,936,647 split $72,299,828 former RONI and $49,636,819 AusLink.** |

| | |
|---|---|
| Approved Australian Government Funding | **$121,936,647** |
| Total Payments To Date | **$121,936,647** |
| Balance of Approved funds | **$0** |
| YTD Total Payments | **$17,266,702** |

| | State Government | Other Sources | Australian Government | Total |
|---|---|---|---|---|
| Total Expenditure | **$123,910,400** | **$0** | **$121,936,647** | **$245,847,047** |

Source: DITRDLG records of RTA July 2008 project status reports contained in the Monthly Progress Reports downloaded from APMS.

## Program administration improvements

**2.96** As part of improvements it is making to program governance arrangements (see paragraph 2.20), in November 2008, DITRDLG advised ANAO that the financial arrangements under the MoUs for the second five-year funding period will include provision for some cost sharing within overall project cost capping arrangements. In addition, as noted at paragraph 2.91, the introduction of APMS in November 2007 with the attendant increased ability to monitor the actual level of cost sharing on a given project is an improvement over previous reporting arrangements.

# 3. Project planning and delivery

*This chapter examines the project life cycle associated with National Network projects, including the impact that the project procurement method, and time, cost, quality and scope constraints have on the delivery of projects.*

## Introduction

**3.1** Project delivery is the seventh phase in the Transport System Management Framework promulgated by the *National Guidelines for Transport System Management* (National Guidelines) (see Figure 3.1). Major activities in this phase include detailed project planning, design of approved and funded projects, construction and commissioning, risk management, and delivery on time, within budget and to quality specifications.[129] The National Guidelines recognise that the Australian Government provides substantial funding for transport programs (eg through AusLink). The Australian Government has primary responsibility for program delivery but little direct involvement in the delivery of individual initiatives (projects or packages of work) as this work is undertaken by State road transport authorities and/or the private sector.[130]. The Guidelines, however, do not provide any specific guidance on the project delivery phase.[131]

**3.2** The AusLink White Paper stated the Australian Government's intention to engage with the States, Territories and local government on the arrangements for delivering detailed projects; and formalising these arrangements through Bilateral Agreements with each jurisdiction.[132] In relation to the projects in the ANAO audit sample, the level of DITRDLG involvement in project planning and delivery varied. This audit observation was confirmed by DITRDLG in its advice to ANAO. Specifically, ANAO was advised that the department's extent of involvement in individual projects varies, but can extend across the full range of stages such as planning,

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129 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 2—Strategic transport planning and development, December 2006, p. 69.

130 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 2—Strategic transport planning and development, December 2006, p. 69.

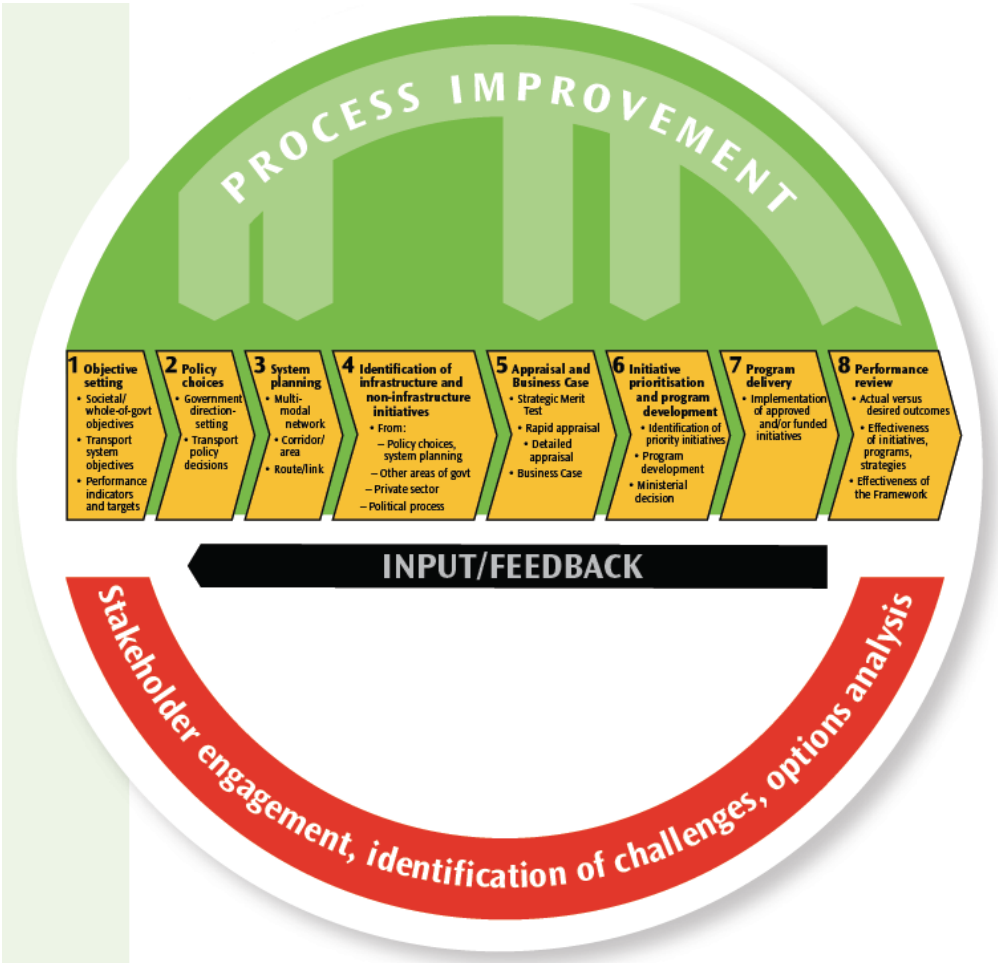
131 ibid and Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, p. 20.

132 AusLink White Paper, p. 104.

consideration of route selection and construction, site visits, project meetings and participation on working groups. ANAO observed that in most projects DITRDLG provided review and editorial input into public newsletters associated with a project. However, this involvement did not necessarily add value to the project information included in the newsletter/ brochure or instigate action from DITRDLG when project information differed significantly to that approved.

## Figure 3.1

### The Transport System Management Framework




Source: Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 2—Strategic transport planning and development, December 2006, p. 12.

**3.3** For example, in January 2008, the RTA sought feedback from DITRDLG via email on a proposed Community Update brochure for a project being delivered as part of the HML $30 million bridge upgrade package of works in

NSW. The draft brochure included the statement that the Australian Government was providing $4 million to construct a new overpass of the railway line at Molong. However, when the then Minister for Local Government, Territories and Roads approved the package of works, two rail overpasses were to be constructed in Molong with an estimated project budget of $1.5 million and $2.2 million respectively. Notwithstanding the changed scope of work and the reported increase in Australian Government contribution, three days after receiving the draft brochure, DITRDLG provided the RTA with some minor edits and advised that there were no other changes required for the documents that were attached to the email. The discrepancies in the project scope and increased cost were not raised with the RTA when endorsing the Community Update brochure.

**3.4** DITRDLG has had increased involvement in project planning through participating on project control groups and steering committees for some of the higher profile and more expensive projects. For example, in relation to the accelerated works packages discussed in Chapter 4, DITRDLG has participated on Project Control Groups for the Hume and Pacific Highway packages and a Steering Committee for the Bruce Highway package. Further, in south-east Queensland, projects being delivered on the Ipswich Motorway are being oversighted by a Steering Group consisting of senior DITRDLG and QDMR representatives. In this regard, on 12 September 2007 as part of the project brief accompanying a request for approval of $250 million in preconstruction funding for the Goodna bypass, the then Minister for Local Government, Territories and Roads was advised that, under the Steering Group's management, a number of matters were underway or likely to be in the near future in relation to consultancy costs and public and stakeholder consultation; QDMR project management costs; and property acquisitions.[133]

**3.5** In relation to its ongoing monitoring of the accelerated works packages, in October 2008 DITRDLG advised ANAO that:

> These arrangements have ensured the Department was appropriately informed of progress on the projects and any risks and sensitivities, and that it could act to protect the Australian Governments interests.

[133] The then Minister for Local Government, Territories and Roads approved the request for $250 million in preconstruction funding on 17 September 2007.

**3.6** By way of comparison, ANAO examination of project records showed that, on 30 January 2007, QDMR invited DITRDLG to have a representative in the selection panel for the Early Contractor Involvement (ECI) form of contract on the Bruce Highway—Uhlmann Road to Caboolture project. In response to the invitation, DITRDLG declined the offer on the basis that it did not have the resources to participate in the tender analysis and selection at that time. Soon after this invitation to be more involved in the project delivery aspects of the project, QDMR sought a significant increase in Australian Government contribution. Had the department been more involved in the project delivery arrangements it may have had a better appreciation of the financial issues facing the project.

**3.7** In most instances, the level of project information regularly provided to DITRDLG once a project has received funding approval (both in relation to preconstruction funding and to a greater degree construction funding) is limited to the status information included in the Monthly Progress report (which underpins payment). The extent of the information varies between States and between projects.

**3.8** In October 2008, DITRDLG advised the ANAO that State Governments remain the primary agents with respect to road projects and their delivery. Nevertheless, a June 2007 review by consultants of the reliability of cost estimation of Queensland projects funded under AusLink concluded that DITRDLG needed to become a more informed client, including by better defining its requirements and training of staff to cast a more critical eye over the initial cost estimates for projects.[134]

## Project cost

**3.9** The Australian Government acts principally as a financier of road construction through the provision of funds, while the States and Territories manage the actual construction process. As a consequence, it is important that the project estimates provided by the States and Territories be robust. In this regard, perceived cost 'blow-outs' on several large-scale road construction projects have focused DITRDLG's attention on the underlying principles and procedures of cost estimation used by the States.

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[134] Minister for Transport and Regional Services, The Hon Mark Vaile MP, Speech: *A Strong Plan For Queensland's Roads And Railways*, VS15/2007, 19 July 2007.

**3.10** The international text *Megaprojects and Risk: An Anatomy of Ambition* explains that a main cause of overruns is a lack of realism in initial estimates.[135] Specifically, the length and cost of delays are underestimated, contingencies are set too low, changes in project specifications and designs are not sufficiently taken into account, changes in exchange rates between currencies are underestimated or ignored, so is geological risk, and quantity and price changes undervalued as are expropriation costs and safety and environmental demands.[136] Similarly, in the United Kingdom, a recent report to the Secretary of State for Transport in the United Kingdom on the Targeted Program of Improvements (TPI—a program established to provide greater focus on the delivery of major highway schemes) advised that:

> a large increase in estimates has been reported over the last 18 months for schemes yet to begin construction. Around half of this is because construction industry inflation is running at about twice the Retail Price Index, as assumed by the Treasury. The other half is divided roughly equally between inadequate initial estimates on the one hand and scope changes and time delays on the other.[137]

## Extent and size of cost increases

**3.11** In preparing for AusLink 2, the Department of the Prime Minister and Cabinet advised Ministers it considered that a characteristic of AusLink 1 had been significant cost 'blow-outs'. Finance advised that the current AusLink program required fundamental reform, particularly to the existing processes for planning, costing and delivery of projects by the States; and the Australian Government management of projects within the forward estimates. In relation to extending the AusLink National Network, both of these two central agencies viewed that the Program should remain tightly focused on economically important and strategically significant projects with clear national benefits. Further, the concept of the bearing of risks by the States for project cost increases through robust cost estimation process and cost capping measures was reiterated, with it being proposed that cost estimates be binding and States

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135 In his June 2007 presentation at the BTRE Transport Colloquium, the then Minister for Transport and Regional Services stated that *Megaprojects and Risk* 'can be used to give us valuable insight into why the State and Territory Governments so often get their costings wrong'.

136 Bent Flyvbjerg, Nils Bruzelius & Werner Rothengatter *Megaprojects and Risk: An Anatomy of Ambition*, Cambridge University Press, 2003, pp. 11 and 12.

137 Mike Nichols, Chairman & Chief Executive of The Nichols Group, *Report to Secretary of State for Transport: Review of Highways Agency's Major Roads Programme*, March 2007, p. ii.

be required to fund project cost increases. In addition, in the Report on Performance section of The Treasury 2007–08 Annual Report it was stated that:

> The Treasury has monitored the progress of AusLink land transport projects and sought to improve project planning, cost sharing and risk management arrangements within the States and Territories.[138]

**3.12** In relation to the projects in the audit sample, cost increases were identified at a number of key points. For example, in the Acacia Ridge rail overpass project in Queensland, the project estimate increased once detailed design and project studies were completed. As a result, the Stage 3(a) PPR sought an additional contribution from the Australian Government to what was originally sought. In this instance, the Australian Government contribution remained fixed at 50 per cent of the original project estimate of $50 million rather than 50 per cent of the Stage 3(a) outturn dollar estimate of $109.8 million. Other projects in the audit sample where project increases as a result of an immature estimate at the time the Australian Government contribution was agreed to, compared to the level of project maturity, include:

- the F3 to Branxton project in NSW (noting that the Australian Government has not committed to funding the construction of the project as a direct result of the increased project estimate);[139]
- the Higher Mass Limit bridge upgrade project in NSW (as above, the Australian Government has not agreed to fund any increases in project cost);
- the New England Highway, Halcombe Hill realignment (the estimated cost initially approved was revised once the project matured. The actual construction cost ended up coming in lower than the approved Australian Government contribution);

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138 The Treasury Annual Report 2007–08, tabled in Parliament on 28 October 2008, p. 111.

139 A figure of $382 million for construction funding was included in the AusLink White Paper and the signed NSW Bilateral Agreement. This was a 2001 concept estimate adjusted to 2003 dollars. In May 2005, the RTA's estimated cost for the project was increased to $765 million (2005 dollars), based on detailed engineering and environmental information. As a result of the significant cost increase between the 2001 and 2005 estimate, the RTA and DITRDLG undertook to review the project with a view to improving its affordability. A review of the estimate was completed by the RTA in July 2007, with a revised estimate of $1200 million (2007 dollars), equivalent to between $1.5 billion and $1.7 billion in outturn dollars (assuming construction commenced in mid 2009, to be undertaken over three and a half years). Should the construction start be delayed until the end of 2009, the RTA calculated the outturn cost to be between $1.6 billion and $1.8 billion. The F3 to Branxton link was included in Infrastructure Australia's December 2008 list of 94 infrastructure proposals for prioritisation provided to the Council of Australian Governments with an approximate capital cost by the proponent of $1.1727 billion (in 2008 dollars).

- the Barkley Highway, Inca Creek bridge upgrade in Queensland (while the Bilateral Agreement included a package of works, individual Project Approval Instruments were raised for each project in the package. The approved Australian Government contribution for the Inca Bridge project was increased as a result of the project maturing);
- the Bruce Highway, Gympie four-laning in Queensland;
- the Bruce Highway flood mitigation works near Tully;
- the Caboolture Motorway (Bruce Highway), Uhlmann Road to Caboolture (initial increase); and
- the Townsville Ring Road in Queensland.

**3.13** By way of comparison, project cost variations for the Hume Highway—Coolac Bypass project were sought throughout the life of the project. An increase in Australian Government contribution was sought due to the increased cost of tenders received. A further two increases in Australian Government funding were sought as a result of delay in re-obtaining Aboriginal heritage approvals for the project. In total the project estimate (and subsequent Australian Government contribution) increased from $116.5 million in November 2004 to $179 million on 27 February 2007. Other projects in the audit sample where project estimate increases were identified after the project had gone to tender included:

- the Pacific Highway, Bonville Deviation in NSW;
- the Caboolture Motorway in Queensland (second increase); and
- elements of the Burdekin Safety Works in Queensland.

**3.14** In addition to the actual project estimate increasing, the level of Australian Government contribution varied quite significantly between the amount identified for an individual project included in the Bilateral Agreement and the approved Australian Government contribution at the time of audit fieldwork. The following table (Table 3.1) illustrates those projects in the audit sample that could be clearly identified in the Bilateral Agreements[140] and the corresponding Australian Government most recent approved contributions at the time of audit fieldwork. As Table 3.1 shows, the Australian

[140] The issue of projects not clearly able to be identified in the Bilateral Agreements is based on DITRDLG setup of the program as discussed in Chapter 3.

Government contribution has decreased in a small number of projects, with the maximum decrease of 17 per cent in the F3 Widening project in NSW. The greatest percentage increase (of 249 per cent) occurred in the Townsville Ring Road project in Queensland. The amount of Australian Government contribution was initially committed to this project prior to the 2004 Federal election and was based on preliminary estimates of initial planning work carried out by QDMR in the early 1990s.[141]

[141] In September 2006, DITRDLG advised the then Minister for Transport and Regional Services that, at the time the Election Commitment had been made, detailed project planning had not been undertaken and the Election Commitment amount also did not reflect an outturn price or the higher cost of securing contractors for work in Far North Queensland where limited market competition exists for construction work.

## Table 3.1

### Australian Government funding level in Bilateral Agreement compared to most recent approved Australian Government funding

| Project Name | State | AG funding in Bilateral Agreement ($m) | Most recent approved AG contribution ($m) | % change | Complete at time of audit fieldwork? |
|---|---|---|---|---|---|
| Halcombe Hill realignment and safety works, New England Highway | NSW | 16.3 | 18.7 | 15% | Yes |
| F3 to Branxton | NSW | 20.53[142] | 47.22 | 130% | No |
| F3 Widening | NSW | 115 | 95.2 | -17% | No |
| Bogan to Coobang, Newell Highway | NSW | 19 | 17 | -11% | Yes |
| Higher Mass Limit Bridges | NSW | 30 | 30 | 0% | No |
| Caboolture Motorway | QLD | 199.68 | 291 | 46% | No |
| Gympie four-laning, Bruce Highway | QLD | 35 | 70.8 | 102% | No |
| Townsville Ring Road | QLD | 40 | 139.5 | 249% | No |
| Bruce Highway flood mitigation works near Tully | QLD | 80 | 128 | 60% | No |
| Eight Mile Intersection, Cunningham Highway | QLD | 4.25 | 4.25 | 0% | No |
| Burdekin Safety Works, Bruce Highway | QLD | 7 | 7 | 0% | Yes |
| Inca Creek, Barkly Highway Upgrade | QLD | 34.65 | 36.758 | 6% | Yes |
| Penguin to Ulverstone Stage 1, Bass Highway | TAS | 28.5 | 28.775 | 1% | Yes |
| Penguin to Ulverstone Stage 2, Bass Highway | TAS | 42 | 41.465 | -1% | No |

Source: ANAO analysis. AG means Australian Government.

**3.15** Of the audit sample projects that were clearly identified in the drafting of the Bilateral Agreements, only three projects have not involved an increase or decrease in Australian Government contribution. In each of these three instances, issues were identified in the projects that required a considerable scope change from that initially envisaged in order to remain within the project estimate. Two of the three projects involved a package/program of works that enabled some flexibility and cost changes to be absorbed.

[142] The NSW Bilateral Agreement included $20.43 million for 'continuing' preconstruction funding, and an additional $249.20 million for 'new' construction funding. As the project approval instruments have varied the earlier 'preconstruction' project, the identified construction funding has not been included in this analysis. In December 2008, DITRDLG advised ANAO that 'it was also envisaged that part of the additional funding of $249 million provided under the first AusLink program would be directed to preconstruction tasks', however, this is not apparent from the Bilateral Agreement.

**3.16** In relation to the Eight Mile Intersection (at the intersection of the Cunningham and New England Highways) project in Queensland, various options for improvements to the intersection have been considered by QDMR and DITRDLG since the project was initially approved for community consultation and project planning in 1997. On 30 June 2006 a road safety audit was provided to DITRDLG which included a list of proposed works. QDMR proposed to implement the higher priority/lower cost treatments in the short term within the $4.25 million allocated under AusLink. The DITRDLG covering letter of 3 November 2006 to the project funding approval instrument confirmed that the Australian Government contribution to the project was limited to $4.25 million. ANAO notes that Schedule A to the Bilateral Agreement with Queensland includes the comment 'Australian Government providing 100 per cent of funding, subject to agreement on project scope and Note 4[143] of this Schedule.'

**3.17** In January 2008, QDMR sought an additional $2.187 million (51 per cent increase over the initial project allocation of $4.25 million). The variation request explained that the tenders for the remaining safety works had recently closed, but that the project did not attract competitive tenders due to its location, its small physical site and the high risk associated with the site. In response to this request, DITRDLG advised QDMR that offset savings needed to be identified within the current AusLink program before the request for project variation could be forwarded to the Minister for consideration. QDMR advised DITRDLG that savings would be identified in the program. However, due to community concern with the safety aspects of the intersection QDMR intended to award the contract for the works as soon as possible, with the funding issues to be resolved at a later date. As at the time of audit fieldwork, the most recent internal QDMR project manager's report showed the total estimated project cost of $7.114 million (which included $677 000 previously funded and acquitted by the Australian Government under the ALTD program), however, the Australian Government contribution had not changed.

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[143] Note 4 explained that, where the Australian Government is providing 100 per cent funding, it is subject to any revisions of costs and clauses 42–54 of the Bilateral Agreement.

## Cost estimating standard

**3.18** ANAO's December 1993 report of a performance audit of predecessor National Highway Program[144] included two recommendations in relation to the estimating of project costs. The first was aimed at improving estimating performance and the accuracy of estimates. The second was aimed at the then Department of Transport and Communications assessing estimates consistently and objectively on a common basis for all States and for the Department to have greater control of the estimating process. Both recommendations were agreed to by the then Department of Transport and Communications.

**3.19** In November 2006, the then Minister for Transport and Regional Services announced that a review of Queensland estimating services would be undertaken. This review was in response to significant cost increases in the estimated cost of major AusLink projects in Queensland.

**3.20** The report prepared by Evans and Peck was released by the then Federal Minister on 19 July 2007 as part of his Infrastructure Association of Queensland's luncheon presentation titled *Strong Plan for Queensland's Roads and Railways*. During the presentation the then Minister stated:

> The Evans and Peck report concludes that these measures are a step in the right direction, but it sets out twenty additional recommendations for QDMR and DOTARS.
>
> It recommends that QDMR should improve its estimating procedures and use appropriate risk assessment and contingency allowances. It warns that Queensland must guard against the tendency towards being too optimistic in its estimates.
>
> It recommends that DOTARS should define its requirements better and that its staff should be trained to cast a more critical eye over the initial cost estimates for projects. It advises that the lessons from the report should be implemented nationally.
>
> I have accepted all of the recommendations that relate to my department. I have asked the Queensland Minister for Transport and Main Roads, Paul Lucas, to implement the recommendations that apply to QDMR, so we can provide Queensland with better roads at the right price.

[144] ANAO Audit Report No.15 1993–94, *The National Highway 'Lifeline of the Nation'*, Canberra, 3 December 1993.

**3.21** Table 3.2 outlines each recommendation made to DITRDLG, and the work undertaken by DITRDLG in implementing the recommendation. Of particular note is that, subsequent to the earlier review on Queensland projects, later in 2007 DITRDLG commissioned Evans and Peck to develop a standard for 'best practice project cost estimation for publicly funded road and rail construction projects'. The final report was provided by the Minister for Infrastructure, Transport, Regional Development and Local Government to the States in October 2008.

### Table 3.2

### Status of the June 2007 Evans and Peck review of the reliability of cost estimation recommendations

<table>
<tr><th>Recommendation</th><th>Description of work undertaken by DITRDLG</th></tr>
<tr><td>DITRDLG requirements to be better defined<br>1(a). DITRDLG to define a set of (estimating) standards that must be met as part of a state funding submission. These standards would require confirmation from QDMR on how QDMR procedures will meet this standard.</td><td rowspan="9">The department has finalised a Best Practice Cost Estimation standard which implements elements of the QLD Cost Estimation Report. The standard is available on the AusLink website.<br>The department hosted a workshop (on 28 February 2008) with States to inform the Best Practice Cost Estimation standard.<br>Additional to 3(a) The department has also specifically approved this in correspondence with QDMR.<br>Additional to 3(b) Addressed as part of QDMR's implementation of the recommendations of the report.<br>Additional to 7(a) The department is currently reviewing the Bilateral arrangements including consideration of any independent reviews.<br>Additional to 9(a) DITRDLG will be providing training to departmental project officers and States on the implementation of the new standard.<br>Additional to 10(a) The Best Practice Cost Estimation standard was provided to States on 21 October 2008. States have been advised that the use of the standard is a requirement for all parties under the next set of Commonwealth-State agreements.</td></tr>
<tr><td>1(b). DITRDLG procedure to include a pro-forma project estimate summary that is comprehensive and leaves no doubt as to what is/is not included, (particularly with amendments).</td></tr>
<tr><td>1(c). Harmonisation of terminology between DITRDLG and state will be beneficial to assist people to work towards a common goal.</td></tr>
<tr><td>Seek out-turn cost estimates<br>3(a). DITRDLG should seek total out-turn cost estimates from QDMR which include QDMR's stated forecast escalation assumptions.</td></tr>
<tr><td>3(b). Review and discuss the differences in QDMRs and DITRDLG escalation assumptions to better understand market forces.</td></tr>
<tr><td>3(c). For each project, QDMR and DITRDLG to reach a common understanding on the impact of delay, eg cost escalation and the impact of newly introduced design standards.</td></tr>
<tr><td>Seek clear justification of changes<br>4(a). Seek a structured justification of the changes to the estimates at each milestone.</td></tr>
<tr><td>Conduct independent reviews of estimates<br>7(a). From time to time, it may be beneficial for DITRDLG to conduct an independent review of a project estimate to test compliance.</td></tr>
<tr><td>Become an "informed buyer"<br>9(a). It would be advantageous for DITRDLG staff to be equipped to better interrogate the content in the submission from each state. This will involve training in this area.</td></tr>
</table>

| Recommendation | Description of work undertaken by DITRDLG |
|---|---|
| **Implement on a national basis**<br>10(a). DITRDLG should apply the lessons learnt in this review by implementing their standard nationally so that each state and territory would demonstrate how its individual procedures would satisfy that standard. | |
| **Invest in Concept Design earlier**<br>2(a). To reduce the likelihood of continuing overruns, be prepared to authorise pre-development funding earlier in the process so that a more reliable estimate can be prepared for the BCR Stage. | Note—in the budget announced in May 2008, a number of the Governments 'early start' projects provide funding to accelerate planning and inform project cost estimation. |
| **Increase the level of accountability by the state (Rec.5)**<br>5(a). Holding state and territory jurisdictions responsible for overruns is a step in the right direction but may require incentives for delivering projects under the approved budget. | The Government is scheduled to consider accountability and incentive arrangements for AusLink 2 by mid-2008. |
| **Implement a Gateway Process for high risk projects**<br>6(a). Implement a Gateway Process as per Department of Finance practice for large, high risk projects. | QDMR has implemented a Gateway process for its projects and include DITRDLG officers on AusLink funded high risk projects.<br>The Government is scheduled to consider accountability and incentive arrangements for AusLink 2 by mid-2008. |
| **Review estimates for other Federally funded projects**<br>8(a). Request QDMR review estimates for any other projects currently identified for Federal Funding to ensure that they can be relied on. | QDMR currently reviewing cost estimates for AusLink 2 Projects. |

Source: DITRDLG advice (primarily from July 2008 and updated in December 2008) in respect to Evans and Peck recommendations.

**3.22** The cost estimation standard provides a framework for cost estimation for publicly funded road and rail construction projects. DITRDLG advised ANAO that use of the standard is expected to be a requirement for all parties under the next set of agreements between the Australian Government and the States and that:

> Training will be provided on the implementation and application of best practice cost estimation for Infrastructure Investment Division staff [within DITRDLG] and all jurisdictions.

**3.23** The promulgation of the standard, training for DITRDLG staff and making use of the standard a requirement under the MoUs are all positive developments. However, as recognised in the July 2007 Evans and Peck report that led to the standard being developed, it will be equally important that the standard be adhered to. It will also be important that decision-makers receive clear advice on the level of confidence attaching to project estimates including, as appropriate the purpose of the estimate and its order of accuracy. This should help manage expectations about the likely cost outcome of projects.

**3.24** Against this background, the cost estimating standard states that project owners/managers often look for a P90 figure for capital budgets (that is, the contingency allowance[145] on top of the base estimate is sufficient to ensure that there is a 90 per cent chance that the total estimate will not be exceeded). Figure 3.2 illustrates the use of probabilistic risk analysis to make allowances for risk when developing project estimates to a P90 confidence level. In this respect, the cost estimation standard recommended that both P50 and P90 estimates (or their equivalent) be provided in any submission for Australian Government funding. This means that, even where there has been sound project management and cost planning, it is probable that the overall estimate will be exceeded:

- for half of all projects where a P50 estimate is used; and
- for one out of ten projects where a P90 estimate is used.

**3.25** The October 2008 standard recognised that:

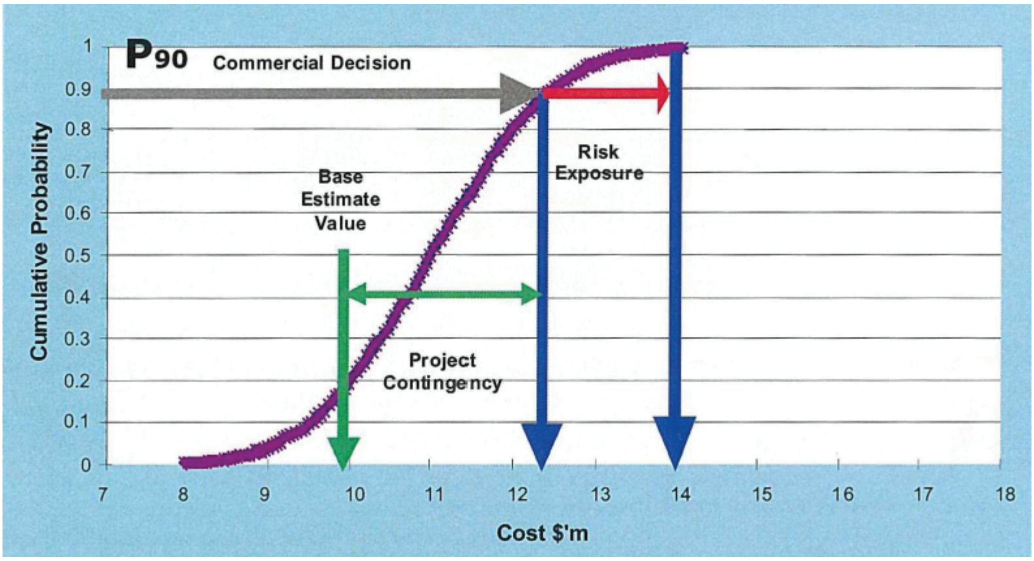
> The degree of compliance with procedures is an ongoing issue. If the current procedures within agencies were more rigidly complied with, the reliability of estimates would improve accordingly.[146]

[145] Risk is a measure of uncertainty and a contingency allowance is used to cover risk. The two basic requirements to set a contingency allowance are the risk profile inherent in the project and the level/probability of the risk occurring. This latter issue can be addressed either through a deterministic approach (that is, manually applying a percentage) or probabilistic approach (that is, using ranges and a computer program such as @Risk).

[146] Evans and Peck, *Best Practice Cost Estimation for Publicly Funded Road and Rail Construction*, 19 June 2008, p. 7.

## Figure 3.2

**Probabilistic analysis of risk when calculating project estimates**




Source: Evans and Peck, *Best Practice Cost Estimation for Publicly Funded Road and Rail Construction*, 19 June 2008, p. 33.

## Recommendation No.1

**3.26** ANAO *recommends* that, the Department of Infrastructure, Transport, Regional Development and Local Government continue the process of improving the estimating rigour for National Network construction projects by:

(a) developing procedures and templates that will assist in providing greater clarity to Ministerial decision-makers concerning the level of confidence attaching to project estimates (including, as appropriate, information on the purpose of the estimate, its order of accuracy and how these factors are addressed in the project budget); and

(b) implementing a risk-based program of examining compliance by States with the recently promulgated cost estimating standard.

*DITRDLG response*

**3.27** DITRDLG agreed to both parts of the recommendation.

## Project timeframes

**3.28** As noted, in preparing for the commencement of the second five-year period, central Australian Government agencies noted that AusLink 1 was characterised by significant time delays and cost increases for various projects. ANAO examination of projects in the audit sample revealed that factors in this outcome included the need to comply with environmental and planning approval requirements, whether States had surety of Australian Government funding (in order to be prepared to commit to the necessary planning and preconstruction work[147]) and the choice of the project delivery system.

### Approval and delivery phases

**3.29** The Notes on Administration detail the process a project is to go through to be included on the National Land Transport Plan (see Figure 3.3). The Notes on Administration indicate[148] that a project included in the National Land Transport Plan would typically be considered for funding on a phased basis, such that funding would only be approved progressively for one project phase at a time.

**3.30** Not all projects included in the audit sample were approved on a phased basis. For example, two of the three accelerated projects in June 2006 namely, the Accelerated Southern Hume Highway duplication ($800 million) and the Accelerated East Tamar Highway works ($60 million); the Acacia Ridge rail overpass ($25 million); and the Higher Mass Limits bridge upgrade package of works ($30 million) projects in the audit sample were approved for the full proposed amount of Australian Government funding in the first instance. Further, three of these four projects did not include a Project Proposal Report (PPR) to support the specific project funding approval. In these

[147] For example, in relation to the Hume Highway–Coolac Bypass project, the RTA advised ANAO in September 2008 that: 'Whilst the RTA had consent in 1996 to salvage or destroy Aboriginal objects the Australian Government did not allocate funds to construct the Coolac bypass in 1996–97 or 1997–98 as had been expected. As no indication was given of the revised date of construction funding, the RTA did not apply to renew the consent until there was surety of funding in 2004.'

[148] *AusLink Investment Program: National Projects Notes on Administration*, March 2006, p. 11.

examples, only the Acacia Ridge rail overpass project funding approval was based on DITRDLG assessment of a PPR provided prior to such approval.[149]

**3.31** Nevertheless, the majority of projects included in the audit sample were approved through a phased approach as outlined in Figure 3.3. However, project records tended to refer to the former ALTD terminology of Stage 2 and Stage 3(a) and (b) rather than the new terms.

**3.32** The projects examined as part of the audit also tended to combine the project scoping and project development into the one PPR submission. In most instances, initial funding was obtained to undertake project definition and scoping works, and for land acquisition. The level of project sophistication, and associated delivery risk at the time of seeking construction (Stage 3) funding approval was dependent on the identified/ proposed project delivery strategy.

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149 While not required as part of the MoU funding conditions, DIER provided to DITRDLG a PPR for the East Tamar Highway package of works some five months after the project was approved and funding paid to the State. DIER's covering letter explained that the document provided the strategic overview for the overall package of works and the necessary justification for the individual projects contemplated. In relation to the HML bridge works, a two page summary of each works proposed for each bridge was provided however this was not in the form, nor included the detail that was required by the Notes on Administration for a PPR.

## Figure 3.3

### National Network Projects Phase Requirements

| | PHASE | OUTPUT | COMMENTARY | FORMER ALTD STAGES |
|---|---|---|---|---|
| USUALLY NO FUNDING APPROVED COLLABORATIVE TASKS | Network and Corridor Objectives | | | |
| | Project Identification | Strategic Merit Test Rapid BCA | Project Identification requires appraisal of broad alternatives such as road, rail, technology, travel demand management, land use etc. The appraisal considers how well the broad alternatives meet network and corridor objectives and identifies a preferred alternative for inclusion on the National Land Transport Plan and progression to Project Scoping. | Stage 1 ALTD (Rarely used) |
| FUNDING APPROVED PROPONENT PERFORMS MOST TASKS TWO OR MORE PHASES CAN BE COMBINED | Hold Point 1 Approval to begin Project Scoping | Option Refinement Business Case | Project Scoping entails the investigation of specific options that achieve the preferred alternative (such as route selections for a bypass). For each of the specific options, a Business Case is required investigating BCA, financial analysis, triple bottom line reporting and budgets/timing. A preferred option will be the result of the Business Case. | Stage 2 ALTD |
| | Hold Point 2 Approval to begin Project Development | Planning & Design Delivery Strategy | Project Development entails detailed planning (such as environmental approvals, land acquisition, community consultation) and design (such as field studies, preliminary/detailed design, quantity estimates) of the preferred option. A Delivery Strategy requires revised BCA, detailed project budgets/timing and a procurement method. | |
| | Hold Point 3 Approval to begin Project Devlivery | Construction Commissioning | Project Delivery requires construction and commissioning of the preferred option following a procurement process. Preliminary works (relocation of services, earthworks etc) could preceed the main construction contract. Progress reporting and progress claims are required from the proponent at regular intervals during this phase. | Stage 3a/3b ALTD |

Source: Department of Transport and Regional Services, *AusLink Investment Program: National Projects Notes on Administration,* March 2006, p. 12

## Complying with environmental and planning requirements

**3.33** As part of approving a project for delivery, a project is required to comply with the Australian Government and relevant State's planning, environment and heritage legislation. DITRDLG recognises that the requirement to abide by this legislation has implications for timing and costs of projects. Accordingly, in these circumstances, it can be difficult to accelerate spending on the construction of land transport infrastructure without making compromises in other aspects of project delivery.

**3.34** It is also recognised that the level of unknown risks that may impact on the proposed delivery program is increased when the proposed works is to be delivered through a 'greenfield[150] site'. An example where this was evident was the Hume Highway Coolac Bypass project examined by ANAO. In this example, the consent previously obtained by the RTA in 1996 under the NSW *National Parks and Wildlife Act 1974* to salvage or destroy Aboriginal objects had lapsed in 1998. At the time the RTA applied to re-obtain consent, and as a consequence of an unrelated non-road project, the NSW Department of Environment and Climate Change introduced new guidelines that significantly expanded the breadth of community consultation and required the RTA to undertake a registration of interest process (in April and May 2005), which led to further consultation and resulted in additional archaeological studies and subsurface investigations being undertaken in 2005 and 2006.

**3.35** Other projects in NSW in the audit sample where considerable delays in proceeding to construction were experienced due to obtaining appropriate planning and environmental approval were the Pacific Highway Brunswick to Yelgun deviation and the F3 to Branxton project. For example, while it was known at the time of finalising the NSW Bilateral Agreement that the F3 to Branxton project needed to address the 129 separate conditions attached to the planning approval granted in 2001 before construction could commence, the amount of time required to undertake the various engineering, environmental, heritage and design studies and the level of the increase in the project estimate as a result, was unknown. Further, while the level of Australian Government funding has been varied for Stage 2 works (from an initial amount of

[150] The term 'greenfield' is used to describe a piece of previously undeveloped land, in a city or rural area, either currently used for agriculture, landscape design or just left to nature.

$1.1 million to $47.22 million[151]), the project has been in the planning and preconstruction phase since December 1992. Planning and preconstruction work was still underway as at September 2008. Due to the significant increase in the project estimate, at the time of audit fieldwork Australian Government funding had not been approved for the construction of the project.

**3.36** On 27 May 2005, proposed legislation (the *Environmental Planning and Assessment Amendment (Infrastructure and other Planning Reform) Bill*) was introduced in the NSW Parliament in order to reform land-use planning and the development assessment and approval system under its *Environmental Planning and Assessment Act 1979* (the EPA Act). The second reading speech[152] explained that the bill would cut red tape by reducing time, cost and complexity in the assessment of infrastructure projects, projects of State significance and Critical Infrastructure projects. Further:

> The bill provides up-front certainty for major projects through the introduction of new concept approvals; removes the need for up to 15 different approvals and licences from nine separate pieces of legislation, replacing them with one assessment and approval process; removes the need for concurrences for major development; and abolishes the stop-the-clock provisions that currently add significantly to assessment times.

**3.37** This amending legislation was assented to on 16 June 2005, and as a result, was in effect for the planning and approval processes associated with the Accelerated Southern Hume Highway project in the audit sample. In this project, separate planning approvals were sought for the six[153] individual sections of work being delivered as part of the $800 million project. RTA internal consultations resulted in part Project Applications for five of the six component parts of the project being submitted so as to allow separate assessment and approval as required. This approach was deemed appropriate as it would provide the RTA with flexibility in timing should some sections

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151 The initial $1.1 million was approved in December 1992 for preparation and public exhibition of the Environmental Impact Statement. Eight subsequent approvals up to $47.22 million (as at May 2006) include funding for additional consultation; further studies such as route optimisation, flora and fauna and heritage studies, additional design development; and hardship land acquisition.

152 Mr Craig Knowles, Parliament of NSW, Legislative Assembly Hansard, 27 May 2005, P16332.

153 RTA environmental planning and assessment documentation explained that the $800 million project of 67km comprised of six sections over a total length of 126km. In August 2006 sections 1 to 5 were in initial stages of development and still required environmental assessment and planning approval. Section 6 (Mullengandra to Table Top) comprised the balance of the Albury bypass project which was deemed to have a Part 3A of the *Environmental Planning and Assessment Act 1979* (the EPA Act) obtained in January 1998.

prove more problematic in obtaining approval. RTA decided to rely on the deemed Part 3A approval for the sixth component of the project.

**3.38** In addition, RTA sought approval from the NSW Minister for Planning to declare the total project as 'Critical Infrastructure' under the EPA Act as the project was considered essential for NSW for economic and social reasons. In this regard, the second reading speech explained that for a project declared as a critical infrastructure project:

> The bill provides that there will be no appeals against decisions on critical infrastructure and there will be no third party legal challenges under any environmental and planning statutes against those decisions. The bill will ensure that that the construction and operation of approved critical infrastructure projects cannot be stopped or delayed by other government agencies or local councils. It is important to note that infrastructure will only be declared critical where its speedy completion is considered essential to the social, economic or environmental welfare of the State. Further, once declared as critical infrastructure, these projects will be subject to appropriate environmental assessment and controls.

**3.39** While the declaration of Critical Infrastructure was sought for all six sections of work, on 5 December 2006 the NSW Minister for Planning only declared sections one to five of the project as Critical Infrastructure. It appears that this declaration assisted in planning approvals for the Accelerated Hume Highway project being in place earlier than had been experienced in other projects in the region.

**3.40** Delivery challenges and elapsed time as a result of satisfying applicable legislative requirements was also illustrated in Queensland. For example, in the 2000–01 Federal Budget $27 million was announced for planning and upgrade works between Mount Isa and Camooweal in western Queensland, with $12 million of these funds for the construction of the Inca Creek bridge. In August 2000, QDMR advised DITRDLG that major construction delays were to be expected on the Inca Creek bridge project due to cultural heritage complications. At the time the approved funding was reallocated to an alternate project. Due to the delivery sequence of other projects in the area, it was not until March 2006 that QDMR deemed it possible for the project to progress. As a result of the six years lapsed time, the project estimate had more that doubled from $18 million to $36.76 million.

## Public tendering requirements

**3.41** In addition to complying with the Australian Government and relevant State's planning, environment and heritage legislation, projects are required to comply with specified tendering requirements. Specifically, in order to obtain maximum return for investment of Australian Government funds and ensure fair, open competition for contracts, the former ALTD Act, and the current AusLink Act, require certain works to be subject to public tender.

**3.42** In this regard, the AusLink Act Explanatory Memorandum explains that Clause 24 of the AusLink Act requires a State which is a funding recipient to use a public tender process for AusLink National Network projects but makes provisions for certain exceptions. The legislation requires all works on AusLink National Network projects to be subject to public tender, other than:

- road and rail maintenance;
- work carried out by a public utility; and
- works where a specific tender exemption has been provided by the Federal Minister in accordance with the provisions in the Act.

**3.43** Based on the definitions included in both pieces of legislation, and the examples provided in the AusLink Notes on Administration, the requirement to publicly tender works includes the reconstruction or realignment of a road; and bringing a road to a higher standard. It also includes the investigation and associated engineering studies for these works, as well as the planning of alternate routes for the road. Accordingly, there is no distinction between works being undertaken during 'pre-construction' or Stage 2 approval, or works undertaken using Stage 3 approval from the Australian Government.

**3.44** ANAO examination of contracts let for projects included in the audit sample revealed varying practices in relation to tendering. In relation to compliance with the tendering requirement, non-conformance was identified in relation to planning, design and other preconstruction (including geotechnical, environmental studies and aboriginal heritage) professional service contracts. Long-standing issues were also identified where initial contracts were competitively let for a certain scope of work but significantly varied. In most instances construction works were tendered or exemptions sought (although, in respect to the Molong bridge works being delivered as part of the upgrade of bridges in NSW to a HML standard, an exemption was not sought until the decision had been taken by the RTA not to tender the works).

**3.45** An example of non-tendering examined by ANAO related to the Accelerated Southern Hume Duplication project where a considerable amount of work was sole sourced to an incumbent contractor. This example related to the engagement of an archaeology firm for the $800 million accelerated project. RTA initial engagement records dated 15 September 2006 explained that as the risk associated with timely approvals was very high, the RTA was managing Aboriginal cultural and heritage work itself rather than let a contract or including in current contracts.

**3.46** During an Aboriginal focus group meeting that was held on Friday 8 September, a list of possible archaeology firms was displayed to gauge potential objection for participation in fieldwork to commence in the week of 18 September 2006. Given the short timeframe, RTA considered it was not possible to go to a formal tender process to engage an archaeology firm. Senior RTA officials were aware and supported this approach. Records make no mention on whether DITRDLG was aware of the situation.

**3.47** RTA made direct contact with a proposed firm that confirmed availability of archaeological resources, advised that it had archaeologists that were acceptable to the Aboriginal registrants, and provided current industry rates. The proposed archaeology firm was subsequently engaged for work with an estimated cost of up to $370 000 (including GST).

**3.48** In November 2006, the initial contract was varied for the company to undertake further work on the Hume Highway Duplication project. The submission examined the options of going to tender over varying the initial contract, with the recommendation to vary the existing contract in the amount of $666 512, and in-principal approval to vary the contract for a further $400 000. In total a contract value of $1.4 million was approved by RTA.

**3.49** The NSW Bonville Deviation project on the Pacific Highway provides an historical example where preconstruction work was competitively tendered and then the contract was varied considerably. In 1996, six shortlisted firms were invited to tender for Professional Services work for Project Development. A firm was engaged at a price of $716 342. However, by May 2000, 46 contract variations had been approved, and the contract upper limit fee had increased to $2 967 369.

**3.50** A more recent example relates to the Accelerated Southern Hume Highway duplication project. In this instance RTA undertook a select tender process in order to engage Professional Service Contractors for the provision of environmental assessment reporting for the project rather than an open tender.

The project (which consisted of the five separate sections requiring environmental approval as discussed in paragraph 3.37) was divided into two packages of approximately equal highway lengths. In August 2006, 12 companies were approached to tender for the environmental assessment works, with all companies requested to price both packages of work with the knowledge that only one package would be awarded to any single tenderer. As at 2 August 2006, the approved RTA estimate of cost (upper limit) for the combined package of works prepared for comparison of tenders was $699 600 (including GST).

**3.51** Five tenders were received on 25 August 2006. The Tender Assessment Report explains that tender assessment was conducted in parallel with tender examination due to the limited project timeframe. On 7 September 2006 the RTA delegate approved the acceptance of two tenders for the accelerated duplication package environmental assessment works amounting to $1 232 086 (including GST). The combined accepted tender price was 76 per cent greater than the pretender estimate. At the time of audit fieldwork, in excess of $2 million had been paid for the environmental assessment package of works (2.88 times the pre-tender estimate).

**3.52** In relation to tendering issues identified in NSW, in August 2008 the RTA advised ANAO that, while it was acknowledged the AusLink Act required public tenders for the work unless Ministerial exemption has been obtained, for preconstruction activities the Notes on Administration only refer to the need to public tender 'significant studies'. Further RTA advised that there is a major time and administrative impact in obtaining Ministerial exemption to public tendering. In this regard, RTA advised that:

> To enable the RTA to effectively deliver the AusLink program the RTA will be approaching the Federal Department of Infrastructure to consider:
>
> - Program exemption from public tendering to be sought from Minister for;
>   - Contracts under $1 million; and
>   - Technical advice and project management by the RTA.
> - Project-specific exemption from public tendering to be sought from Minister for;
>   - Urgent work;
>   - Work of a kind not practical to be tendered; and
>   - Specialist work for which competitive tenders are unlikely.

- Advice on whether the award of contracts on non-price assessment (2 envelope method) to get best outcome is an acceptable tender method for work that is not exempt;
- Advice on whether 'invited tenders' from a pre-qualified list would be acceptable rather than 'public tenders', for work that is not exempt.

The RTA will amend its manuals by including specific delegations and requirements for AusLink projects in appropriate sections, once the AusLink requirements are understood and agreed.

**3.53** Tendering issues were also identified in QDMR-delivered works in Far North Queensland. In particular, as a result of the large work commitment and short timeframes for the Townsville program of works and the Queensland-wide program also having a larger than normal program (which was not only consuming local consultant resources but drawing on others across Queensland and interstate), in mid-2005, the QDMR Townsville District office reassessed its method for engaging professional service consultants. It was identified that the better approach in the Townsville District would be to use local consultants in a way that best matched their capability and availability to the District's needs and priorities.[154]

**3.54** To streamline the engagement process, the District discussed the impending workload with all the local consultancies and asked all interested parties to submit expressions of interest for those projects they thought they could accommodate. Seven Townsville-based consultant companies registered expressions of interest. Based on the submissions received, and their prequalification levels, individual companies were engaged on a sole invitee basis for selected engineering services work in Townsville with the following results:

- in late September 2005, a company was engaged to undertake the preliminary and detailed design of the construction of the next two stages of the Townsville Ring Road, on the Bruce Highway, within Thuringowa City, to a new sealed 2 lane standard. The agreed price for the preliminary and detailed design was $2 186 000 (plus GST); and
- in late November 2006, a different company was engaged through a sole source invitee contract with a value of $4 485 000 (plus GST). The

[154] Memorandum from QDMR Townsville District Director to the Executive Director (North Queensland), 25 July 2005.

contract was for the provision of project management and contract administration services for the Townsville Ring Road project on the Bruce Highway, North Ward Road project and the Hervey's Range Road project on Hervey's Range Development Road, some $3 million of which QDMR has attributed to the Townsville Ring Road project.

**3.55** In NSW, ANAO observed different contract awarding methods amongst the regions for pre-construction works such as concept design and geotechnical investigations. For example, in the case of the F3 to Branxton project, between 2002 and 2004, RTA Hunter Technical Services was commissioned to undertake substantial works relating to geotechnical investigations; digital terrain modelling; concept design; and cadastral survey. As at February 2008 this work amounted to in excess of $9 million. Considerable works on the F3 to Branxton project were also outsourced to external Professional Service Contractors (as discussed previously).

**3.56** The arrangements observed in the RTA Hunter and South West Regions projects differed to those projects examined in RTA Northern Region/Pacific Highway Office. Examination showed that initial concept and development work was being externally tendered due to the reduced availability of internal technical service staff.

**3.57** By way of comparison to the approach taken under AusLink requiring public tender, the Commonwealth Procurement Guidelines (CPGs)[155] provide a principle-based approach to obtaining value for money. Specifically, Section 4.2 of the CPGs state:

> Value for money is enhanced in Government procurement by:
>
> - encouraging competition by ensuring non-discrimination in procurement and using competitive procurement processes;
> - promoting the use of resources in an efficient, effective and ethical manner; and
> - making decisions in an accountable and transparent manner.

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[155] The CPGs (managed by Finance) have recently been updated, with the updates taking effect on 1 December 2008. The CPGs establish the core procurement policy framework and articulate the Government's expectations for all departments and agencies subject to the *Financial Management and Accountability Act 1997* and their officials when performing duties in relation to procurement. The procurement policy framework outlined in the CPGs applies to all matters related to the procurement of property or services, irrespective of whether those matters are specifically mentioned in the CPGs.

**3.58** The CPGs explain that the procurement process itself is an important consideration in achieving value for money. Participation in a procurement process imposes costs on agencies and potential suppliers, and these costs should be considered when determining a process commensurate with the scale, scope and relative risk of the proposal. In addition, there is a graduated approach to the extent of public tendering opportunities, with mandatory procurement procedures (including the presumption of open tenders) applying to the procurement of construction services with a value greater than $9 million. There would be benefit in DITRDLG examining the adoption of a more principles-based approach to tendering requirements for National Network projects.

## Project delivery strategies

**3.59** The choice of delivery method can take into account a range of factors including the state of the market, the type of project and the extent to which private sector partnering may be an important component of delivery. The parameters of time, cost, quality and scope also impact on the choice of delivery system.[156] In addition, each type of delivery system/contract has its own characteristics which can affect the project estimate. In relation to the delivery of AusLink National Network projects, the capacity of the available work force has also impacted on the choice of delivery system.

**3.60** The AusLink Notes on Administration require that a proponent's PPR set out the governance and contractual arrangements for the relevant phase of the project. Specifically, the Notes explain that details should be provided on the outline of the scope of works, contract types, and estimated contract price and procurement methods to be used. Proponents are also to include advice on why these arrangements are preferred over other possible options and how they will ensure value for money.

[156] For example, the use of an Early Contractor Involvement (ECI) form of contract on the Bruce Highway—Uhlmann Road to Caboolture project was adopted to enable the project to be delivered some three to four months earlier than using the traditional form of contract. Similarly, on the Accelerated Southern Hume Highway duplication project (which was governed by an MoU requiring completion by end of 2009), the Executive Summary to the RTA's Procurement Method Approval stated:

> Whilst the package of works is not particularly complex, the timeframe for delivery is short with insufficient time to deliver by a design, construct and maintain (DCM) delivery method. The Alliance approach saves in the order of 9 months compared to a DCM approach. The saving in time in the tendering and assessment period becomes available for construction and markedly increases the likelihood of completion by the end of 2009.

**3.61** While the Notes on Administration have a requirement for contractual and governance arrangements to be included in the PPR, there is no central guidance promulgated by DITRDLG in this regard. There is also not a nationally consistent basis for identifying the delivery methods most suitable in different circumstances, including their inherent risks and advantages. For example, differing contract strategies have varying degrees of cost rigour and flexibility for control of cost. DITRDLG has advised ANAO that, whilst it has an interest in understanding the delivery method of the States, ultimately, the States are responsible for choosing an appropriate delivery method and ensuring this is consistent with their obligations to the Australian Government. Nevertheless, as a provider of significant amounts of funding for construction projects on the AusLink National Network, decisions made by the Australian Government, particularly in relation to specific projects and associated timing of funds can influence the choice of delivery method by the States. In particular, delivery parameters required by DITRDLG and/or Federal Ministers may impact on the choice of delivery mechanism, and should the associated risks be realised, the Australian Government bears risk—either directly or indirectly.

**3.62** Due to the absence of guidance, there is variability in the way the various States determine their contracting approach. The type of contract selected is also impacted by the ability, both in terms of technical ability and resourcing capacity, of the delivery agency to undertake the appropriate level of design and supervision required for a particular contracting method.

## Contracting methods

**3.63** As explained in the NSW Government Procurement System for Construction *Procurement Practice Guide*[157], contracts are, in essence, tools for allocating responsibilities and risks. Risk allocation means determining where the liability and responsibility for the various risks involved in the project will lie. Liability under a contract is generally shared between the principal and the contractor, with some being covered by insurance or reallocated to other parties. The most appropriate form of contract for a project will depend on the risks inherent in the project and the relative risk management capacities of the delivery agency and the potential contractors.

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[157] NSW Government, Procurement System for Construction *Procurement Practice Guide: Procurement method selection*, July 2008, pp. 6 and 7.

**3.64** Passing project risks on to a contractor through a contract does not always relieve the agency of the related costs. If the delivery agency retains a risk, then it will pay the resultant costs if the risk event occurs. If the agency allocates the risk to the contractor, this can be expected to increase the price the agency pays for the work, because the contractor's price will include an allowance for unforseen circumstances or unmeasurable risk. As a result, passing more risks on to a contractor will generally increase the contract price, with the delivery agency paying the extra cost even if the risk is not realised/does not eventuate.

**3.65** Examination of the three State road authorities included in the audit sample highlighted the various contracting methods being used in the delivery of AusLink National Network projects. The following table highlights the key methods of project delivery observed during the audit. Even where the same contract term is used, for example Construct Only, the general conditions of contract differ between the States for works delivered on the AusLink National Network. In December 2008, DITRDLG advised ANAO that:

> The AusLink Act specifies the content of Project Approval Instruments (ie project name, maximum funding and recipient). It does not require specification of the agreed delivery method for the project. To include this level of specificity may limit the flexibility of the State to deliver the outcomes required by the Australian Government and could result in legal consequences for the Commonwealth should a project falter. The department does however, request information on procurement as part of the PPR process as follows:
>
> - the current PPR template requires documentation of procurement strategies and project delivery method including the capacity of the State to manage arrangements, such as alliance contracts, and early involvement;
> - the new templates for project assessment and the brief to the Minister address the procurement strategy and de*l*ivery method, particularly in regard to inherent risks and benefits of the procurement strategy/project delivery method; and
> - as part of regular consultation with the States and Territories, procurement strategies are discussed (that is, at quarterly meetings and regular project meetings).

## Table 3.3

### Contract methods in use with AusLink National Network projects in the audit sample

| Contract type | Level of project development | State used and contract basis |
|---|---|---|
| Construct only | The principal will already have prepared a project brief, a detailed design and project documentation. | NSW—based on NSW Government Contract GC21; (for contracts let prior to November 2003, they were based on RTA Conditions of Contract for major roadworks and bridgeworks (C1) based on NPWC3 (1981)).<br>Queensland—uses Queensland Government Road Construction Contract (RCC) based on AS2124.<br>Tasmania—uses AS2124: General Conditions of Contract. |
| Design and Construct (D&C) | The contractor prepares a design on the basis of a performance or functional design brief and constructs the work. | Tasmania—uses AS4300: Design and Construct. |
| Design, Construct, Maintain (DCM) | Similar to a Design and Construct contract in that the contractor is responsible for the preparation or completion of the concept design, development of the design, preparation of construction documentation, construction of the asset and maintenance for a specified period (say 10 years). | NSW—based on NSW Government contract GC21 (For contracts let prior to November 2003, they were based on RTA Conditions of Contract for major roadworks and bridgeworks (C1) based on NPWC3 (1981)). At the time of audit a new D&C form of contract was under preparation. |

| Contract type | Level of project development | State used and contract basis |
|---|---|---|
| Alliance | Project development varies. Normally only broad project budget and scope known and required delivery timeframe. The agency enters an agreement with other entities to undertake the work cooperatively, reaching decisions jointly by consensus, using an integrated management team and intensive relationship facilitation, sharing rewards and risks and using an open-book approach to determine costs and payments. | NSW—RTA has advised that the Project Alliance Agreement has been refined through the projects being delivered in this way is effectively a model document.<br>Queensland—QDMR documentation identifies alliance contracting as part of its standard suite of methods. Contracts are individually developed for each project. |
| Early Contractor Involvement (ECI) | ECI is best described as a negotiated D&C contract. The contractor, together with the contractor's designer, can be engaged as early as immediately after a project business case has been prepared. | Queensland—QDMR documentation identifies ECI contracting as part of its standard suite of methods. Contracts are individually developed for each project. |

Source: ANAO analysis.

## Project alliances

**3.66** ANAO has previously recognised that project alliancing offers potential benefits over traditional construction contracting methodology but it raises new and different risks that have to be managed.[158] In respect to the benefits and risks of alliance contracting, an attachment to the Request for Proposals issued by QDMR in June 2006 for the Tully project noted that:

> Alliancing is suitable for complex projects where the various risks and opportunities associated with the project are best managed by the owner and key service providers working together as an integrated team. Typically alliancing is suited to projects with the following characteristics:
>
> - numerous complex and/or unpredictable risks with complex interfaces;
> - difficult stakeholders issues;

[158] ANAO Audit Report No.34 1999–2000, *Construction of the National Museum of Australia and Australian Institute of Aboriginal and Torres Strait Islander Studies,* 16 March 2000, pp. 13 and 115.

- complex external threats/opportunities than can only effectively be managed collectively;
- very tight timeframes (driven by project risk rather than organisational capacity);
- inability to clearly define output specifications upfront and/or highly likelihood of scope changes during design and construction (eg. due to technological change, political/stakeholder influence, etcetera); or
- a need for owner interference or significant value-adding during construction.

> Where project risks can be clearly allocated and kept separated without undue interference from the owner, then a traditional form of contract is likely to be more appropriate than an alliance. In such circumstances, any relative advantages of alliancing may be outweighed by the cost associated with establishing and maintaining the alliance.[159]

**3.67** The three States in the audit sample have different levels of experience with alliancing. Alliance contracting has been used in both Queensland and NSW for projects on the AusLink National Network, but the alliances and other forms of relationship contracting have not yet been used in Tasmania. In this respect, in July 2008, DIER advised ANAO that:

> In some sense, DIER is locked in to a delivery timeline for projects, whether it be from a performance requirement like the 2006 State Government election commitment projects, or relevant funding agreements with the Australian Government. The Professional Service Contracts have been designed to meet the needs of both value for money and timeliness of delivery.
>
> With the introduction of the 2007 Australian Government election commitment projects, DIER is assessing other options, including early contractor involvement. DIER will also be meeting with the consulting industry in the next couple of weeks to discuss the forward program for 2008–09 and beyond, as well as some of the pressures DIER will face with a small consulting industry and large project profile.

**3.68** In relation to the DIER advice, Early Contractor Involvement (ECI) involves the design firm and the works contractor being engaged early in the project through a non-price selection process that is similar to, but shorter

[159] Project Control International Pty Ltd, *Proposed Alliance Framework (PAF)* Attachment to RFP issued by QDMR in June 2006.

than, a project alliance. Work under an ECI arrangement is often governed by a single contract with two stages, as follows:

- During Stage 1, the contractor operates under a service agreement with the client under which it develops the design to a point where it can be accurately priced and risks are identified and apportioned for Stage 2 (to be reflected in the price). Payment for Stage 1 is by agreed rates on a time basis through an 'open-book' process involving an independent estimator as well as probity and financial audits; and
- Stage 1 finishes with the contractor submitting a Stage 2 offer—also known as a Risk Adjusted Price (RAP) against the agreed design and agreed risk allocation. The client has the right to terminate engagement and tender the works should agreement not be reached on the RAP. During Stage 2, the contractor completes the design and constructs the work. Payment can be through lump sum, schedule of rates or day works components, depending on the risk profile for the project.

**3.69** In circumstances where projects were approved for Australian Government funding with limited prior consultation with the States, and before the necessary planning and preconstruction work had been completed such that a robust estimate and delivery timeframe had not been established, the capping of the Australian Government contribution has encouraged project delivery agencies to examine opportunities to minimise their own risk of cost overruns; this, in turn, may result in scope reductions. In addition, where capping of costs has been combined with specification of a tight delivery timeframe, the project delivery options available to the States are narrowed, which for some of the sampled projects was a significant factor in the States deciding to use project alliances.

### *Commercial framework*

**3.70** The commercial framework for alliance arrangements are usually established through a Project Alliance Agreement (PAA). The PAA typically incorporates Direct Costs, Fees and a 'Gainshare' regime (see Figure 3.4). In this respect:

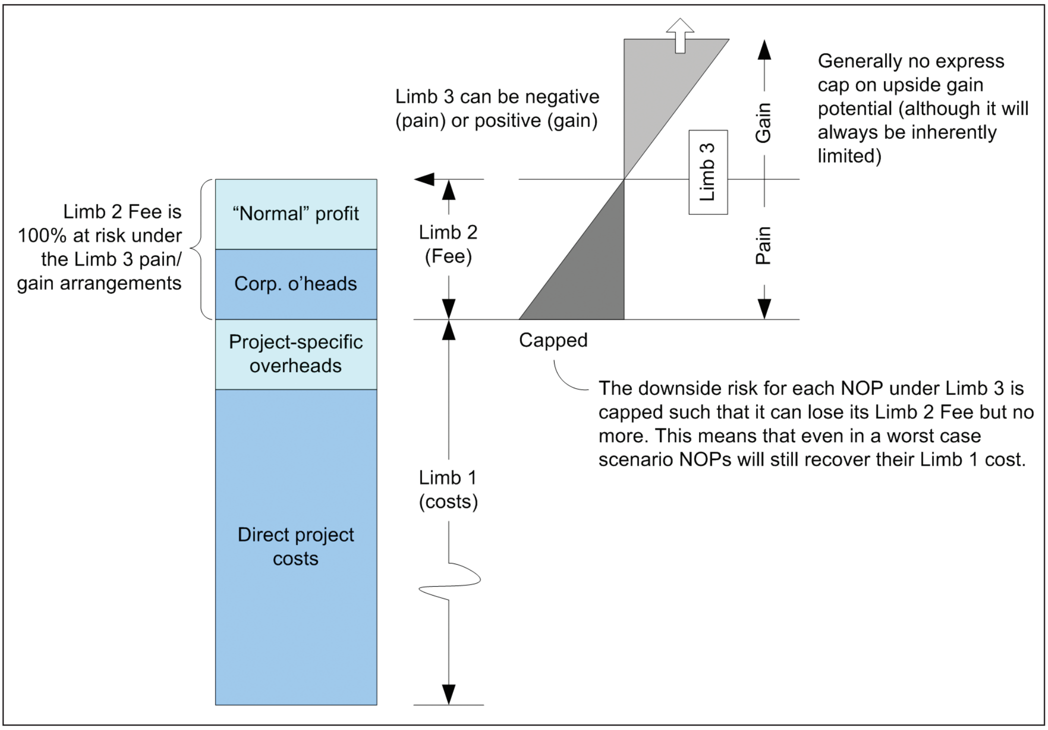
- involves 100 per cent of Direct Costs (Limb 1) are usually funded. Direct costs are those costs and expenses incurred by the Non Owner Participants (NOPs) in performing the work;
- the Fees element (Limb 2) involves the agreed fixed percentage of Direct Costs being paid to each alliance NOP. The fee is intended to

deliver to the NOPs the only contribution (other than through the Gainshare regime) to the costs and expense of its corporate overhead structure and its corporate profit expectations; and

- the Gainshare regime (Limb 3) is intended to reward the alliance participants for 'outstanding performance' against the alliance objectives. The regime comprises both payments of Gainshare to the NOPs, and the payment of Painshare by the NOPs to the owner (as the case may be) as determined by the Alliance Leadership Team (ALT) and in accordance with the Alliance Agreement.

## Figure 3.4

### Typical alliance 3-limb compensation model



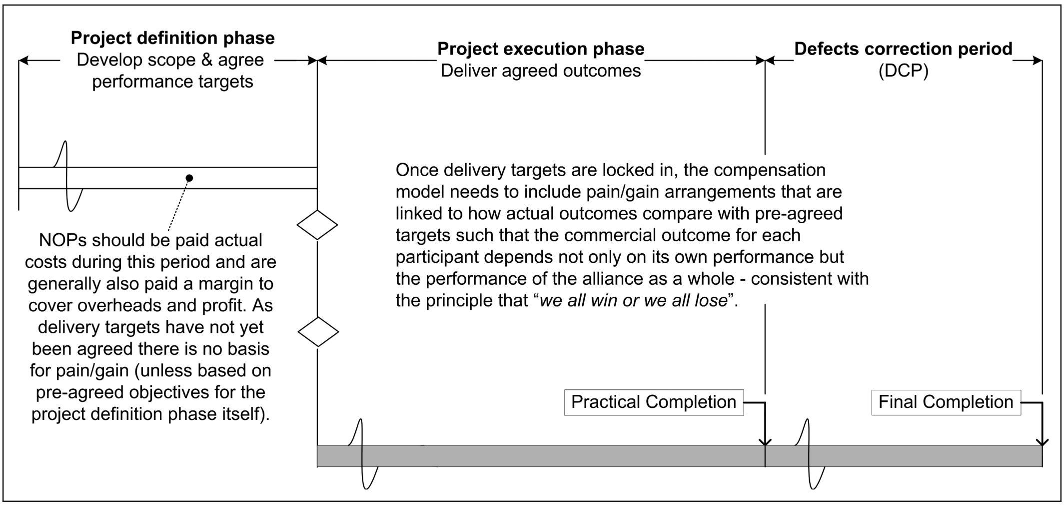

Source: Project Control International Pty Ltd, *Proposed Alliance Framework (PAF)* Attachment to RFP issued by QDMR in June 2006, p. 20.

### *Negotiation of the project scope*

**3.71** A key part of a successful alliance contracting arrangement relates to the owner and the NOPs developing and scoping the project and agreed targets. This 'project definition phase' (see Figure 3.5) provides a key input to the alliance financial arrangements. In particular, as illustrated by Figure 3.4, the alliance Painshare/Gainshare arrangements are linked to how actual project outcomes compare with pre-agreed targets. Depending on the extent of DITRDLG's involvement, the negotiation process can make decisions on factors, such as the project scope, less transparent to the Australian Government than traditional contracting methodologies.[160] For the projects examined by ANAO, DITRDLG's level of involvement in the development and finalisation of the alliance arrangements so as to protect the Australian Government's interest, varied.

## Figure 3.5

### Alliance compensation arrangements




Source: Project Control International Pty Ltd, *Proposed Alliance Framework (PAF)* Attachment to RFP issued by QDMR in June 2006, page 14.

**3.72** In this respect, the predetermined amount of Australian Government funding for the Southern Hume Highway package of works and the Tully flood improvement works and the specified completion date were important factors in the initial project scoping exercise and refinement of the Target Outturn Cost. DITRDLG participated on Project Control Groups for the Southern Hume and Pacific Highway packages and a Steering Committee for the Bruce Highway package. In this respect, in October 2008 DITRDLG advised ANAO that:

[160] Reductions in project scope so as to constrain initial construction costs can have increased total maintenance costs for the Network and/or require further construction work to be undertaken sooner.

These arrangements have ensured the Department was appropriately informed of progress on the projects and any risks and sensitivities, and that it could act to protect the Australian Governments interests.

**3.73** For the Tully flood mitigation project in far north Queensland, two key scope changes occurred between those proposed in the published preferred route corridor and what was to be included in the scope of works for the agreed Target Outturn Cost, as follows:

- the asphalt overlay was to end at Dean Road instead of the Tully High School with the result that the extent of works was no longer in accordance with the MoU or the Project Approval Instrument; and
- the chosen route was to provide a good connection between the upgraded highway and the Tully-Hull Heads Road via the extension of Lentini Road but, while the extension of Lentini Road was included in the concept plans for the project, neither the MoU nor the Project Approval Instrument required the extension of Lentini Road to be undertaken and the scope of works for the Target Outturn Cost did not include this work. In December 2008, QDMR advised ANAO that:

> While Main Roads advocated removal of the Lentini Road extension, this was not ratified by DITRDLG, nor did it result in issue of a revised MoU. Main Roads has subsequently reversed this advice, on the basis of being able to complete the extension within budget.[161]

**3.74** In respect to the Southern Hume Highway duplication package of works, DITRDLG advised ANAO that:

> One of the most successful AusLink projects to date has been for the reconstruction of the Hume Highway, which demonstrated that advanced funding has enabled rapid construction, effectively managed costs, and created confidence in the private sector construction market. In fact, recent dialogue with the private construction sector in relation to industry capacity raised questions as to why the Government does not use this model more often. The department is concerned that ANAO has not fully taken into

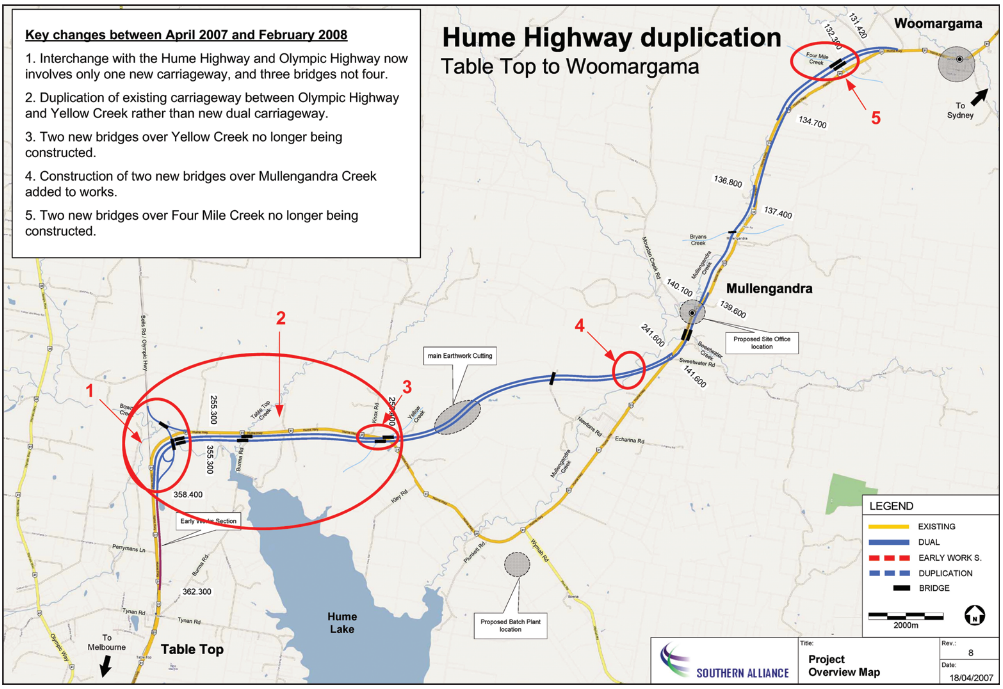
161 In respect to the Lentini Road extension having been removed from the scope of works for the Target Outturn Cost, in July 2008 QDMR had advised ANAO that: 'QDMR generally consults with the broader community about specific projects and, as a discussion aid, prepares broad conceptual plans. During consultation, legitimate additional issues are often raised by the public that require careful scrutiny and consideration. However, the project manager does not automatically receive additional funds to cover the cost of the "public driven scheme variations". Therefore, the project manager has to decide what components are essential to the project and what components are desirable but not essential. The non-essentials can be included towards the end of the construction phase if savings are realised.'

account comments by the NSW RTA that alliance contracting is a proven method of managing risk.

**3.75** In relation to the Southern Hume Highway duplication package of works, ANAO analysis showed that value management decisions were made with subsequent reductions in the proposed scope of works (based on constructing a new carriageway and correcting all geometric deficiencies on the retained carriageway) in order to ensure the agreed Target Outturn Costs remained within budget. By way of example, Figure 3.6 illustrates the differences between the Southern Alliance Scope of Works as of 18 April 2007 (the 40 day Target Outturn Cost scope of works) compared to that some ten months later (on 20 February 2008, the agreed 100 day Target Outturn Cost scope of works). Specifically, it shows that there were reductions in the extent to which two new carriageways are being constructed (increased retention of one existing carriageway) as well as fewer new bridges being constructed at certain locations. There have also been some increases in scope, relating to additional bridges being constructed at another location.

## Figure 3.6

### Key changes in the Southern Alliance Project Overview Map




Source: ANAO analysis of Revision 8 and Revision 12 Project Overview Maps.

**3.76** In terms of the scope of the package of accelerated duplication works, the RTA advised ANAO in July 2008 that:

> Clause 1 of the MoU for the project states that the Federal funding is 'for the works specified in Attachment A', and Attachment A of the MoU describes the project as 'duplication (dual carriageway)' of five specific lengths of the Hume Highway. A dictionary definition of 'duplicate' is to double, make two-fold, copy, reproduce. Hence the specified scope of works under the MoU is to build a new carriageway in addition to the existing carriageway to thus effect a dual carriageway highway, and is not to build to new carriageways. Notwithstanding the required scope of works for the project, RTA expectation prior to execution of the MoU was that Federal funding would include addressing the most significant deficiencies on the existing highway. Hence the proposals by the Alliances included an assessment of geometric deficiencies on the existing highway where it would be retained as one of the carriageways. The scope of works at the time of agreeing to the Target Outturn Costs included upgrading sections of the existing highway to address the identified key safety deficiencies. Subsequently, three identified marginal areas of geometric deficiencies that will deliver a road safety benefit have been added to the scope of works.

**3.77** In respect to the changes, the RTA advised ANAO that DITRDLG attended both the presentations of scope at the 40 day and 100 day Target Outturn Costs for each alliance; that DITRDLG was considered a member of the Executive Review Group; and a representative of DITRDLG attended the respective alliance presentations at which all documentation, including the independent estimator reports were made available to DITRDLG. The RTA further advised ANAO that it would not be appropriate for DITRDLG to be represented on the Alliance Leadership Team, as this group is accountable for the governance of the alliance for the partners forming the alliance. The RTA suggested that:

> DITRDLG could participate more heavily during *[contract]* award and the Target Outturn Cost preparation phase and/or the Senior Executive Review Group, subject to their staff being available.

**3.78** Retaining the use of significant lengths of the existing carriageway, rather than the more costly alternative of building two new carriageways throughout, can be expected to have an effect on future maintenance costs and/or require further construction work to be undertaken sooner (and potentially at greater cost given the inefficiencies associated with de-mobilising and then re-mobilising at a future date). This is reflected in the Sydney to Melbourne Corridor Strategy which notes both short-term (to 2015) and longer-term (from 2015) deficiencies relating to pavement age and condition,[162] including along the entire length of the Highway that is covered by the Accelerated Southern Hume Duplication Package.

## Recommendation No.2

**3.79** ANAO *recommends* that the Department of Infrastructure, Transport, Regional Development and Local Government, enhance the Notes on Administration to explicitly address the extent and nature of the department's role in circumstances where the Australian Government is providing funds to a project that may be delivered via an alliance contracting method.

*DITRDLG response*

**3.80** DITRDLG agreed to the recommendation.

[162] DITRDLG, ACT Territory and Municipal Services, NSW Ministry of Transport, NSW Roads and Traffic Authority, VicRoads and Victorian Department of Infrastructure, *Sydney to Melbourne Corridor Strategy*, June 2007, p. 18. The RTA advised ANAO that this corridor strategy was not finalised until June 2008.

# 4. Accelerated spending on National Network projects

*This chapter examines the administration and outcomes from the $1.82 billion paid in June 2006 to five States and the Northern Territory to accelerate work on parts of the National Network with a specified completion date by 31 December 2009. At the time of audit fieldwork, this package of funding was one of the two occasions since publication of the AusLink White Paper in which a substantial increase in AusLink funding was announced for additional projects on the National Network (the other occasion—examined in the next chapter—relates to election commitments).*

## Background

**4.1** The $1.82 billion AusLink Improving the National Network administered program was announced in the context of the Portfolio Supplementary Additional Estimates Statements for 2005–06.[163] The program involved June 2006 payments to five States and the Northern Territory to accelerate work on parts of the National Network with a specified completion date by 31 December 2009. The constituent elements were:

- the Hume ($800 million) and Pacific Highways ($160 million with matching NSW Government funding) in NSW;
- the Bruce Highway in Queensland ($347 million);
- the Great Northern, Victoria, Great Eastern and Eyre Highways in Western Australia ($323 million);
- the Sturt Highway in Southern Australia ($100 million);
- the East Tamar Highway in Tasmania ($60 million); and
- the Victoria Highway in the Northern Territory ($30 million).

[163] DITRDLG, *Annual Report 2005–06*, p. 79. These funds were part of $2.4 billion in AusLink funding paid by DITRDLG in June 2006. The other two elements were: $270 million to the Australian Rail Track Corporation (ARTC); and $307.5 million in supplementary funding paid under the Roads to Recovery Program.

## Funding decisions

**4.2** The *National Guidelines for Transport System Management* (National Guidelines) were endorsed by the Australian Transport Council in November 2004. The National Guidelines, which were updated in December 2006, recognise that proposals for transport initiatives[164] typically come from four sources:

- objectives-led strategic planning (an approach outlined in the National Guidelines);
- other areas of government agencies;
- the private sector; and
- political processes.[165]

**4.3** In terms of project identification, the AusLink White Paper included the first five-year National Land Transport Plan which, amongst other things, set out the projects that the Australian Government would fund in the period 2004–05 to 2008–09 together with the funding the Australian Government intended to provide for each project.[166] The Plan provided for a range of major new projects to be initiated as well as funding for projects carried over from previous funding programs. In addition, the White Paper stated that:

> The plan will operate on a rolling basis. Future versions of the plan will be based on priorities identified in corridor strategies, which will be developed progressively for each of the major corridors that make up the AusLink National Network. Corridor strategies will be part of a broad 20-year infrastructure planning horizon.[167]

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164 Transport initiatives can span various levels. For example, an initiative could occur within a link (such as adding a road turning bay or rail crossing loop), across the whole link(s) (such as a road passing lane) or across an entire route (such as road duplication or rail signal upgrading between Melbourne and Sydney). Source: Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, p. 13.

165 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, p. 18.

166 The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. x.

167 The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. 19.

**4.4** However, the selection of projects to be funded under the Improving the AusLink National Network program did not originate through the corridor strategy development process foreshadowed in the White Paper, or otherwise in consultation with the States and Territories and other stakeholders.[168] Instead, the selection of projects was informed solely by advice from Australian Government agencies, in the context of Ministers seeking advice to assisting to reduce higher than expected Budget surpluses.[169]

**4.5** The advisory process began in mid-December 2005 when central agencies provided advice to the then Prime Minister and senior Ministers in response to their request for options on road and rail funding that could be brought forward into 2005–06.[170] The advice was that, at that stage, there were limited options in the road and rail area for bringing forward expenditure but that there may be options for one-off 2005–06 budget measures, given the improvement in the 2005–06 underlying cash position[171] to be announced in the Mid Year Economic and Fiscal Outlook.

**4.6** In February and March 2006, DITRDLG sought to identify for the Department of the Prime Minister and Cabinet (PM&C) options for additional expenditure on road projects. The options considered were:

- $100 million to $150 million to accelerate duplication of the Pacific Highway in NSW;
- $220 million to $1 billion for accelerated works in Queensland including on the Bruce Highway; and
- $900 million for the acceleration of various projects on the Hume Highway in NSW.

**4.7** DITRDLG's analysis was that accelerated works on the Hume Highway was the most meritorious. The estimated $900 million cost was based on

168 While the AusLink White Paper stated the then Government's objective to duplicate the Hume Highway by 2012 (page 38); in partnership with the NSW Government, to duplicate the Pacific Highway by 2016 (page 36); and to extend the duplication of the Bruce Highway past Gympie by 2020 (page 45), only certain projects were specifically identified.

169 See, in this respect, ANAO Audit Report No.22 2007–08, *Administration of Grants to the Australian Rail Track Corporation*, 14 February 2008, p. 16.

170 ANAO Audit Report No.22 2007–08, *Administration of Grants to the Australian Rail Track Corporation*, 14 February 2008, p. 48.

171 The 2005–06 MYEFO forecast (page 1) an underlying cash surplus of $11.5 billion, up from the $8.9 billion included in the 2005–06 Budget Papers. The 2005–06 Final Budget Outcome reported (page 1) an actual underlying cash surplus for the year of $15.8 billion.

DITRDLG estimates for some projects and upper limit RTA estimates for others. In this respect, DITRDLG recognised that:

> Economic analysis is not generally carried out on road projects prior to the environmental assessment, because prior to this stage the project and its costs have not been developed to an acceptable degree of reliability. None of the duplication projects have reached this stage and therefore no project specific economic analysis has been carried out. Nevertheless, the overall benefit/cost ratio from the duplication of the remaining sections of the Hume Highway were estimated by the RTA in February 2005 to be 1.2 to 1.3 (net present value of $90-$165 million) depending on traffic growth assumptions. About 75 per cent of benefits would derive from reduced vehicle operating cost and time savings and another 20 per cent would derive from reduced road accident costs. These estimates are necessarily fairly rough in the absence of developed project cost estimates.

**4.8** Possible project proposals were further considered in March 2006. Consideration was given to an $800 million accelerated Hume Highway program and an accelerated Bruce Highway Program, also of $800 million. This was later refined in April 2006 to the possibility of making one-off payments of $268 million to the Queensland Government for urgent works on the Bruce Highway[172] and $800 million to the NSW Government to enable it to complete the full duplication of the Hume Highway in NSW (with the exception of the three town bypasses at Tarcutta, Holbrook and Woomargama).

**4.9** The later proposals were approved by the then Prime Minister. This led to the then Prime Minister writing (on 21 April 2006) to the then Minister for Transport and Regional Services advising that he had approved additional funding for specific road projects on the Hume and Bruce Highways, and for the Tully flood works, provided that the funds could be paid in 2005–06.

**4.10** Shortly after the then Prime Minister's 21 April 2006 correspondence, DITRDLG identified possible projects in Western Australia, South Australia, Tasmania and the Northern Territory that could similarly be offered accelerated funding. To inform Ministerial decisions, DITRDLG was required to provide information on the location of each project, the possible funding amount and electorate, as well as possible projects in Victoria.

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172 Comprising $48 million additional to the $80 million already committed to improve the flood immunity of the 15 kilometre section of the Bruce Highway between Tully and Murray Rivers and $220 million to upgrade the Bruce Highway between Townsville and Cairns to a safer, wider all-weather standard.

**4.11** Subsequently, on 1 May 2006, the then Prime Minister advised the then Minister for Transport and Regional Services that he had also decided to provide additional capped funding to five States and Territories, as follows:

- NSW: an additional $160 million to bring forward new works on the Pacific Highway to support key safety initiatives and upgrading of the highway to dual carriageway, provided this would be matched by the State Government;
- Tasmania: $60 million for the upgrade of the East Tamar Highway north of Launceston to Bell Bay;
- South Australia: $100 million for new projects for the Sturt Highway;
- Western Australia: $234 million for the Great Northern Highway, $14 million for the Great Eastern Highway and $75 million for the further widening of the Eyre Highway; and
- Northern Territory: $30 million to upgrade the Victoria Highway to improve flood immunity.

**4.12** The letter of approval specified identical funding agreement requirements to those for the first round of funding approved for NSW and Queensland. Also similar to the first round of funding, the then Prime Minister's approval specified that the States be required to bear the risk of cost overruns on the identified projects.

## Project appraisal

**4.13** The AusLink White Paper stated that continuous improvements in infrastructure planning, including the development and refinement of future versions of the National Land Transport Plan, would require a rigorous and more broadly-based approach to help assess priorities and projects, drawing on the National Guidelines.[173]

**4.14** The National Guidelines advocate that all proposed projects, including those identified through political processes, should be subject to the same

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[173] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. xv.

appraisal process[174] and that appraised proposals should be prioritised to develop a forward program of preferred initiatives through a transparent process that is founded on sound economic and business investment principles (whilst recognising that Ministers will have the final say over the initiatives to be included in any program or works).[175]

**4.15** The Framework set out in the National Guidelines uses a three stage appraisal process, illustrated in Figure 4.1. The intention is that the projects that pass through all filters demonstrate strategic merit and fit, and perform well in a detailed appraisal, which is to be a:

> comprehensive analysis of the impacts and merit of an initiative. A detailed appraisal usually involves detailed Benefit Cost Analysis, a financial or budget assessment, and specific impact analyses and impact statements (for example, environmental, social, regional, employment, equity). All relevant monetised and non-monetised impacts need to be assessed. Perceived limitations of Benefit Cost Analysis have led to the development of other complementary approaches. Of these, the Guidelines focus on the Appraisal Summary Table, and introduce a new optional approach, referred to as adjusted Benefit Cost Analysis.[176]

**4.16** The AusLink Investment Program: National Projects *Notes on Administration* provide support for the adoption of the National Guidelines by placing an emphasis on risk assessment and Benefit Cost Analyses. The Notes on Administration also advocate the adoption of a phased approach to approving funding for National Network projects, based on Project Proposal Reports that include estimated cash flows and contingencies (risk adjusted to P90 confidence level).

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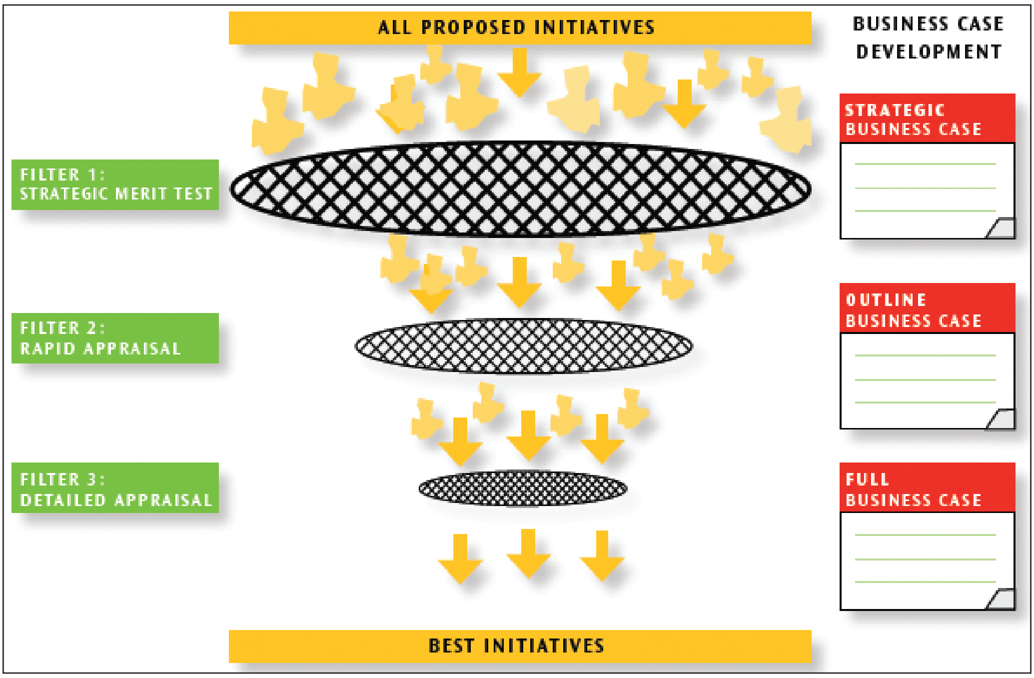
174 In relation to the accelerated funding of the Bruce Highway Tully floodworks, QDMR advised ANAO on 28 July 2008 that 'QDMR had submitted a PPR and Stage 2 variation request but the approval process was overtaken with the announcement of the full funding for the project.'

175 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, pp. 18-20.

176 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, p. 19.

## Figure 4.1

### Three stage appraisal process for proposed projects




Source: Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 2—Strategic transport planning and development, December 2006, p. 54.

**4.17** The process through which the accelerated funding for certain National Network road projects was progressed departed from that set out in the National Guidelines and the Notes on Administration (as shown in Figure 3.1). Specifically, after the Phase 4 ('Identification of infrastructure and non-infrastructure initiatives') decision had been made, Phase 5 ('Appraisal and Business Case') and Phase 6 ('Initiative prioritisation and program development') were bypassed by proceeding directly to the delivery phase with all funds approved and paid by 29 June 2006. The absence of an appraisal and prioritisation of projects prior to funding provided was reflected, for example, in:

- DITRDLG advising the then Minister for Transport and Regional Services that the duplication of the Pacific Highway between Moorland to Herons Creek, the largest single project to be undertaken with the $160 million provided under the Pacific Highway funding offer, *is currently estimated to cost $271 million, but could well cost considerably more*;

- QDMR advising DITRDLG on 31 May 2006 that *we have not done a lot of the planning, let alone identified, prioritised and costed candidate projects*. Similarly, on 16 June 2006, DITRDLG advised the then Minister for Transport and Regional Services that the cost of the various projects proposed to be included in the MoU was *largely unknown but the total will exceed the $220 million;*[177] and
- in Tasmania, following the Tasmanian Government's in-principle acceptance of the funding offer, DITRDLG and DIER worked to identify a suitable package of works that could be undertaken with the available funding. Initially, 19 projects were identified at a total estimated cost of $64.13 million (with the State Government to fund the extra $4.13 million through anticipated receipt of investment revenue). Two of the larger projects were removed before the MoU was finalised and signed. In this respect, in August 2008 DIER advised ANAO that:

  > As explanation, these discussions were only of a preliminary nature, but they had to occur to ensure that DIER only included those projects in the MoU that had the highest degree of merit.
  >
  > …that the main purpose of receiving the accelerated funding was to enable DIER to quickly progress key projects on the east Tamar Highway. This provided DIER the opportunity to fully scope the identified projects and deliver key safety benefits after the signing of the MoU. If the projects had been individually identified with their cost estimate noted in the approval instrument, subsequent changes made since that time would have involved an additional administrative burden relevant to the seeking of approval, not to mention a corresponding time delay. It is important to note that all costs associated with the East Tamar Highway have been contained within the initial accelerated funding receive or anticipated receipt of revenue.

**4.18** As outlined in the previous chapter, a feature of the first five year AusLink period was significant increases in the delivery cost of many projects compared to the estimate of costs at the time Australian Government funding was approved. It is generally recognised that costs are not able to be identified

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[177] Similarly, in responding to the offer of accelerated funding, the then Queensland Minister advised the then Minister for Transport and Regional Services that:

> Because the Australian Government has not allocated funding for planning for any of the projects detailed earlier, it is not possible to predict with the requisite degree of certainty, the actual costs of projects to be undertaken under this program of works in the absence of that planning. What is clear, however, is that it would not be possible for all priority flood immunity and urgent safety projects to be done within the additional allocation proposed. Naturally, some projects are more expensive, some would yield greater benefits, but all are vital for improving flood immunity.

with confidence until after planning and scoping work has been undertaken. In circumstances where decisions are taken to accelerate funding in a short period of time (such as in the light of better than expected Budget outcomes, election commitments with near-term horizons and/or to stimulate economic activity) it is commonly the case that the necessary planning and preconstruction work had not been completed, a situation that increases risk of time and cost blow-outs.

## Governance arrangements

### Memoranda of Understanding

**4.19** It would have been possible to amend the existing Bilateral Agreements to include the accelerated funding packages. However, in developing options for Ministerial consideration, DITRDLG and PM&C considered that separate agreements would be a better approach. Consistent with this advice, in advising the then Minister for Transport and Regional Services that he had approved accelerated funding, the then Prime Minister's correspondence stated that:

> As the funds would be provided in advance, it is important that the negotiations ensure that the funding agreements adequately protect the Australian Government's interests. I understand that the agreements would mirror arrangements for projects funded under the AusLink Bilateral Agreements. They would need to specify the scope for works, standards for construction, completion date, recognition and publicity requirements, monthly reporting, and provide for the funds to be separately identifiable and accountable.

**4.20** Accordingly, the letters from the then Minister for Transport and Regional Services advised the respective State Governments that the accelerated funding was conditional on agreement being reached, by mid-June 2006, on the terms of the offer which would be reflected in a Memorandum of Understanding (MoU).[178] The MoU approach meant that, as is the case for the Bilateral Agreements, there was no intention to create legally binding rights and obligations for the accelerated funding through the agreement. Rather the

[178] The existing Bilateral Agreements did not preclude the Australian Government and the respective State Governments from entering into additional funding arrangements. In respect to the NSW and Queensland Bilateral Agreements, they explicitly provided that nothing in those two Bilateral Agreements precluded the parties from implementing a supplementary agreement for specific corridors on the National Network. Bilaterals provided for add-ins but this was not used.

focus would be on detailing the practical expectations in respect to the funding and any kind of enforcement of the MoU would have to be achieved through political mechanisms.

**4.21** Shortly after the first round of offers were made to the NSW and Queensland State Governments, DITRDLG sought assistance from its in-house counsel (provided by AGS) with preparing the proposed MoUs. On the same day (1 May 2006), AGS was engaged to assist with drafting of the MoUs. DITRDLG's instructions for drafting of the MoUs were that they should be 'minimalist' because the AusLink Act provides conditions applying to the application of funding as well as providing the opportunity for the Australian Government to impose additional, project-specific conditions. In addition, reliance was to be placed on the Bilateral Agreements containing provisions relating to the funding and carrying out of projects, including the section on project scope definition that incorporates the relevant part of the Notes on Administration.

**4.22** A draft of a MoU with each of NSW and Queensland relating to the initial funding offers was prepared by AGS and provided to DITRDLG on 7 May 2006. This MoU was not used. Instead, a template MoU was subsequently prepared within DITRDLG with the assistance of its in-house counsel. Drafts of the MoUs were discussed between DITRDLG officials and officials from the respective State Governments. On 21 June 2006, the then Minister for Transport and Regional Services provided each of the relevant State Government Ministers with their MoU for signature.[179]

**4.23** The MoUs were signed on 26 June 2006 (Queensland and the two NSW MoUs) and 27 June 2006 (for Western Australia, South Australia, Tasmania and the Northern Territory).

## Project Approval Instruments

**4.24** In assisting with the development of the MoUs, AGS advised DITRDLG that:

[179] Each State Minister except NSW was provided with a single MoU. Queensland and NSW both had two packages of works. Both the Queensland packages were on the Bruce Highway and were the subject of a single MoU. One NSW package related to the Pacific Highway, the other to the Hume Highway and they are governed by separate MoUs.

In our view, the Project Approval Instrument is the most appropriate place to deal with the detailed material relating to the scope of the projects and their delivery. The Project Approval Instruments should contain:

- a detailed description of the scope of the works, including plans where appropriate;
- the maximum funding payable by the Commonwealth;
- a cost breakdown for the project;
- a date for completion of the projects by New South Wales; and
- any reporting, recognition or other requirements which depart from the norm set out in the AusLink Act and/or agreed in the Bilateral Agreement.

Given the detail which appears in the AusLink Act and the Bilateral Agreement and which will appear in the Project Approval Instruments, we take the view that the MoU should be an 'overarching' document which brings all these other materials together without needing to reproduce them. We would be more than happy to assist with the development of the Project Approval Instruments if you would like us to do so.

**4.25** The Project Approval Instruments were prepared by DITRDLG without assistance from AGS. The Instruments prepared by DITRDLG did not include a detailed description of the works or a cost breakdown for each project (or each package of projects).[180] In addition, as illustrated by the example provided in Figure 4.2, Project Approval Instruments were not prepared for each individual project but, instead, were aggregated to reflect the respective packages of works.

**4.26** By way of comparison to the approach taken for the accelerated works packages included in the various MoUs, packages of projects included in the Bilateral Agreement with the NSW State Government where considerable funding is involved have been supported by a separate Project Approval Instrument being signed for each project making up the package of works. For example, Schedule A of the Bilateral Agreement included a contribution from the Australian Government of up to $480 million for works on the Pacific Highway. Since the AusLink Act was assented on 6 July 2005, 15 separate projects on the Pacific Highway including the Brunswick to Yelgun upgrade

[180] As there were no reporting or recognition requirements that departed from those set out in the AusLink Act or the Bilateral Agreements, it was not necessary to address that element of the AGS advice.

(Project Number NNA016), the Bonville deviation (Project Number NANP0005), the Karuah to Bulahdelah Stages 1 (Project Number NNA016) and Stages 2 and 3 (Project Number NNA025), have been identified for funding under this package.

**4.27** The Project Approval Instruments were signed by the then Minister on 26 June 2006. All funds were paid by 29 June 2006.

### Figure 4.2

### Accelerated Southern Hume Highway Package Project Approval Instrument

| | |
|---|---|
| **Project No.** | NINNP0002 |
| **Project Name** | Accelerated Southern Hume Duplication Package |
| **Road Name** | HUME HIGHWAY |
| **Project Description** | • Duplication (dual carriageway) north of Tarcutta, from the existing dual carriageway 36.9 kilometres south of Gundagai to approximately 42 kilometres south of Gundagai, where the Tarcutta bypass would commence;<br>• Duplication (dual carriageway) of the Kyeamba Hill section, from the existing dual carriageway 66.6 kilometres south of Gundagai to the existing dual carriageway 75.8 kilometres south of Gundagai;<br>• Duplication (dual carriageway) of the Little Billabong section, from the existing dual carriageway 85 kilometres south of Gundagai to the existing dual carriageway 93 kilometres south of Gundagai;<br>• Duplication (dual carriageway) north of Holbrook, from the existing dual carriageway 98.4 kilometres south of Gundagai to approximately 110 kilometres south of Gundagai, where the Holbrook bypass would commence; and<br>• Duplication (dual carriageway) from south of Woomargama to Albury, from approximately 132 kilometres south of Gundagai, where the Woomargama bypass would commence, to the existing dual carriageway at Table Top 163.5 kilometres south of Gundagai. |
| **Maximum Funding Amount that the Commonwealth may Contribute** | $800,000,000 |
| **Eligible Funding Recipient** | NSW Roads and Traffic Authority |

Source: ANAO analysis of DITRDLG records.

## Project outcomes

**4.28** Two key factors in the funding offers was that works be commenced early with completion by the end of 2009, and that the States bear the risk of cost overruns (see Table 4.1). In this latter respect, in recommending to the then Minister for Transport and Regional Services that he agree to the terms of each MoU, DITRDLG advised that each of NSW, Western Australia, South Australia and Tasmania would bear a considerable risk of cost increases.

**4.29** The States and Territories agreed to accept the additional funding, but were understandably reluctant to accept a significant transfer of cost risk for projects that had not been subject to sufficient prior planning, design and costing.[181] Two strategies available to the States to mitigate the risk of cost increases involved:

- ensuring that there was a broad description of the works being funded, therefore providing opportunities for the scope or standard of the work to be adjusted to maintain costs within the approved funding; and
- including sufficient contingencies in cost estimates for the projects to be delivered.

**4.30** These opportunities were explicitly recognised by some States in deciding whether to accept the offer of funding. The employment of risk mitigation measures was also evident in the delivery of each of the three accelerated projects examined in detail as part of the ANAO audit. This approach was subsequently formalised by including a broad description of the works in the Project Approval Instruments. In this respect, in July 2008 the RTA advised ANAO that:

> The Project Approval Instrument clearly stated the desired outcome of dual carriageways. This level of specification should not be considered a shortcoming but rather a benefit as it gave flexibility to appropriately scope the works and achieve value for money.

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181 This was particularly the case given the often substantial lead times involved in planning and delivering infrastructure construction projects and that, for some years, construction prices have been rising rapidly (reflecting rising labour and materials costs as well as price pressures resulting from high levels of construction activity and low resource availability—including shortages of qualified and skilled staff in fields such as engineering and various trades). See further in ANAO Audit Report No.45 2006–07 *The National Black Spot Programme*, Canberra, 19 June 2007, pp. 136–147 and ANAO Audit Report No.14 2007–08, *The Regional Partnerships Programme*, Canberra, 15 November 2007, Volume 2—Main Report, pp. 615–627, ANAO Audit Report No.22 2007–08, *Administration of Grants to the Australian Rail Track Corporation*, 14 February 2008, p. 63.

## Table 4.1

### Terms of funding approval and outcomes at time of audit

| | Southern Hume Highway, NSW | East Tamar Highway, Tasmania | Bruce Highway Tully flood works, Queensland |
|---|---|---|---|
| **Quantum of funding** | $800 million | $60 million | $128 million ($80 million existing commitment brought forward and $48 million new funding)[A] |
| **Purpose of funding** | Allow specific projects to be brought forward quickly for commencement between late 2006 and early 2008, with completion by 2009, three years ahead of schedule. | For the upgrade of the East Tamar Highway north of Launceston to Bell Bay. | Cover the total expected cost of works. |
| **Funding agreement requirements** | Specify scope for works, standards for construction, completion date, recognition and publicity requirements, monthly reporting, funds to be separately identifiable and accountable. | | |
| **Risk of cost overruns** | Borne by respective States, without further recourse to Australian Government funding. | | State to bear responsibility for its own cost overruns. |
| **Delivery methodology** | Two alliance contracts. | Multiple contracts ranging in size from $6 million to $39 million, involving separate design, followed by traditional construction. | One alliance contract. |
| **Outcomes** | Value management decisions were made on this project with subsequent reductions in the proposed scope of works (based on constructing a new carriageway and correcting all geometric deficiencies on the retained carriageway) in order to ensure the agreed target Outturn Costs remained within budget. | While not required by the MoU, in January 2007 a PPR was provided to DITRDLG. The PPR was used to verify that the right projects had been included in the accelerated funding. Due to planning delays, in the major project in the package (Dilston Bypass) has a revised target date for completion of December 2010. | In this project a number of key scope changes occurred between those proposed in the published preferred route corridor and what was to be included in the agreed Target Outturn Cost. |

Note A: This provided $128 million which was equivalent to the cost estimate for the project in 2005 prices. The outturn cost estimate was $173 million.

Source: ANAO analysis of DITRDLG records.

**4.31** However, as is evident from ANAO's examination of the Southern Hume Highway package of works and the Tully flood improvement works, providing accelerated funding and specifying a completion date for works prior to adequate planning being undertaken significantly narrows the delivery options available to State road transport agencies. In both instances, the alliance contracting method was considered to be the only approach that would enable works to be delivered within the cost limits and time requirements of the respective MoUs.[182] In July 2008, the RTA advised ANAO that:

> The RTA is committed to ensuring projects are developed and delivered in the most cost effective and efficient manner. The RTA believes the current alliance procurement model used on a number of projects such as the Southern Hume duplication and [the Pacific Highway] Moorland to Herons Creek [upgrade] is transparent and competitive. In the present environment of limited road planning and construction resources, the alliance procurement method has proven to be a suitable way of securing project delivery for projects with tight time constraints and/or with high risk/unknowns.
>
> …
>
> With respect to the Moorland to Herons Creek project… the RTA initially invited competitive tenders using a DCM *[Design, Construct, Maintain]* procurement model. However the lack of interest by prequalified tenderers led RTA to change to the Alliance delivery model.

**4.32** DITRDLG has advised ANAO that the Government's aim under the Improving the National Network Program was to provide advance payment by 30 June 2006 to States and phased approval and payment was, accordingly, not an option. In respect to each of the three works packages examined by ANAO, providing funding approval for the project earlier than expected enabled road work to be undertaken earlier than would otherwise have occurred.

**4.33** Both the Southern Hume Highway package of works and the Tully flood improvement works are on track to be completed before the end of 2009, and within budget in accordance with the scope that was negotiated through the alliancing arrangements. The Tasmanian works have been delivered under a traditional design and then construct approach, with delivery of the major project in the Tasmanian package (the Dilston bypass) delayed by at least a year. In this respect, DIER advised ANAO that:

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182 ANAO Audit Report No.34 1999-2000, *Construction of the National Museum of Australia and Australian Institute of Aboriginal and Torres Strait Islander Studies*, Canberra, 16 March 2001, p. 13.

- the planning issues that have caused the delay could not have been resolved any quicker under an alternative purchasing strategy[183]; and
- with the introduction of the 2007 election commitments, DIER will be assessing all the options (including alliance approaches) given the pressures it will face with a small industry and a large project profile.

## Accelerated spending in response to the global financial crisis

**4.34** In the 2008–09 Budget, the Government announced that it would meet its commitment to Australia's future by investing current and future budget surpluses in three nation building funds,[184] with a combined value of around $41 billion.[185] In addition, in October 2008, the Government announced that, to help shield Australians from the global financial crisis, it would 'fast track' its nation building agenda by accelerating implementation of the three nation building funds. The 'fast tracking' was to enable work to commence in 2009 on projects in the key areas of education and research; health and hospitals; and transport and communications.

**4.35** In December 2008, the Government announced a total of $7.4 billion would be spent across 46 rail, road and education infrastructure projects with the objective of strengthening the economy and supporting jobs. The package includes bringing forward the commencement of construction of 14 national road projects already announced under the Nation Building Program (previously referred to as AusLink 2) with a total value of $4.5 billion such that work is expected to begin in early 2009 on several new projects.[186] Of the

[183] Shortly prior to the $60 million of funding being announced, DITRDLG records note that there was insufficient information available to the department on whether a bypass of Diston should form part of the upgrading package, and how much it would cost.

[184] Namely: the Building Australia Fund; Education Investment Fund; and Health and Hospitals Fund. ANAO's Planned Performance Audit Work Program for 2008–09 outlines that ANAO proposes to undertake a series of audits examining, firstly, the establishment of the three Funds and, subsequently, the selection and management of the delivery of projects through each of the Funds.

[185] The accelerated spending on transport infrastructure to come from the Building Australia Fund is in addition to the $25 billion that has been paid, or committed, for road and rail construction projects on the AusLink National Network between July 2004 and June 2014.

[186] *Nation Building: Rail, Road, Education & Research and Business*, Statement by the Honourable Kevin Rudd MP, Prime Minister, the Honourable Julia Gillard MP, Deputy Prime Minister and Minister for Education, Employment, Workplace Relations and Social Inclusion, the Honourable Wayne Swan MP, Treasurer and the Honourable Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, 12 December 2008, p. 3.

14 projects, 12 had been announced to receive funding during the 2007 Election Campaign. The next chapter examines the processes through which projects on the AusLink National Network that were announced as funding commitments prior to the 2004 and 2007 Federal Elections have been planned, costed and delivered.

**4.36** The other two national projects announced in December 2008 to receive accelerated funding were:

- the Tarcutta Bypass on the Hume Highway in NSW, where an 'advance payment' of $225 million is to be made in 2008–09 to accelerate construction on the project from commencing in early 2010 to late 2009; and
- the Woomargama Bypass on the Hume Highway in NSW, where $265 million is to be provided (comprising 'advance payments' of $9 million in 2008–09 and $256 million in 2009–10) to accelerate construction from commencing in early 2010 to late 2009.

**4.37** In each instance, the announcement was that completion of construction would be brought forward from mid 2012 to late 2011. As outlined above in respect to the funding paid in June 2006 to accelerate construction work on the National Network, it will be important that appropriate governance arrangements are implemented to effectively administer the significant commitment of funds to these projects. On 7 April 2009, two alliance teams to construct the Tarcutta and Woomargama Bypasses were announced (see Recommendation 2, paragraph 3.79).[187]

## Recommendation No.3

**4.38** ANAO *recommends* that the Department of Infrastructure, Transport, Regional Development and Local Government, in administering the payment of accelerated funding that is announced for projects on the National Network, improve its management of risks by:

(a) consistently documenting in Project Approval Instruments the scope of works to which the Australian Government is contributing funding; and

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[187] Minister for Infrastructure, Transport, Regional Development and Local Government, The Hon Anthony Albanese MP, and NSW Minister for Roads, Michael Daley, Joint Media Statement: *Contractors named for Tarcutta and Woomargama Bypasses,* AA111/2009 Joint, 7 April 2009.

(b) scrutinising the project delivery arrangements adopted by the States so as to advise Ministers on whether the work will be delivered in accordance with the scope and timelines expected at the time funding was approved, and to the desired quality standard.

*DITRDLG response*

**4.39** DITRDLG agreed to both parts of the recommendation.

*NSW RTA comment*

**4.40** The NSW RTA commented on ANAO's analysis that the scope of the Accelerated Southern Hume Highway Package was adjusted to fit within the approved $800 million funding limit subsequent to the execution of the Project Approval Instrument. Specifically, the RTA commented that:

> The inferences made in relation to the Accelerated Southern Hume Highway package in Chapter 4 (and a specific reference to "reductions in the proposed scope of work") fail to recognise and acknowledge that the development of the initial strategic cost estimate for the purposes of early discussions with (then) DoTaRS in 2005 was based on a scope of works that envisaged a combination of (1) two new carriageways and (2) one new carriageway with retention (upgraded as necessary) of the existing carriageway to ultimately provide dual carriageway conditions over the remaining single carriageway lengths between the Sturt Highway and Albury excluding the town bypasses of Tarcutta, Holbrook and Woomargama. The RTA's strategic cost estimate, based on this scope, was the basis for the Federal Government allocation of $800 million for the project.
>
> In subsequent bilateral discussions leading to agreement of the MoU it was clearly understood by both RTA and (then) DoTaRS that the fundamental objective of the project and the reason for the funding was to duplicate the Hume Highway by the most efficient and cost effective means. In this regard if this could have been achieved by simply constructing one new carriageway then this would have satisfied the MoU. However, both organisations also clearly recognised that due to a combination of constructability and existing deficiency constraints it would be necessary to provide two new carriageways over some lengths. The extent to which this would be required was to be determined in detailed development of the project and more particularly during the Target Outturn Cost (TOC) development phase of the Alliance works.
>
> At the time funding was approved by the Federal Minister, the proposed scope of the project comprised a combination of new carriageways and safety upgrades to the existing carriageway.

### *ANAO comment*

**4.41** ANAO notes the issues expressed by the RTA, however, as explained in paragraphs 4.24 to 4.26, and illustrated in Figure 4.2, the project approval documentation associated with the Accelerated Southern Hume Highway project did not identify the considerations that underpinned the project scope to be delivered with the accelerated funding of $800 million. At the time of project approval, the detailed scope of work had still not been identified. As a result (and as explained at paragraph 3.75) ANAO analysis showed that decisions were subsequently made to reduce the proposed scope of works (based on constructing a new carriageway and correcting all geometric deficiencies on the retained carriageway) in order to ensure the agreed Target Outturn Costs remained within budget. Specifically, there were reductions in the extent to which two new carriageways are being constructed (increased retention of one existing carriageway) as well as fewer new bridges being constructed at certain locations. There have also been some increases in scope, relating to additional bridges being constructed at another location. These reductions and additions are illustrated in Figure 3.6.

**4.42** Experience from earlier accelerated funding arrangements such as those for the Accelerated Southern Hume Highway Duplication and Tully Floodworks projects is important in the context of the Australian Government making commitments to provide accelerated funding for land transport and other infrastructure projects in order to stimulate the economy. In addition, DITRDLG has observed to ANAO that there has been a strategic shift to program policy and delivery partnerships with the States and local government. DITRDLG has further commented that one of the challenges in these circumstances is to move increasingly towards relationships and administrative arrangements that emphasise connectivity and interdependence, and which appropriately allocates accountability. For Commonwealth funded (in whole or part) land transport projects, it is important that there be clarity about the scope of works, their expected cost and planned delivery timeframe. As noted by Infrastructure Australia in its advice to ANAO (see Appendix 1):

> We can continue to take decisions on large infrastructure projects based on poor planning and insufficient evidence—or we can take those decisions following careful planning and rigorous assessments.

# 5. Costing and delivery of projects announced as election commitments

*This chapter examines the processes through which projects on the AusLink National Network that were announced as funding commitments prior to the 2004 and 2007 Federal Elections have been planned, costed and delivered. At the time of audit fieldwork, projects identified as election commitments were one of the two occasions since publication of the AusLink White Paper in which a substantial increase in AusLink funding was announced for additional projects on the National Network (the other occasion—examined in the prior chapter—related to accelerated funding paid in June 2006 to assist the then Government reduce a higher than expected Budget surplus).*

## Background

**5.1** During election campaigns, Ministers and other government and non-government candidates announce party election policies and commitments. Except where a Minister with the necessary authority has approved spending for the relevant project, party election policies and other election commitments announced during an election campaign represent political undertakings to provide certain funding, services or facilities in the event the relevant party is elected or re-elected to government.[188] Accordingly, it is important to recognise that, following an Election, returning or newly appointed Ministers:

- are empowered to make decisions and are entitled to consider all options, including whether and to what extent they should approve funding for projects announced as election commitments;[189] and
- have an obligation under the financial framework to only approve the expenditure of public money on fulfilling a commitment made in the context of an Election campaign after making reasonable inquiries that

[188] ANAO Audit Report No.14 2007–08, *The Regional Partnerships Programme*, Canberra, 15 November 2007, Volume 2—Main Report, p. 139.

[189] This is particularly important in circumstances where insufficient funding may be available to allow all Election Commitments to proceed in the timeframe and in the amounts announced during an Election campaign. In relation to the 2007 Election Commitments for projects on the AusLink National Network, DITRDLG advised ANAO in February 2009 that 'sufficient funds are available to meet these commitments'.

have satisfied themselves that the proposed expenditure represents efficient and effective use of public money.[190]

## 2004 election commitments

**5.2** A relatively small number of land transport projects were announced as election commitments during the campaign for the 2004 Federal Election. The Australian Labor Party (ALP) made full funding commitments for a number of road upgrades (such as the Deer Park Bypass in Victoria) and promised partnerships with State Governments on others (such as the full Calder Highway duplication, the Townsville Port Access Road, Pambula Bridge and key highway works in Tasmania).

**5.3** The Coalition's transport policy for the 2004 Federal Election, *Building Our National Transport Future*, was released on 15 September 2004. It stated that a re-elected Coalition would spend an additional $650 million on Australia's roads over the period 2004–05 to 2008–09. Most of this figure ($500 million) related to the AusLink National Network funding program comprising:

- $226 million relating to decisions that had been taken before the caretaker conventions for the 9 October 2004 Federal Election took effect at 5:00pm on 31 August 2004.[191] Specifically, on 31 August 2004, the then Prime Minister had agreed to requests from:
  - the then Treasurer that the Contingency Reserve[192] be used to provide $120 million in funding for construction of the Scoresby

[190] Announcement of a grant as an Election Commitment does not obviate the requirement under the *Financial Management and Accountability Regulations 1997* that an approver be satisfied that the commitment represents efficient and effective use of public money before giving approval to fund the commitment. Source: legal advice reflected in ANAO Audit Report No.14 2007–08, *The Regional Partnerships Programme*, Canberra, 15 November 2007, Volume 1—Summary and Recommendations, p. 56.

[191] These decisions had, therefore, been included in the Pre-election Economic and Fiscal Outlook report required under the *Charter of Budget Honesty Act 1998*.

[192] The Contingency Reserve is an allowance, included in aggregate expenses, to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Budget estimates (see Budget Paper No. 1 2008–09, *Budget Strategy and Outlook*, p. 6-46). In his April 2006 *Operation Sunlight* Discussion Paper, the Hon. Lindsay Tanner, MP (now the Minister for Finance and Deregulation) commented that, in the lead-up to elections, the 'hidden allocations provided by the Contingency Reserve can be very important'. He committed a Labor Government to requiring a reconciliation table by sub function for changes across the forward estimates to be produced in both the Budget Papers and the Mid Year Economic and Fiscal Outlook report. This approach was supported by the Senate Standing Committee on Finance and Public Administration in its March 2007 report *Transparency and accountability in Commonwealth public funding and expenditure*.

Freeway in Victoria and an additional $21 million in 2005–06 for the Pakenham Bypass (also in Victoria); and

  – the then Minister for Local Government, Territories and Roads that $40 million of funding already committed for the Port River Expressway in the AusLink White Paper[193] be brought forward (into 2004–05 and 2005–06 from 2007–08 and 2008–09), together with new funding of $40 million for the Sturt Highway and an initial contribution of $5 million to upgrade West Avenue in Adelaide;[194] and

- $274 million[195] in new commitments. As illustrated by Table 5.1, this comprised the bringing forward of the timing of payments to two projects ($50 million); providing further funding of $94 million to three projects to which AusLink funds had already been committed; and the commitment of $130 million in funding to six new projects.

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[193] The AusLink White Paper stated (pp. 59 and 74) that $16.8 million would be paid to complete Stage 1 (this stage was a continuing project, with the total Australian Government contribution of $40 million including funds paid prior to the commencement of AusLink) together with a further $80 million available for Stage 2 and Stage 3 of the project.

[194] This project was not on the declared AusLink National Network but was funded under the AusLink Investment Program.

[195] As $50 million of the Election Commitments actually related to bringing forward existing funding commitments rather than new funding, the net impact on the fiscal balance and underlying cash balance was $224 million.

## Table 5.1

### AusLink National Network 2004 Coalition Election Commitments

| Project | $m |
|---|---|
| **Bring forward timing of existing commitments** | **$50.0** |
| Coolac Bypass: bringing forward to 2005-06 from 2007-08 and 2008-09 of funds to accelerate work. | 35.0 |
| Port River Expressway: Bring forward (from 2007-08 and 2008-09) of Australian Government contribution to Stages 2 and 3 to allow completion over the next three years. Funding was additional to the $40 million 31 August 2004 decision. | 15.0 |
| **New funding commitments for new projects** | **$130.0** |
| ***Projects being fully funded by Australian Government:*** | ***$88.0*** |
| Tully flood mitigation: meet the full cost (over four years) of flood-proofing the Bruce Highway near Tully, south of Cairns. | 80.0 |
| Callemondah Overpass: replace existing level crossing of the North Coast Railway Line and the Moura Line to complete the western leg of Gladstone's southern bypass from the Dawson Highway to Hanson Road. | 3.0 |
| Miriam Vale Safety Works: funding over two years to improve the safety of the Bruce Highway near Miriam Vale, south of Gladstone. | 2.0 |
| Hampstead Road: upgrade the intersection of Hampstead, Mullers and Regency Roads. | 3.0 |
| ***Projects to which the Australian Government would make a contribution:*** | ***$42.0*** |
| Townsville Ring Road: contribution over four years to the cost of a road to connect the current Douglas Arterial Road and Condon Bridge project to the Bruce Highway north of Townsville. | 40.0 |
| Brisbane TransApex study: funding contribution over 2004-05 and 2005-06 to the prefeasibility study for the first stage of the Brisbane TransApex tunnel project. Further contributions to the project to be considered under the White Paper evaluation arrangements, once prefeasibility study is complete. | 2.0 |
| **New funding commitments for existing projects** | **$94.0** |
| Toowoomba Range Crossing: additional funding in 2004-05 (on top of $3 million in the White Paper) to continue land purchases along the route of the planned Toowoomba bypass and second range crossing. | 4.0 |
| Sturt Highway: accelerate construction of the Sturt Highway extension to form the new northern road access to Adelaide. Funding was additional to the $40 million 31 August 2004 decision and additional to the $36 million in the White Paper. | 70.0 |
| Peel Deviation: On the condition that major construction begins in 2006, additional funding (on top of the $150 million in the White Paper) to meet additional costs associated with the project. | 20.0 |

Source: ANAO analysis of DITRDLG data, *Building Our National Transport Future* 2004 Coalition Election policy and Public release of the then Department of Finance and Administration's Election costing.

**5.4** Funding for the 2004 election commitments was included in the 2004–05 Portfolio Additional Estimates Statements. The $224 million in additional funding[196] for the election commitments over five years was included in additional administered funding for the National Network over four years of $700 million (the fifth year funding of $196 million, bringing the total to $896 million, was not required to be disclosed as it was outside the 'outyears' identified in the forward estimates).[197]

## Delivery of funding commitments for new projects

**5.5** ANAO's audit sample included two of the six new projects to which funding had been committed by the Coalition in the 2004 Election. In each instance, the amount announced as the election commitment was based on early estimates of project costs that were not prepared on an outturn cost basis. Subsequent planning work led to significantly higher project costs being estimated. As a result, in order for works to proceed, the amount of Australian Government funding being provided to each project is now substantially higher than that announced as the election commitment.

### *Tully flood mitigation works (Queensland)*

**5.6** The first election commitment project for new works in ANAO's sample related to the commitment to provide $80 million over four years to meet the full cost of flood-proofing the Bruce Highway near Tully, south of Cairns in Queensland.

**5.7** Initially, on 29 July 2004, DITRDLG recommended to the then Minister for Local Government, Territories and Roads that $1.5 million in strategic planning funding sought by QDMR be approved. DITRDLG's advice to the Minister accompanying this recommendation stated:

> In our view there is a strong case to proceed with the proposed analysis of the flooding issues and possible upgrading solutions, on both flood immunity and road safety/efficiency grounds. Until these investigations are well advanced

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196 See footnote 195.

197 In addition to the $224 million in new funding for Election Commitments, the $896 million also included the $226 million relating to decisions that had been taken before the caretaker conventions for the 9 October 2004 Federal Election took effect at 5:00pm on 31 August 2004 and $486 million for two projects (a further $300 million for Brisbane Urban projects bringing the White Paper figure to $627 million and the Geelong Bypass with $186 million) added to the White Paper project listing after the 2004–05 Portfolio Budget Statements were finalised but before the White Paper was finalised and released publicly.

> however, we suggest that you refrain from making any firm commitments to funding a particular solution.

**5.8** On 1 August 2004, in the context of the 2004 Federal Election, $80 million for funding construction works to address flood immunity between Tully and Murray Rivers was promised by the Australian Labor Party (ALP). The next day, the then Minister for Local Government, Territories and Roads approved a project involving $1.5 million over three years for strategic planning for a project to upgrade the Bruce Highway between Corduroy Creek and the Tully High School. In his letter to the then Queensland Minister for Transport and Main Roads of the same date, the then Minister for Local Government, Territories and Roads stated:

> While noting your recent public remarks, which also sought commitment of funds for construction, it would be premature to do so until planning is more advanced and we have a better appreciation of costs and options for dealing with the problem. QDMR's proposal also indicates that the likely costs of the project can only be determined towards the end of the planning process.
>
> I can assure you that the Australian Government aims to provide for safe, efficient and largely flood free travel along this important section of the Bruce Highway. When the strategic planning work is more advanced, I will look sympathetically at further funding, consistent with the principles of AusLink.

**5.9** However, in light of the ALP's election commitment, on 15 September 2004, funding of $80 million over four years to flood-proof the Bruce Highway near Tully was included in the Coalition's transport policy, *Building Our National Transport Future*. The $80 million commitment was based on a 2003 strategic estimate prepared by QDMR for which insufficient planning had been undertaken to be able to prepare a reliable project costing.

**5.10** In February 2006, after project planning work had been undertaken by QDMR, DITRDLG was advised that the estimated outturn cost for the project was $172.8 million. In June 2006, $128 million was provided to QDMR for this project with the State Government being required to meet the remaining project costs and bear the risk of any cost overruns. However, project cost pressures were addressed in part by reducing the scope of works being undertaken under the project.

**5.11** At the time of audit fieldwork in May 2008, some of the new highway had been constructed and was open to traffic. Much of the culvert work was underway and some bridges were quite advanced. Work was starting to intensify as it was the end of the wet season.

### *Townsville Ring Road (Queensland)*

**5.12** The second 2004 election commitment project for new work in the audit sample was the Townsville Ring Road. The election commitment was $40 million for the cost of connecting the Douglas Arterial Road and Condon Bridge project to the Bruce Highway north of Townsville.[198] This amount was based on preliminary estimates of initial planning work carried out by QDMR in the early 1990s.[199]

**5.13** Australian Government funding for the project has been provided in two stages:

- $500 000 was approved in July 2005 to enable planning and development to commence; and
- in March 2006, QDMR advised DITRDLG that the project concept planning had determined a P90[200] estimated outturn cost of $119.15 million (based on project completion by end 2008). QDMR proposed that the Australian and Queensland Government's each fund 50 per cent of the cost difference between the September 2004 $40 million[201] announcement and the current estimate. This was agreed and, in August 2006, the then Minister for Local Government, Territories and Roads varied the original project approval (under section 27 of the ALTD Act) from $500 000 to $79.5 million.

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[198] As the project was not on the AusLink National Network, a Ministerial declaration under subsection 5(1) of the ALTD Act, and a project approval under subsection 26(3) of the ALTD Act, were made in order to enable Australian Government funding to be provided to the project from funds allocated to the National Network Program was required prior to the AusLink Act proclamation date of 28 July 2005. As a result of the *AusLink (National Land Transport—Consequential and Transitional Provisions) Act 2005* such approvals remain in force, and subsequently, projects are delivered as part of the AusLink Investment Program. In this respect, in September 2008, DITRDLG advised ANAO that that declaration of the Townsville Ring Road will be recommended to the Minister for consideration when a complete bypass is available as an alternative to the current route on the National Network. The Townsville Ring Road was determined as being part of the National Land Transport Network on 10 February 2009.

[199] In this respect, the January 2006 Project Proposal Report (PPR) provided to DITRDLG by QDMR seeking funding approval for the full cost of preconstruction (including land acquisition) and construction phases necessary to deliver the project stated that the preliminary estimate of $40 million was developed prior to the 2004 Federal Election and without the rigorous cost estimate and risk assessment undertaken during normal concept planning.

[200] 90 per cent probability of not being exceeded.

[201] In September 2006, DITRDLG advised the then Minister for Transport and Regional Services that, at the time the Election Commitment had been made, detailed project planning had not been undertaken and the Election Commitment amount also did not reflect an outturn price or the higher cost of securing contractors for work in Far North Queensland where limited market competition exists for construction work.

**5.14** The AusLink White Paper was premised on shared responsibility and shared funding for the National Network with States and Territories.[202] In respect to payments for a shared funded project, the Notes on Administration state that:

> **5.1.2 Timing of payments for shared funded projects**
>
> The Australian Government may have shared funding arrangements for a project with the funding recipient and/or other parties. The timing of the provision of respective funding obligations will be articulated in agreements between relevant parties. As stated in Section 3.3, any understanding between a project proponent and the Australian Government in the context of the project approval or variation will be set out in correspondence. This correspondence will form part of the project approval conditions.

**5.15** However, DITRDLG did not implement any project-specific shared funding arrangements for the delivery of the Townsville Ring Road project, even though the then Minister for Local Government, Territories and Roads was advised when approving the funding variation that both parties would be continually contributing to the project. In the absence of an arrangement being agreed and documented, ANAO analysis is that the Australian Government is funding all of the first $79.5 million in project costs.

**5.16** Prior to the introduction of the new APMS in November 2007, it had been relatively common for DITRDLG to obtain reports of State expenditure up to the maximum amount the Australian Government has agreed to contribute, but not the total project costs. Since the introduction of APMS, the monthly project status report enables the 'State Government' or 'Other Source' funding to be captured. However, in respect to the Townsville Ring Road project, to date this section of the template has not been completed. Unless this reporting oversight is addressed, the Australian Government is exposed to a risk that, in the event actual costs are less than estimated, the Australian Government contribution will be greater than the proportion that was agreed. Notwithstanding the initial agreement of 50:50 cost sharing, if costs are greater than estimated, QDMR are expected to cover the increase. In this respect, DITRDLG advised ANAO in September 2008 that:

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[202] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. 23.

In the event that the Australian Government contributed more than its share of the final cost of a project, funds would be recovered.

**5.17** The works are being delivered through the Early Contractor Involvement (ECI) methodology. ECI involves the design firm and the works contractor being engaged early in the project through a non-price selection process[203] that is similar to, but shorter than, a project alliance. In September 2005, QDMR engaged a firm to undertake the preliminary and detailed design. The main contractor was engaged in August 2006 and, in November 2006, another firm was engaged by QDMR to provide project management and contract administration services. As of April 2008, total expenditure to date on the project was some $59.6 million, with a similar amount forecast for completion.

**5.18** Possession of the site for construction works was granted by QDMR in March 2007. At the time of audit fieldwork in May 2008, work was underway with practical completion expected in March 2009. The March 2009 project community update *Construction Update No.7,* available through the QDMR website, stated that the Ring Road would be open by May 2009. The update explained that the project had lost over 130 working days—or six months—to rain since the project started in March 2007.[204]

## Delivery of commitments to bring forward timing of existing projects

**5.19** ANAO's audit sample included one of the two existing projects that involved an election commitment to bring forward the delivery of road works, being the Coolac Bypass project on the Hume Highway in Southern NSW.

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203 The emphasis is on the calibre and experience of the proposed team.

204 Similar to the Tully flood mitigation project discussed in Chapter 2 some works were delayed due to the heavy rains experienced during the 2007–08 and the 2008–09 wet seasons. The December 2008, Construction Update No.6 explained that over two metres of rain had fallen on the site. Delays were also being experienced from a quality issue associated with precast piles being used throughout the project resulting in the piles being of a lesser strength than required in the designs. In relation to the pile strength, in September 2008 QDMR advised ANAO that:

> An engineering assessment of the pile capacity as a result of incorrect alignment of the reinforcing steel showed a 4% reduction in plie capacity below design capacity. However, assessment of the overall bridge capacity was deemed to be within design parameters and therefore accepted in the basis of:
>
> i. cost penalty on the supplier due to delivery of project outside specifications; and
>
> ii. noting on as constructed plans to alert future designers when considering upgrades or increased loading.

Federal funding for the preconstruction phase of this project had been approved in November 1993. However, through the preconstruction phase, identifying the preferred route was delayed (with consequential impacts on project planning and land acquisitions) as issues were resolved associated with areas of naturally occurring asbestos and the disused Tumut-Gundagai-Cootamundra rail line.

**5.20** Funding for a project to construct the Coolac Bypass on the Hume Highway was not included in the AusLink White Paper released on 8 June 2004. However, there was a commitment in the White Paper that the Australian Government would invest an additional $205 million for further duplication of the Hume Highway and for other safety works. Priority projects for this funding were to be determined in consultation with the NSW Government.[205] The $205 million package of works was specifically identified in the Bilateral Agreement with NSW but the projects within the package were not.[206] Accordingly, there was an underlying Australian Government commitment to fund the Coolac Bypass project however, the total quantum of that commitment had not been articulated.

**5.21** Following fatal accidents in May and June 2004, on 15 September 2004, the then Minister for Transport and Regional Services announced that a re-elected Coalition government would provide $35 million in 2005–06 to accelerate work on the Coolac Bypass. It was intended that the acceleration of funding be timed to coincide with the start of major construction, with the $35 million in AusLink funds from the $205 million package being brought forward from 2007–08 and 2008–09.

**5.22** The RTA moved quickly to give effect to the election commitment to accelerate works seeking, in November 2004, an increase in Federal approval for the Coolac Bypass (from the $11.9 million approved for preconstruction activities to $116.5 million, which related to the Australian Government fully funding the project) and undertaking a tender process for construction works

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[205] In December 2008, the RTA advised ANAO that the then Federal Minister for Local Government, Territories and Roads had written to the then NSW Minister on 24 December 2004 setting out specific projects to be delivered with the $205 million Australian Government commitment. The Coolac Bypass was included in the list of specific projects to be funded by the Australian Government.

[206] The NSW Bilateral Agreement stated that Australian Government funding for the program of works was capped for the five years at $205 million. The program of works was agreed on the basis the Australian Government would fund 100 per cent for the safety and duplication works on the southern Hume Highway and 80 per cent for works on the F5 Motorway.

in the first half of 2005. However, there was a nearly two year delay in letting of the construction contract and works did not commence until May 2007, with a planned completion date in the middle of 2009. The major causes of the delay related to:

- tender prices substantially exceeding the budget provisions in the project cost estimate.[207] At DITRDLG's request, the RTA investigated options for reducing the project scope. Following consideration, it was decided not to reduce the scope as the major option identified would have resulted in a section of substandard alignment with aged pavement remaining in place for many years (rectifying this as a stand-alone project would have cost more than including it in the Bypass project), as well as leading to various safety issues; and
- the RTA had obtained consent in 1996 under the NSW *National Parks and Wildlife Act 1974* to salvage or destroy Aboriginal objects, however, as the Australian Government did not allocate funds to construct the Coolac Bypass in 1996–97 or 1997–98 as the RTA had expected, the consent lapsed in 1998. The RTA advised ANAO that, as no indication was given of the revised date of construction funding, it did not apply to renew the consent until there was surety of funding in 2004. The subsequent consent was not able to be re-obtained until February 2007.[208]

**5.23** The delays in being able to proceed to project construction also led to a considerable increase in the cost of the project. The RTA had expected the Aboriginal heritage issue to be resolved by March 2006. On 11 November 2005, the RTA advised DITRDLG that this delay had increased the estimated outturn cost to $145 million (the earlier approval was for $116.5 million).[209] On

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207 In this regard, the RTA advised ANAO in September 2008 that tender prices substantially exceeded the budget provisions in the project cost estimate as tenders were received at a time when tender prices in the construction industry were increasing well in excess of the general rate of inflation.

208 At the time the RTA applied to re-obtain consent, and as a consequence of an unrelated non-road project, NSW Department of Environment and Climate Change introduced new guidelines that significantly expanded the breadth of community consultation and required the RTA to undertake a registration of interest process (in April and May 2005), which led to further consultation and resulted in additional archaeological studies and subsurface investigations being undertaken in 2005 and 2006.

209 Construction tenders closed on 11 May 2005. The tender documents contained a provision for cost adjustments to be paid from the date of tender until construction is complete, inclusive of any delays to the acceptance of the tender. As well, since the tender validity period had been extended twice at this time, the lowest tenderer had foreshadowed price increases beyond the normal cost adjustment. Both these factors formed the basis of the $145 million project estimate submitted by the RTA in its letter of 11 November 2005.

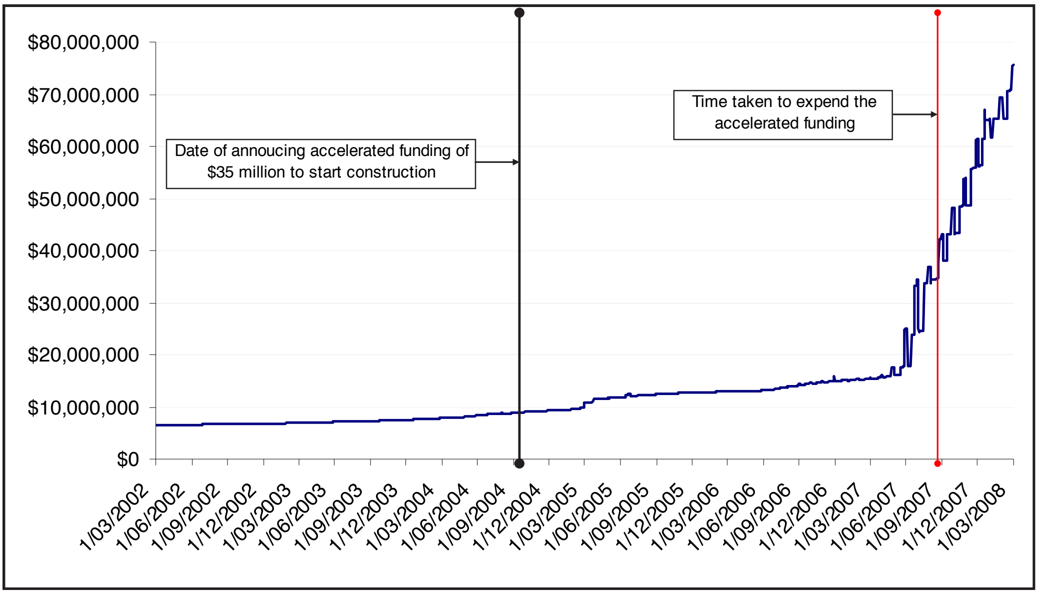
25 January 2006, the then Minister for Local Government, Territories and Roads increased the approved maximum AusLink funding amount to the requested $145 million.

**5.24** The further delay (to February 2007) in resolving the Aboriginal heritage issue led to the amount of Australian Government funding being further increased (also in February 2007) to $179 million. In February 2008, DITRDLG advised the Minister for Infrastructure, Transport, Regional Development and Local Government that $33.6 million of the increase in project costs (from the November 2004 approved amount of $116 million to $179 million) would need to be funded under AusLink 2.

**5.25** In addition to the increased project cost, the extensive delay in awarding the contract impacted on the RTA's ability to spend the funds made available by the Australian Government. As shown in Figure 5.1, actual project expenditure on the project did not start to increase significantly until the additional Aboriginal heritage consultations were resolved in 2007, and the subsequent construction contract was awarded. Figure 5.1 also shows that the 2004 election commitment to bring forward $35 million in 2005–06 to accelerate work on the Coolac Bypass, which was intended to coincide with the start of major construction, did not have an impact on the actual ability to deliver the project in an accelerated manner. In this respect, the RTA advised ANAO that it was the Federal commitment of funding for construction that allowed the RTA to proceed with the tendering processes and other preconstruction activities. The RTA further advised that, while the 2004 election commitment to bring forward $35 million in 2005–06 to accelerate works on the Coolac Bypass did succeed in initiating the tendering process and preconstruction activities, the full $35 million was not required as construction could not commence that year. As illustrated by the increased project expenditure in Figure 5.1, construction was well underway by the time of audit fieldwork in March 2008.

**Figure 5.1**

**RTA cumulative expenditure on the Coolac Bypass**




Source: ANAO analysis of RTA SAP expenditure data.

## Identification of AusLink 2 project priorities

**5.26** The $22.3 billion in AusLink 2 funding announced by the then Government in the 2007–08 Budget included $16.8 billion over five years for projects on the National Network. The Budget Papers stated that:[210]

> The Government will announce the details of AusLink 2 projects in due course. The projects will reflect the results of 24 AusLink corridor strategies that the Australian Government is conducting with the States and Territories. These studies will set out the strategic investment priorities to make our major transport links work more efficiently.

**5.27** In March 2007, DITRDLG advised the then Government that $4.37 billion in AusLink 2 funding would be required for National Network projects continuing on from the first five year Program. This left some

[210] *Building a Strong Future for Regional Australia 2007–08*, Statement by The Honourable Mark Vaile MP Deputy Prime Minister and Minister For Transport and Regional Services and Leader of The Nationals, the Honourable Jim Lloyd MP, Minister for Local Government, Territories and Roads and the Honourable De-Anne Kelly MP, Parliamentary Secretary to the Deputy Prime Minister and Minister for Transport and Regional Services, Canberra, 8 May 2007, p. 90.

$12.4 billion in AusLink funds for new projects and Network maintenance expenditure.

**5.28** One of the key changes planned for AusLink 2 compared to AusLink 1 involved more emphasis and resources being given to ensuring that projects have strategic merit through ensuring consistency with relevant corridor strategies. In April 2007, the then Government decided that the then Minister for Transport and Regional Services should bring forward for consideration in the second half of 2007 a report concerning the details (including broad cost estimates) of projects to be funded in AusLink 2 and that this program should reflect the corridor strategies following negotiations with State and Territory governments. Similarly, in July 2007, the then Shadow Minister announced[211] that the ALP was committed to building on the National Network in accordance with corridor strategies agreed with the States.

**5.29** Between 25 May 2007 and 21 June 2007, DITRDLG invited each of the States and Territories to provide a list of priority projects for funding between 2008–09 and 2013–14, together with a short description and a preliminary cost estimate for each project (with an indication of the robustness of the estimate). In addition, on 4 June 2007, senior DITRDLG officers met with NSW and Queensland Government officials in separate meetings to outline the AusLink 2 funding parameters that had been agreed by the then Government. Two States (NSW and the Northern Territory) did not respond to the invitation to provide a list of priority projects. The remaining States and Territories provided responses between 29 June 2007 and 7 August 2007. As illustrated by Table 5.2, the draft AusLink corridor strategies were drawn upon by the States to identify candidate projects to be considered for AusLink 2 funding.

**5.30** The State submissions that had been received were used by DITRDLG, together with the corridor strategies, the continuing projects from AusLink 1 and other available information to identify broad project priorities with a view to developing more reliable cost and scope information later in 2007, following further negotiation with the States. At that stage, the available project information (including cost estimates) were considered too preliminary to undertake reliable economic analysis. DITRDLG advised the then Minister in July 2007 that there were significant risks in locking in the level of Australian

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211 Martin Ferguson AM, MP, Shadow Minister for Transport, Roads and Tourism, *Sharing Responsibility for a National Transport Agenda*, National Local Roads and Transport Congress, Newcastle, 10 July 2007.

Government funding commitment to projects before 'proper' cost estimates and scoping had been completed.

**5.31** Following initial consideration of the broad project priorities by Ministers, DITRDLG expected that the next step would involve States preparing preliminary business cases (sometimes called 'project concepts') for those projects of highest priority. These business cases were to contain scope and cost information as well as outlining how the relevant State considered the project would fit in with deficiencies identified in corridor strategies and detailing any other strategic merits. The proposed process accorded with the principles outlined in the *National Guidelines for Transport System Management* (National Guidelines), which had been reflected in the Notes on Administration. However, before the process of obtaining sufficient information to assess and rank candidate projects had been completed, the Federal Election was called (in October 2007).

## Table 5.2

### States' AusLink 2 Funding Bids and Project Priorities

| State | Date of Request | Date of Response | Nature of Response |
|---|---|---|---|
| Victoria | 25 May 2007 | 2 July 2007 | List of priority projects consistent with the objectives of the 2004 White Paper. For all but one of the projects, the cost estimate ranges provided were preliminary and subject to 'substantial refinement' through the business case process that was to be undertaken in collaboration with DITRDLG. For the remaining project, it had proceeded to the concept stage of cost estimation, but was still subject to further review and refinement. |
| South Australia | 31 May 2007 | 29 June 2007 | Prioritised list of projects with the AusLink corridor strategies used to identify initiatives for AusLink 2 and to test and prioritise the potential initiatives that were considered. |
| Queensland | 4 June 2007 | 9 July 2007 | As a basis for further discussion, provided a preliminary departmental list of (unprioritised) projects in 2007 dollars based on the AusLink corridor strategies. Sought confirmation that once agreement on a more detailed program was reached, 'project concepts'/business cases would be prepared for each project (including Strategic Merit Tests, scope and cost information, including an initial BCR). |
| Western Australia | 6 June 2007 | 19 July 2007 | Suggested that the National Network be increased in size. Also provided a list of prioritised projects on the existing National Network that targeted the most serious short term deficiencies identified in the AusLink corridor strategies. Outturn cost estimates were provided but they were either 'very preliminary' or 'conceptual'. |
| Tasmania | 12 June 2007 | July 2007 | Prioritised list of possible candidate projects that addressed a range of the network deficiencies identified in the AusLink corridor strategy. A high level cost estimate was provided for each project. |
| Australian Capital Territory | 21 June 2007 | 7 August 2007 | One project consistent with the Sydney-Melbourne (including Canberra) corridor strategy (costs as at June 2007). |

Source: ANAO analysis of DITRDLG data.

## 2007 election commitments

**5.32** Over the course of the 2007 Election campaign, both the Coalition and the ALP made a substantial number of announcements involving funding for projects on the AusLink National Network.

**5.33** Consistent with the use of the States' AusLink 2 funding bids as the basis for identifying many of the election commitment projects, there were a number of projects that were announced by both the Coalition and the ALP. In some instances the amount of the commitment was the same,[212] in others it varied.[213] There were also various projects announced by one party, but not by the other.[214]

**5.34** The aggregate cost of the project announcements made by both the Coalition and the ALP exceeded the amount of available AusLink 2 funding, such that further consideration of the States' project priorities and funding bids was not required. For example, DITRDLG advised the Senate Rural and Regional Affairs and Transport Committee (during the May 2008 Estimates Hearings) that National Network funding for the AusLink 2 period had been fully committed to projects on the basis of 2007 election commitments.

## Coalition commitments

**5.35** Over the course of the 2007 Election campaign, the Coalition released eight land transport policy documents, one of which related to local roads. Between 25 October 2007 and 20 November 2007, the Coalition released six transport policy documents for particular States or parts of a State that included projects to be funded on the National Network. In addition, on

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212 For example, both the Coalition and the ALP committed $95 million for the construction of the Townsville Port Access Road. This project was included in the Queensland Government's AusLink 2 funding submission with an estimated cost of $190 million with costs proposed to be shared equally between the State and Australian Governments. In this respect, in September 2008, QDMR advised ANAO that:

> The Main Roads estimate of $190 million, based on conceptual estimates, was actually in out-turn dollars, based on 8 per cent escalation until December 2011. Current escalation can be as high as 15 per cent (Evans & Peck). Given that DITRDLG will not provide the bulk of the funding until 2009–10 onwards, capped at $95 million, the state could be facing a substantial increase in their portion of the total project costs.

213 For example:

- the ALP announced on 18 October 2007 a $160 million commitment to the Anthony's Cutting (Melton to Bacchus Marsh) upgrade on the Western Highway in Victoria, whereas the Coalition's 4 November 2007 commitment to this project involved a 'contribution of up to $216 million; and
- on 25 October 2007, the Coalition announced that it would contribute $106 million to the upgrade of the Great Eastern Highway in Western Australia from Kooyong Road to the Tonkin Highway, whereas the ALP announced on 29 October 2007 that it would contribute $180 million to the $225 million cost of this project.

214 One of the more significant differences involved the Coalition's commitment of $2.3 billion to the proposed Goodna Bypass in South East Queensland, with the ALP instead committing $1.1 billion to the Ipswich Motorway Upgrade. Savings of $330 million from 2007–08 and 2008–09 funding previously allocated to the Goodna Bypass project were used to fund the commencement of the some of the ALP Election Commitments.

21 November 2007, three days prior to the Election, the Coalition released its overall transport policy document, *Our 2020 Plan for Australia's Transport Future*.

**5.36** In *Our 2020 Plan for Australia's Transport Future*, the Coalition announced that all States and Territories would receive 'unprecedented' funding for their road and rail infrastructure.[215] Specifically, in addition to the AusLink funding for 2008–09 to 2013–14 announced in the May 2007 Budget, the Coalition announced that it would further increase AusLink funding by $7.3 billion between 2007–08 and 2013–14 to a total of $31 billion.[216]

## Australian Labor Party commitments

**5.37** In July 2007, the ALP announced[217] that, in government, it would retain the various AusLink funding programs. Different approaches were taken under the various programs by the ALP in relation to whether specific projects were announced as election commitments. For the AusLink Black Spots Program and the Roads to Recovery Program, no such commitments were announced, with the then Shadow Minister instead announcing[218] that, in government, the ALP would:

- adjust the funding limit (at that time, a cap of $750 000) for individual Black Spot projects to take into account rising construction costs, and implement the recommendations contained in ANAO Audit Report No. 45 2006–07 *The National Black Spot Programme* (including those aimed at improving the implementation of an evidence-based approach to identifying black spot locations, developing proposed treatments and ranking projects so that they can be prioritised for funding); and
- retain the AusLink Roads to Recovery Program approach of allowing each Local Government Authority (LGA) to receive an allocation of funds (through a predetermined formula) with LGAs deciding which projects they will undertake with their allocation (subject to the

[215] The Coalition Government, *Our 2020 Plan for Australia's Transport Future*, Election 2007 Policy, 21 November 2007, p. 4.

[216] The Coalition Government, *Our 2020 Plan for Australia's Transport Future*, Election 2007 Policy, 21 November 2007, p. 3.

[217] Martin Ferguson AM, MP, Shadow Minister for Transport, Roads and Tourism, *Sharing Responsibility for a National Transport Agenda*, National Local Roads and Transport Congress, Newcastle, 10 July 2007.

[218] Martin Ferguson AM, MP, Shadow Minister for Transport, Roads and Tourism, *Sharing Responsibility for a National Transport Agenda*, National Local Roads and Transport Congress, Newcastle, 10 July 2007.

requirement that the projects involve the construction, upgrade or maintenance of roads).[219]

**5.38** The then Shadow Minister committed[220] a Labor Government to redevelopment of the AusLink Strategic Regional Program to ensure strict criteria focussed on strategic regional economic links (metropolitan, provincial and rural).[221] Nevertheless, over the course of 2007, various announcements were made by ALP shadow Ministers and/or candidates identifying particular projects that would be funded under the AusLink Strategic Regional Program by a Labor government. ANAO is currently undertaking a performance audit of the AusLink Strategic Regional Program.

**5.39** During 2007, the ALP made commitments to various land transport projects it proposed to fund. As noted, in July 2007, the then Shadow Minister had announced[222] that the ALP was committed to building on the National Network in accordance with corridor strategies agreed with the States. Some of the election commitments involved an extension of the existing defined National Network. Consistent with the July announcement, most of the remaining National Network funding commitments were directly related to network deficiencies and/or priorities identified in the relevant corridor strategy.

## Costing of election commitments

**5.40** To enable the electorate to be better informed of the financial implications of election commitments, the *Charter of Budget Honesty Act 1998* (Charter of Budget Honesty Act) includes provisions for their costing by the Department of the Treasury (Treasury, in respect to policies affecting revenue) and the Department of Finance and Deregulation (Finance, in respect to policies affecting outlays and expenses). In September 2008, Finance advised ANAO that:

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219 The then Shadow Minister also committed a Labor Government to implementing the recommendations contained in ANAO Audit Report No. 31 2005–06, *Roads to Recovery* (including those aimed at preventing LGAs from substituting Roads to Recovery funds for their own expenditure and greater analysis of the costs and benefits of funded projects).

220 Martin Ferguson AM, MP, Shadow Minister for Transport, Roads and Tourism, *Sharing Responsibility for a National Transport Agenda*, National Local Roads and Transport Congress, Newcastle, 10 July 2007.

221 It was also announced that the notional funding cap of $10 million per project would be adjusted to recognise the escalation of construction costs.

222 Martin Ferguson AM, MP, Shadow Minister for Transport, Roads and Tourism, *Sharing Responsibility for a National Transport Agenda*, National Local Roads and Transport Congress, Newcastle, 10 July 2007.

> During an election campaign political parties and their candidates make numerous announcements. Whether an announcement is a commitment is a matter for the incoming Government to determine. Some announcements may be official party commitments or simply aspirations of candidates. Further to this, the Prime Minister or the Opposition (through the Prime Minister) decides which policies are put to the Secretaries of Treasury or Finance to prepare costings.

**5.41** It is intended that costings focus on the effect of a policy on the Australian Government's key Budget aggregates (both cash and accruals), and that they be produced in a manner consistent with normal Budget costing methodologies.[223] In support of this approach, the Charter of Budget Honesty Act permits[224] Finance to ask the Prime Minister or the Leader of the Opposition (as the case requires) for additional information. Finance is also empowered by the Charter of Budget Honesty Act[225] to obtain information from other Commonwealth agencies where this is necessary to prepare aspects of a policy costing.

**5.42** The Charter of Budget Honesty Act provides[226] that the Secretaries of Finance and Treasury may jointly issue written guidelines recommending approaches or methods to be used in the preparation of costings. Guidelines were issued for each of the 2004 and 2007 Elections. Finance advised ANAO that:

> The Charter of Budget Honesty Guidelines require that costings focus on the effect of a policy on the Australian Government's budget balance. The Charter of Budget Honesty Guidelines state that the costings will be produced in a manner consistent with normal budget costing methodologies. Finance acknowledges that the costs of particular road projects can only be known with a high degree of certainty once the project has been technically specified and put to tender. Before that stage, estimates depend on a range of issues and the degree to which specification of these have been undertaken.

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223 *Charter of Budget Honesty—Costing Election Commitments*, Guidelines issued jointly by the Secretaries to the Departments of the Treasury and of Finance and Administration, 2007, p. 14.

224 Section 30(3).

225 Section 32.

226 Section 30(1).

## Costing of 2004 election commitments

**5.43** Finance was not asked to cost the ALP's 2004 land transport election commitments. On 17 September 2004, Finance was asked to cost the Coalition's transport policy *Building Our National Transport Future*.

**5.44** Finance's costing of *Building Our National Transport Future* was released on 24 September 2004. It stated that, in outturn prices, the fiscal effect of the various funding commitments made in the policy would be $374 million between 2004–05 and 2007–08. Finance did not analyse the substance of the project estimates and subsequent commitments but premised its costing on an assumption that the commitments reflected 'an absolute value of funding, as described in the policy, *[that]* was to be provided for the road transport projects'. Finance advised ANAO that:

> Costing of the 2004 Policy was simply a matter of reading the 2004 Policy to establish what the policy commitments were and ensuring internal consistency with the 2004 Policy's costing summary. The 2004 Policy projects were cross checked against existing project commitments to isolate those which would have a net budget impact before drafting the costing, which was the document stating the findings of this review. There was no need to create a spreadsheet or other documentation given the nature of the policy commitments.

**5.45** To limit the scope for costing results to be misrepresented, the intention of subclause 31(1) of the Charter of Budget Honesty Act was that comprehensive details of the methodology used for the costings, including the underlying assumptions used, would be published.[227] Similarly, the published costing guidelines for the 2004 Election stated that 'the nature of assumptions used will be made clear by the Secretaries when publicly releasing costings and any caveats associated with the assumptions will be outlined.'[228] However, Finance's assumptions in relation to the costing of *Building Our National Transport Future* were not published.

**5.46** Finance did not request any additional information (such as the project cost estimates that underpinned the funding commitments contained in the

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[227] *Charter of Budget Honesty Bill 1996—Explanatory Memorandum*, circulated by authority of the Treasurer, the Honourable Peter Costello, MP, p. 15.

[228] *Charter of Budget Honesty—Costing Election Commitments*, Guidelines Issued Jointly by the Secretaries to the Departments of the Treasury and of Finance and Administration, 2004, p. 5.

policy) from either DITRDLG[229] or the Coalition.[230] Instead, as mentioned at paragraph 5.44, Finance proceeded on the basis that the commitments reflected an absolute value of funding. However, for some of the projects, the commitment was to fully fund certain works (see Table 5.1) and for others the commitment was to fund a share of project costs. Because of the preliminary nature of the cost estimates underlying some of the election commitments (see, for example, paragraphs 5.5 to 5.13[231]) combined with increasing construction costs, as of April 2008 the amount of AusLink funding approved to meet the new funding commitments from the 2004 election commitments was $288 million higher than the costing nominated in the Coalition's transport policy.

## Costing of 2007 election commitments

### *Coalition commitments*

**5.47** The 2007 Federal Election was held on 24 November 2007. As illustrated by Table 5.3, five of the seven 2007 Coalition transport policy documents that involved projects on the National Network were submitted for costing by Finance (four on 12 November 2007 and one on 16 November 2007). The overall policy, and the policy document for Tasmania (both of which were released a few days prior to polling day) were not submitted for costing. Based on the requests for costings that were submitted, the aggregate cost of these five election policies was $12.6 billion.

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229 Budget Coordination Circular 2004/26, *Costing of Election Commitments during the Caretaker Period*, 13 August 2004, page 3 stated that 'AAUs should assess the need to consult with Departments/Agencies to complete costing requests. The General Manager needs to approve all consultation with agencies before any contact is made.'

230 See page 1 of the *Public release of costing* document wherein it was stated 'Not applicable' in respect to both 'Additional information requested (including date)' and 'Additional information received (including date)'.

231 Another example involved the commitment of $3 million to the upgrade of the intersection of Hampstead, Mullers and Regency Roads in South Australia. By April 2007, the Australian Government funding approved for this project stood at $4.65 million with DITRDLG having advised its then Minister that:

- it was unaware of the origin of the $3 million cost estimate that underpinned the Election Commitment; and
- as the project was on the former National Highway and was an Election Commitment, it was unlikely the South Australian Government would make a funding contribution to the project.

## Table 5.3

### Coalition transport policies for the 2007 Federal Election submitted to Finance for costing

| Policy | Cost as submitted | Public release date | Costing request received date | Completed within 5 days? | Costing outcome |
|---|---|---|---|---|---|
| Our 2020 Plan for Perth's Transport Future | A further $405 million in building and upgrading urban roads between November 2007 and 2014. | 25 October 2007 | 12 November 2007 (18 day delay) | No – delayed due to further information being requested. | None costed – unable to be satisfactorily completed in sufficient time prior to the Election. |
| Our 2020 Plan for Victoria's Transport Future | A further $2.45 billion for construction projects between November 2007 and 2014. | 4 November 2007 | 12 November 2007 (8 day delay) | No – delayed due to further information being requested. | |
| Our 2020 Plan for Sydney's Transport Future | A further $3 billion for construction projects between November 2007 and 2014. | 4 November 2007 | 12 November 2007 (8 day delay) | No – delayed due to further information being requested. | |
| Our 2020 Plan for South Australia's Transport Future | A further $1.6 billion for construction projects between November 2007 and 2014. | 5 November 2007 | 12 November 2007 (7 day delay) | No – delayed due to further information being requested. | |
| Our 2020 Plan for South East Queensland's Transport Future | A further $5.2 billion for construction projects between November 2007 and 2014. | 4 November 2007 | 16 November 2007 (11 days) | No – delayed as request was not received until 16 November 2007. | |

Source: ANAO analysis of policy documents and documentation published by Finance.

**5.48** Finance did not complete a costing of any of the five policies that had been submitted for costing. This was because the requested additional information was not received for four of the policies and, for the final policy submitted for costing, the late stage at which it was submitted.

**5.49** Similar to 2004, Finance did not consult with DITRDLG on the Coalition's 2007 Election land transport policies.[232] However, unlike in 2004, Finance did seek additional information from the Coalition in respect to the four policies submitted for costing on 12 November 2007.[233] Specifically, on 14 November 2007 Finance advised the Coalition that:

> To be able to cost these commitments, Finance requires further information regarding the expected financial impact for each project on an annual basis. Without this information, it would not be possible to determine the overall cost each year of these policy statements.
>
> In addition, Finance requires clarification of which projects the Australian Government would either:
>
> - support through a capped funding contribution only, with any additional costs to be met by a State or Territory government or other third parties; or
> - fully fund or fund on cost sharing formula. For projects in this second category, Finance requires details to support the estimated costs (for example, preliminary scoping studies or similar technical estimates).
>
> Furthermore, in order to determine whether the projects can be accommodated within funding already provided for AusLink 1 and 2, Finance requires a table that sets out all proposed AusLink projects with:
>
> - project name;

232 Budget Coordination Circular 2007/44, *Costing of Election Commitments during the Caretaker Period*, 20 September 2007, page 5 stated that: 'AAUs should assess the need to consult with Departments/Agencies to complete costing requests. The BCB Branch needs to approve all consultation with agencies before any contact is made.'

233 Finance advised ANAO that: 'In respect of costing the Coalition's 2007 land transport funding commitments, a similar process to that for the 2004 election was undertaken. The commitments in the Policy documents were identified to establish what the policy commitments were. The 2007 Election was different with respect to land transport funding commitments in that there were multiple policy documents and the commitments were more open ended and less defined in nature. Therefore, a spreadsheet was created to aggregate commitments together, as a basis for cross checking against existing project commitments, to isolate those new projects that would have a net budget impact and to establish what the budget impact would be. This analysis highlighted that, based on the information provided in the policy documents, it was not possible to cost the 2007 commitments, even if reasonable assumptions could have been made, without further information. Therefore, a letter from the Secretary of Finance to the Prime Minister was sent to request further information.'

- funding commitment for the project; and
- expected financial impact for each project on an annual basis.

**5.50** This type of information was necessary and appropriate to undertake the costing of the commitments that had been announced and submitted for costing.[234] However, the information requested from the Coalition on 14 November 2007 was not received by Finance such that it was unable to satisfactorily complete the costings prior to the Election. Nevertheless, in respect to the last category of information sought by Finance (concerning whether the projects could be accommodated within funding already provided for AusLink 1 and 2), the policy document *Our 2020 Plan for Australia's Transport Future*, released on 21 November 2007, announced[235] that the Coalition would increase the funds allocated to AusLink by $7.3 billion between 2007–08 and 2013–14.

### *ALP commitments*

**5.51** None of the ALP's 2007 Election policies were submitted for costing by Finance. Instead, the ALP engaged a panel to examine its policies. The panel concluded that the final policy costings provided to it were based on reasonable assumptions and calculations and, as such, presented a fair estimate of the net financial impact of those policies on the underlying cash balance over the period 2007–08 to 2010–11.[236] However, none of the AusLink election commitments were included in the policies submitted to the panel for costing.

**5.52** While the ALP's AusLink election commitments matched the total forward estimates to 2013–14, this did not take into account the cost of projects that had already been approved and/or were in progress or that the announced funding was, in large part, based on preliminary concept designs and in 2006

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[234] Specifically, the additional information requested would have enabled Finance to: assess the rigour of the cost estimates underpinning those commitments where the Australian Government would be fully funding a project or contributing to a share of estimated project costs; and determine whether the projects could be accommodated within existing funding provided for AusLink 1 and AusLink 2.

[235] The Coalition Government, *Our 2020 Plan for Australia's Transport Future*, Election 2007 Policy, 21 November 2007, p. 3.

[236] Letter to Mr Tim Gartrell, National Secretary of the Australian Labor Party from the Independent Costing Review Panel (comprising Greg Smith, Adjunct Professor, Economic and Social Policy, Australian Catholic University; John S Brown, a professional chair of audit committees; and James Guthrie, Professor of Accounting, Sydney University and Editor of the Accounting, Auditing and Accountability Journal), 23 November 2007, downloaded from <http://www.alp.org.au> [accessed 24 November 2007].

and 2007 prices and so did not reflect the likely actual cost of delivering the announced works.

**5.53** The published costing guidelines for the 2007 Election included a proforma indicating the information normally required for a costing to be prepared. However, this proforma does not discriminate between the different information that may be required for Treasury's costing of revenue policies compared to Finance's costing of outlays and expense policies. The published guidelines also did not provide tailored guidance on the different types of information required for different types of outlay and expense commitments (including those relating to infrastructure construction projects).

**5.54** For the 2007 election, Finance's published proforma did not ask that it be provided with all data necessary to complete a costing. As a result, subsequent to receiving the Coalition's request for Finance to cost of its various land transport policies, it was necessary for the department to seek information on the name of each project, the funding commitment for each project and the expected financial impact for each project on an annual basis. In light of the tight timeframe (five working days) for completing costings, there would also be benefit in Finance giving consideration to an expansion of its published guidance on the information normally required for a costing to reduce the likelihood that costings are delayed (and, potentially, not completed) due to insufficient information being submitted with the original costing request. In this respect, on 30 March 2009 Finance advised ANAO that:

> The points made in respect of the need to consider the provision of further advice in *The Charter of Budget Honesty, Costing of Election Commitments, Guidelines* to facilitate the costing process are valid and will be considered in the review of the Charter of Budget Honesty.

## Decision-making framework for the 2007 election commitments

**5.55** Similar to the 2004 election commitment projects, typical features of many of the 2007 election commitment projects were that the project was at a concept or preliminary planning stage[237] and reliable estimates of the project

237 The Notes on Administration provide that, except of small or straightforward projects, funding will not be approved for construction until the project has been scoped and detailed planning and design has been completed.

cost had not yet been prepared in outturn dollars (as planning and scoping activities had not yet been sufficiently progressed).

**5.56** The announcement during an Election campaign of funding for projects with these characteristics creates challenges for DITRDLG and State transport agencies in delivering projects. Similar situations have occurred in other countries. For example, a recent report to the Secretary of State for Transport in the United Kingdom on the Targeted Program of Improvements (TPI – a program established to provide greater focus on the delivery of major highway schemes) advised that:

> With schemes *[projects]* entering the TPI at a relatively early stage in their development, when the related cost estimates are not yet reliable, it is not sensible to commit fully to the overall expenditure on the schemes through to completion – especially for a program extending over 10 to 15 years.
>
> The TPI thus creates a false impression that the schemes it contains have reached a higher level of maturity than is generally the case; implies that the cost estimates for such schemes are or can be robust; and gives rise to unrealistic expectations regarding the degree of commitment to funding which can realistically be given.
>
> Scheme estimates are and can only be robust enough to provide a high degree of certainty in outcome once the final Target Cost has been agreed with the contractor and Orders made (that is, at Office of Government Commerce Gateway 3b as defined by the Highways Agency). Until this level of detail and corresponding cost certainty is available, all that can and should be fully committed is the funding to progress in clearly controlled and defined stages of development. This staged approach to scheme development, funding and approval underpins our recommendations for restructuring of the TPI.[238]

**5.57** At the time of the audit, DITRDLG advised ANAO that 2007 election commitments were being progressed as follows:

- Ministerial announcements concerning projects made in the 2008–09 Budget reflected a set of estimates and a statement of the Government's intent to fund the projects. These announcements were a precursor for the provision of information by the States to DITRDLG to enable the consideration of the project against relevant legislative requirements;

[238] Mike Nichols, Chairman & Chief Executive of The Nichols Group, *Report to Secretary of State for Transport: Review of Highways Agency's Major Roads Programme*, March 2007, p. 10.

- project approval will occur at the time the Minister approves a project under the terms of the *AusLink (National Land Transport) Act 2005*, at which time significant information is required to have been examined by DITRDLG so as to enable the assessment of the project against the requirements of the AusLink Act and the *Financial Management and Accountability Regulations 1997*; and
- early commencement of a number of election commitments projects has been provided for on the basis of the readiness of the States to commence the projects, and where the potential risk exposure to the Australian Government could be limited. A number of these 'Early Start' projects were still at the development stage and were to be subject to the normal statutory requirements before DITRDLG provides advice to the Minister in relation to the necessary statutory approvals.

### First stage: Strategic Merit Test

**5.58** The first stage of the decision-making process for 2007 election commitments commenced in March 2008 when DITRDLG wrote to State transport agencies providing them with a list of election commitments for their State. DITRDLG requested that its State counterparts provide it with 'project concepts' for the identified election commitment projects and any others that reflect Government commitments on which activity could commence in 2007–08 or 2008–09. DITRDLG asked that the 'project concepts':

- address the information requirements set out in the AusLink Notes on Administration for the Strategic Merit Test;[239]
- include a best cost estimate (both in current dollars and outturn dollars), with the stage of estimation and risks clearly identified. In addition, a contingency was to be included in the estimate that was commensurate with all risk factors so that there would be a high degree of confidence that the risk estimate would not be exceeded;
- a cash flow for the project reflecting the announced Australian Government contribution and State/Territory contributions (where the

[239] The Notes on Administration (page 72) state that: 'The AusLink Strategic Merit Test (SMT) is an important part of the strategic planning and project identification phases. The AusLink SMT's primary role is to consider how the objectives of the project concept align with both Australian Government and relevant State/Territory Government objectives, policy choices and strategies. It also checks that appropriate consideration has been given to alternative solutions and options and to the broader context of the project concept.'

Australian Government contribution is capped or represents a share of the cost) as well as a benefit cost analysis; and

- advice on the stage of development of the project, including when construction work is likely to commence.

**5.59** States were advised that final decisions concerning those projects to be funded, including the level of funding to be provided, would be made by the Minister for Infrastructure, Transport, Regional Development and Local Government, and would be formalised in writing.

**5.60** Responses were received from all States and Territories (except the ACT, which did not respond) between 31 March and 14 April 2008. The level of information provided by the States varied with some providing the level of detail sought by DITRDLG and others providing summary information on each project.

## Second stage: project business cases

**5.61** Following receipt of the project concept information, DITRDLG wrote to its State counterparts asking that they provide (by 30 June 2008) a business case for each election commitment project (including early start works) that included:

- the description and scope of the project;
- the timing for project commencement and completion, including any relevant phasing of specific project stages;
- the best cost estimate available (both in current dollars and outturn dollars) that adhered to the principles of the *Best Practice Cost Estimation for Road and Rail Construction* prepared for DITRDLG by Evans and Peck;[240]

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[240] In June 2008, DITRDLG advised ANAO that: 'The Department is currently working with Evans and Peck to develop a "best practice project cost estimation standard". Once the standard is finalised, it will be provided to Government for its consideration with a view to requiring all States/Territories to adhere to the standard. It is the intention that the standard will be promulgated into the bilateral agreements which are to be developed during the next six months and finalised with States/Territories prior to the commencement of AusLink 2 in 2009–10. The standard will provide the framework for project cost estimating and, along with other strategies which will be included in the bilateral agreements, will mitigate potential risk exposure to the Australian Government, especially in the area of cost escalation.'

- a cash flow projection for the project reflecting the announced Australian Government contribution and State/Territory contributions; and
- the latest information on project status, including the major project phases (planning, design, construct and completion) where applicable.

**5.62** At the time ANAO audit fieldwork was completed, the second stage of project consideration was in progress.

## 'Early Start' projects

**5.63** In April 2008, the Minister agreed to a DITRDLG recommendation that he approve a package of 45 'Early Start' election commitments to commence in 2007–08 or 2008–09. The list of 'Early Start' projects was developed taking into account:

- consideration of the Government's list of possible 'Early Start' projects and other election commitments that the States nominated for possible early commencement; and
- DITRDLG's assessment of whether funds could be spent in 2008–09 and whether risk could be contained in a way likely to be accepted by the States (such as through capping of Australian Government funding and, for some projects, limiting the scope of the project to initial planning).

**5.64** The largest element of the 'Early Start' package involved 32 National Network projects.[241] Of these, five were studies to be undertaken as Development and Innovation Projects under Part 3 of the AusLink Act (at a cost of $20.1 million). The 27 National Network construction projects involved total announced election commitment funding of $6.8 billion across six States (NSW, Victoria, Queensland, Western Australia, South Australia and Tasmania). The amount of 'Early Start' funding identified for these projects was $1.1 billion (17 per cent of the announced election commitment amount). In this respect:

- ten projects were to involve full funding (totalling $924 million), principally relating to election commitments where additional funding

[241] The 'Early Start' package also included: six projects to be funded under the Strategic Regional Program (at a cost of $62.2 million) and four projects under the Non-AusLink Roads Program (at a cost of $165.5 million).

had been announced for projects that were already under construction; and

- the remaining projects were approved for partial funding (totalling $227 million).

**5.65** States were to be required to submit Project Proposal Reports (PPRs) providing detailed information for each of the Early Start projects. Subject to DITRDLG's assessment of the PPRs, DITRDLG was then to seek its Minister's approval for each project under the AusLink legislation whilst, at the same time, briefing the Minister on the requirements of the *Financial Management and Accountability Act 1997*.

### *Risk management strategies*

**5.66** State Ministers were written to on Budget night and provided with a copy of their State's AusLink Investment Program funding for 2008–09 together with advice on the Early Start projects in their State and the conditions on which funding was being provided. In general, these conditions involved capping the Australian Government funding contribution, which in a number of cases was coupled with limiting the scope of the projects to initial planning.

**5.67** Capping of costs was proposed for adoption across a large proportion of the National Network 'Early Start' projects. Specifically, of the 27 National Network construction projects:

- 15 projects were to involve 'Early Start' funding for planning and (in some instances) design work. In each instance, the Australian Government funding was to be capped; and
- 12 projects were to involve construction work. Of these, 10 were to involve capping of the Australian Government funding. The two projects where 'Early Start' funding was not proposed to be capped involved projects on the Pacific Highway (the Bulahdelah Bypass and the Ballina Bypass). In each instance, an amount less than the election

commitment[242] was to be provided in 'Early Start' funding on the basis it was matched by the NSW Government and pending the development of a comprehensive agreement concerning the upgrade of the Pacific Highway.

**5.68** The capping of funding to 15 projects for planning was consistent with the available information on the extent to which the project had been advanced such that an informed decision could be made about the merits and quantum of providing funds for construction work. Specifically, in a number of instances, the announced election commitment for construction work related to a project for which the relevant State road transport authority had yet to undertake the planning work necessary to scope the works and prepare a reliable estimate of costs. In aggregate, $80.7 million was approved for planning the $4.3 billion in election commitment funding announced for these 15 projects. For example:

- the largest single commitment announced by the ALP was $1.1 billion to fully upgrade the Ipswich Motorway from Dinmore to Goodna.[243] This project was not included in the Queensland Government's AusLink 2 funding submission which, instead, reflected the then Government's announced commitment of funding for the Goodna Bypass. March 2008 advice from QDMR to DITRDLG was that planning and land acquisition works were underway. The 'Early Start' funding included a capped amount of $5 million for planning and detailed cost estimation with the future funding arrangements to be agreed; and

[242] The 'Early Start' funding to be provided for the Bulahdelah Bypass was $15 million compared to Election Commitment funding of $1 billion to projects between Coffs Harbour and Bulahdelah (the RTA's April 2008 concept estimate of the outturn cost of the Bulahdelah Bypass was $340 million), with $100 million in 'Early Start' funding to be provided for the Ballina Bypass compared to Election Commitment funding of $446 million (the estimated total cost of the Ballina Bypass published in the NSW 2008–09 Budget Paper 4 *Infrastructure Statement* (p. 5-59) was $640 million, with an anticipated completion date of 2012).

[243] In this respect, in September 2008, QDMR advised ANAO that there were a number of ALP election commitments for the Ipswich Motorway that include more than just the Dinmore to Goodna Section. Specifically, the following commitments were included in a letter from DITRDLG to QDMR:

"$1.1bn for the full upgrade of the Ipswich Motorway" (3/9/07)

"$1.1bn to fully upgrade the Ipswich Motorway to six lanes" (17/10/07)

"$1.1bn to fully upgrade the Ipswich Motorway from Dinmore to Goodna" (13/11/07).

- the election commitments announced on 18 October 2007 included $404 million for the $505 million duplication of the highway from Ballarat to Stawell. However, the Victorian Government's AusLink 2 funding submission had advised that its preliminary cost estimate in 2007 dollars for these works was between $680 million and $800 million. In April 2008, the Victorian Department of Infrastructure advised DITRDLG that, while preliminary planning works had been commenced, a 'considerable amount' of planning work was required to finalise the scope of the project, with AusLink funding required to commence the detailed planning so that the project could be delivered during the period 2009–14. An outturn cost estimate was to be prepared in 2008–09. The 'Early Start' funding approved was $5 million capped for planning with future funding arrangements to be agreed.

**5.69** The 10 'Early Start' projects that involved capped funding for construction work related to projects at varying stages of development. Five of these projects (with combined 'Early Start' funding of $759 million) were already underway such that there was a higher degree of certainty about their scope, timeframe and cost. For example, the election commitments announced on 13 November 2007 included an estimated total cost of $27.5 million for the construction of the Nerang South Interchange on the Pacific Highway in Queensland as part of $210 million in funding for six interchange projects.[244] In March 2008, QDMR advised DITRDLG that works had commenced with State funding and that the cost of the Nerang South works had been revised down from $55 million to $45 million after tenders had been received.

**5.70** The remaining five projects that were to receive capped 'Early Start' funding were less well developed. In each instance, additional information had been obtained by DITRDLG as a result of its March 2008 request to the States for information on election commitment projects that addressed the requirements set out in the AusLink Notes on Administration for the Strategic Merit Test. In this respect:

- in April 2008, QDMR advised DITRDLG that planning had been completed for the Nambour Bypass ('Early Start' funding of $35 million for an election commitment of $35 million) and that detailed design

244 The Queensland Government's AusLink 2 funding submission had included a project for an upgrade of the Nerang South Interchange, Worongary Interchange and the Mudgeeraba Interchange, with an indicative cost estimate in 2007 dollars.

was underway with a revised cost estimate of $38.5 million (the Queensland AusLink 2 funding submission had included a 2007 dollar cost estimate of $40 million for this project of which $5 million was for planning work);

- the Victorian Government advised DITRDLG that it had announced $62.5 million for the Stage 4A of the Geelong Ring Road in its 2007–08 budget (50 per cent of the 2007 dollar concept estimate included in the AusLink 2 funding submission) with the 'Early Start' funding of $62.5 million matching this amount;
- DIER advised DITRDLG that, in May and September 2007 respectively, it had submitted Project Proposal Reports for the two Tasmania projects (the Constitution Hill upgrade on the Midland Highway with a commitment of 80 per cent of the cost capped at $4.5 million and Bridgewater Bridge upgrade with a commitment of 80 per cent of the cost capped at $10.75 million). These projects were subsequently approved by the Federal Minister on 12 August 2008 and 3 September 2008 respectively; and
- the South Australian Department for Transport, Energy and Infrastructure provided DITRDLG with a detailed document in the form of an AusLink Strategic Merit Test Project Proposal Report for the $80 million capped contribution to upgrading works on the Dukes Highway.

## Documentation of the assessment and decision-making framework

**5.71** Risks to program outcomes can be increased where agencies do not document and apply sound procedures to assess projects announced as election commitments, and/or do not effectively administer any funding that might be approved.[245]

**5.72** The staged decision-making framework outlined by the department for the 2007 election commitments is consistent with the National Guidelines and the Notes on Administration. The approach is also consistent with the principles of Ministerial discretion in deciding whether, and to what extent, they should approve funding for projects announced as election commitments,

[245] See ANAO Audit Report No.14 2007–08, *The Regional Partnerships Programme*, Canberra, 15 November 2007—Volume 2, pp. 135–151.

and Ministers' obligations under the financial framework to only approve funding after making reasonable inquiries that have satisfied themselves that the proposed expenditure represents efficient and effective use of public money.

**5.73** In February 2009, DITRDLG advised ANAO that election commitment projects are required to meet all the eligibility and appropriateness tests the same as all other projects funded under the AusLink Act unless there is a Government policy decision to treat a project a specific way (such as advanced funding). However, DITRDLG's program administration has not adopted a consistent approach to requiring a PPR (which is to include the proposed project scope, the estimated project cost and issues impacting on project risk) to be prepared—for some projects they were prepared for each approval stage by the relevant State, for others DITRDLG did not seek them.[246] There would be benefit in the AusLink Investment Program: National Projects *Notes on Administration* being amended to address the truncation of approval stages and possibility of advance funding (and related risk management strategies) that are to be applied to projects such as those announced as an election commitment in 2007.

**5.74** As noted at paragraph 4.35, the Government's December 2008 announcement of accelerated spending on infrastructure projects in response to the global financial crisis included 14 national road projects already announced under the Nation Building Program (formerly AusLink 2) with a total value of $4.5 billion. Of the 14 projects, 12 had previously been announced to receive funding during the 2007 Election Campaign.[247] Of these 12 projects:

- in all but one instance, the accelerated funding announced in December 2008 was equivalent to the amount announced as a 2007 election

[246] For example, QDMR submitted a Project Proposal Report (PPR) and Stage 2 variation request (seeking an additional $9.91 million) for planning work on the Tully flood mitigation project on the Bruce Highway. However, the staged approval process outlined in the Notes on Administration was overtaken with the announcement of the full funding for the project such that a PPR for construction works which represented the majority of the total project outturn estimate of $172.9 million was never submitted.

[247] They included, for example, the Banora Point Upgrade on the Pacific Highway in NSW. The Australian Government commitment to that project was announced in December 2008 as $210 million (the same amount as that announced in the context of the 2007 Election campaign). The RTA advised ANAO in September 2008 that the $210 million amount was 100 per cent of the concept estimate in 2006 dollars but that a more recent estimate (in outturn dollars) was $361 million. The December 2008 announcement stated that the total investment for this project (including the Australian Government funding) was $286 million.

commitment—in respect to the Brighton Bypass project in Tasmania, the Commonwealth commitment announced in December 2008 was $164 million compared with an election commitment of $131 million;

- six of the projects were included in the list of 'Early Start' projects approved in April 2008.[248] In most instances, the 'Early Start' funding had been approved for necessary planning work in advance of a decision being made as to whether construction funding would be provided,[249] whereas the December 2008 announcement involved the commitment of funds to accelerate construction works (see Table 5.4).[250]

## Recommendation No.4

**5.75** ANAO *recommends* that the Department of Infrastructure, Transport, Regional Development and Local Government address in the Notes on Administration the appraisal and decision-making framework for projects on the AusLink National Network announced as election commitments.

### *DITRDLG response*

**5.76** DITRDLG agreed to the recommendation.

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248 For example, the Princes Highway East—Traralgon to Sale Duplication in Victoria was included in the December 2008 announcement with an Australian Government commitment of $140 million with construction to commence in March 2009. This project, which the Victorian Government estimated would cost between $918 million and $1.08 billion (in 2007 dollars, based on a preliminary cost estimate) at the time AusLink 2 funding bids were submitted, was to receive $1.2 million in Early Start funding across 2008–09 and 2009–10 so as to enable detailed planning to commence. The December 2008 announcement stated that the total investment for this project (including the Australian Government funding) was $220 million.

249 'Early Start' funding approved in April 2008 for construction activity that were also included in the December 2008 announcement were: the Bulahdelah Bypass project on the Pacific Highway in NSW, which had been approved for $15 million in 'Early Start' funding, with the December 2008 announcement stating that an additional $5 million would be brought forward into 2008–09 to advance work on the main part of the project; and the Northern Expressway project in South Australia, which had been approved for $305.2 million in 'Early Start' funding (payable between 2008–09 and 2010–11) so as to complete the Australian Government commitment of $451 million to the project—the December 2008 commitment involved an additional allocation of $36.9 million in 2009–10 in addition to the $60 million 'Early Start' funding approved for the project in that year.

250 As audit fieldwork had been completed prior to the December 2008 announcement, ANAO has not examined assessment and risk management practices employed by DITRDLG.

## Table 5.4

### Projects previously announced to receive planning funding announced in December 2008 to receive funding so as to accelerate construction

| Project | 'Early Start' funding | December 2008 announcement | | |
|---|---|---|---|---|
| | | **Commitment** | **Commence construction** | **Complete construction** |
| Princes Highway East—Traralgon to Sale Duplication in Victoria | $1.2 million to be paid in 2008-09 ($500 000) and 2009-10 ($700 000) to enable detailed planning to commence | $2.5 million of the total $140 million Australian Government commitment would be accelerated in 2008-09 | March 2009 rather than mid 2010 | Early 2014 rather than mid 2014 |
| Nagambie Bypass project on the Goulburn Valley Highway in Victoria | $5 million to be paid in 2008-09 for planning and preconstruction activity | $3 million of the total $216 million Australian Government commitment would be accelerated in 2008-09 | March 2009 rather than late 2009 | Mid 2012 rather than early 2013 |
| Western Ring Road Upgrade and Capacity Improvement project in Victoria | $5.0 million paid in 2008-09 for planning | $15 million accelerated into 2008-09 | Immediate commencement rather than in mid-2009 | Early 2014 rather than mid-2014 |
| Ipswich Motorway—Dinmore to Goodna in Queensland | $5 million in 2007-08 for planning and detailed cost estimation | $25 million accelerated into 2008-09 bringing the total available in that year to $30 million | No change from early 2009—additional funding was to 'ensure it remains on track' | No change from late 2012 |

Source: ANAO analysis of DITRDLG records and *Nation Building: Rail, Road, Education & Research and Business*, Statement by the Honourable Kevin Rudd MP, Prime Minister, the Honourable Julia Gillard MP, Deputy Prime Minister and Minister for Education, Employment, Workplace Relations and Social Inclusion, the Honourable Wayne Swan MP, Treasurer and the Honourable Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, 12 December 2008.

# 6. Program and project evaluation

*In the context of the significant funds committed to long-term land transport infrastructure projects through AusLink, this chapter examines the development and implementation of an evaluation framework and performance indicators relevant to projects approved for delivery on the AusLink National Network .*

## Background

**6.1** Program monitoring and review is a fundamental element of sound governance and quality management.[251] It supports ongoing assessment of progress and risks and informs decisions about whether program objectives are achievable, or whether the program's scope, timing or resourcing need to be reviewed.[252] In this respect, an April 2001 internal review of the management and administration of roads commissioned by DITRDLG following tabling of ANAO's third audit of the management of the predecessor National Highways Program found that, if a formal evaluation of the department's roads programs had been undertaken within a four to five year cycle, it could have established the existence of a number of administrative and management issues in a timely way and proposed initiatives for their resolution.

**6.2** One of the significant changes proposed to be made under the AusLink planning and administration framework compared to the predecessor land transport program was to involve the adoption of a comprehensive evaluation framework that would help improve the efficiency and effectiveness of program outcomes and delivery. In this respect, the White Paper stated that:[253]

> The Australian Government will develop a framework that will enable the evaluation of its investment in improving the performance of the National Network and regional links.

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[251] Department of the Prime Minister and Cabinet and ANAO, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide, Canberra, October 2006, p. 52.

[252] Department of the Prime Minister and Cabinet and ANAO, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide, Canberra, October 2006, p. 52.

[253] The Hon. John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and Senator the Hon Ian Campbell, Minister for Local Government, Territories and Roads, *AusLink White Paper*, June 2004, p. 120.

At the network and corridor levels, periodic strategic assessments of long-term investment needs will include an evaluation of the changes in performance levels in response to previous investment patterns.

Evaluation of completed projects will be directed at achieving continuous improvement in project assessment, decision-making and implementation. Evaluations will reinforce the need for project proponents to be rigorous in their estimation of both benefits and costs in the economic assessments undertaken at the proposal stage.

To facilitate evaluations, and to discourage exaggeration of benefits and under-estimation of costs, the AusLink project assessment guidelines will explore arrangements for identified performance measures that could be checked at specified dates in the future.

**6.3** This approach was consistent with the *National Guidelines for Transport System Management in Australia*. Specifically, the final phase of the Framework promulgated by the Guidelines (referred to as 'performance review') is to involve assessing the ex-post efficiency and effectiveness of decisions, planning and implementation processes, and transport system performance.[254] Post-completion evaluation of individual initiatives, or of entire programs, was expected to provide lessons from past experience that could lead to improvements in future capital investment decisions.[255]

**6.4** In the 2004–05 Budget, DITRDLG was provided with an additional $46.8 million[256] over six years to administer AusLink.[257] This amount included capital expenditure of $8.5 million for new information technology infrastructure.

## Development of the AusLink evaluation framework

**6.5** Between May and November 2005, DITRDLG undertook a tender process for a consultant to prepare an evaluation framework and related

254 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 1—Introduction to the Guidelines and Framework, December 2006, p. 20.

255 Australian Transport Council, *National Guidelines for Transport System Management in Australia*, Volume 3—Appraisal of Initiatives, December 2006, p. 97.

256 A further $860 000 over four years in departmental funding was provided in the 2004–05 Additional Estimates.

257 *Budget Measures 2004–05*, Circulated by the Honourable Peter Costello MP Treasurer of the Commonwealth of Australia and Senator the Honourable Nick Minchin Minister for Finance and Administration for the Information of Honourable Members and Senators on the Occasion of the Budget 2004–05, Budget Paper No.2, p. 247.

practical applications and work plans. An open tender was conducted, with the Request for Tender (RFT) released in May 2005. The RFT advised that the consultant was not required to undertake actual evaluations but to develop a framework in three parts, namely:

- an overall evaluation of AusLink (hereafter referred to as the first element of the evaluation framework);
- an evaluation of AusLink business processes (referred to as the second element of the evaluation framework); and
- post project completion review as established in the National Guidelines (referred to as the third element of the evaluation framework).

**6.6** Nine tenders were received in June 2005. Of these, five were identified as non-compliant, based on a failure to comply with the minimum content and format requirements. A further two tenders were not shortlisted based on DITRDLG's assessment that they did not comply with the draft contract and identified risks associated with these tenderer's suggested alternatives to the draft contract.

**6.7** Following interviews, further tender clarification and evidence of expertise and experience was requested in writing from the two shortlisted tenderers. Due to delays in DITRDLG finalising the tender process compared to the original schedule, in September 2005 one of the shortlisted tenderers withdrew from the process as it had accepted another engagement that required most of the key team it had earmarked for the AusLink assignment.

**6.8** The tender process was completed in late November 2005 at which time DITRDLG concluded that the remaining tenderer met its requirement for the preparation of the evaluation framework and related services. Maunsell/Aecom was selected as the preferred tenderer at an estimated cost of $208 140 (plus GST) with negotiations to commence as soon as possible on the contract.[258]

**6.9** The contract was signed on 12 January 2006. In addition to various interim milestones, the Final Evaluation Framework Report was required to be delivered to DITRDLG by the end of June 2006. The consultant's final report

[258] Due to the time that it took DITRDLG to finalise the procurement process, the template contract included in the RFT had been superseded.

was provided to DITRDLG in July 2006. It comprised a summary volume and a more detailed *AusLink: Evaluation Framework and Technical Report*. The final actual cost of the consultancy was $202 461 (plus GST) comprising $172 958 in fees and $29 503 in expenses.

**6.10** In a subsequent review of AusLink, undertaken by DITRDLG in October 2006, implementation of the AusLink Evaluation Framework was identified as a major priority for the next two years. In this respect, the then Minister for Transport and Regional Services was advised by DITRDLG that:

> Evaluations of the various components of AusLink and the business processes that support them will commence in 2007. This will facilitate periodic review of AusLink policy to ensure AusLink outcomes and processes are effective and appropriately focused.

## Evaluation framework for the effectiveness of AusLink

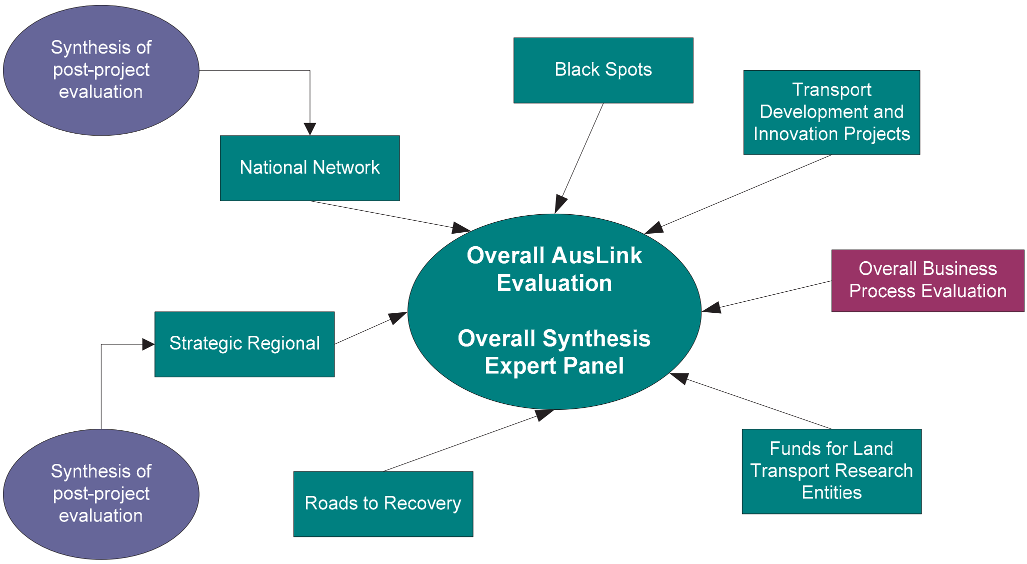
**6.11** The first element of the AusLink evaluation framework (see paragraph 6.5) was to involve an evaluation of the effectiveness of AusLink (including the corridor strategies) to help inform the development of continuous improvements in infrastructure planning including:

- the development and refinement of future versions of the National Land Transport Plan; and
- to enable the evaluation of investment under AusLink in improving the performance of the National Network and regional links.

**6.12** The intended purpose of evaluations conducted under this part of the framework was to include recommending program and business improvements, and suggesting ways to give effect to these recommendations. Figure 6.1 illustrates the envisaged aggregation of results from the different evaluation methods into the overall evaluation.

## Figure 6.1

### Aggregating results into the overall AusLink evaluation




Source: ANAO analysis of *AusLink: Evaluation Framework and Technical Report*, p. 47.

**6.13** The *AusLink: Evaluation Framework and Technical Report* provided to DITRDLG in July 2006 discussed the detailed performance measures to be applied for the overall evaluation of each element of AusLink. In respect to National Network projects, the report proposed that:

- the first objective should be to assess whether the policy rationale was still valid and that the National Network objectives are well aligned with the rationale. The various performance measures (addressing issues such as traffic growth rates and surveys of land transport infrastructure users and other stakeholders such as State governments, business, industry and motor associations) were to measure actual trends against the White Paper forecasts with any widening variance between actual and forecast potentially providing a trigger for more in-depth review;

- the second objective was to assess whether AusLink funds are allocated efficiently. The performance measures addressed inputs (such as average costs of road construction per lane kilometre and the level of shared funding) and outcomes and impacts (such as the forecast present value of total project benefits, travel time savings and environmental cost savings). It was proposed that the performance indicators be calculated from project appraisal information submitted with the funding application with the findings from post-project completion evaluations used to identify any systemic variance between forecast and actual benefits;

- the third objective was to assess to what extent AusLink policy, program and project objectives had been achieved. Some of the performance measures were to be derived by aggregating data on individual projects (such as estimated travel time savings in the first year after opening) together with use of a survey, cross-cutting and thematic case studies;
- the fourth objective was to assess whether AusLink projects have been implemented efficiently and effectively. The report noted that achievement against these performance indicators is partly dependent on the States and the ARTC, with performance against these indicators therefore also providing information on the effectiveness of the Bilateral Agreements;[259] and
- the fifth and final objective was to learn as the program progresses and to improve delivery, efficiency and effectiveness by providing case examples that highlight good practice, problems and solutions.

**6.14** The final report recommended that a mid-term evaluation of AusLink occur in late 2007/early 2008 as this would be three years after the commencement of AusLink. However, the mid-term evaluation was not undertaken in 2007–08. In November 2008, DITRDLG advised ANAO that:

> Work on the evaluation has commenced. The timing was delayed a little due to the November 2007 Federal election and the need to establish and commence implementing the priorities of the new Government.
>
> The evaluation process has commenced with data currently being collated for analysis and terms of reference being prepared for the conduct of the evaluation. It is proposed that the evaluation will analyse the performance and effectiveness of the program, including value for money based on analyses of the twenty five largest (by value) National Network projects completed between 1 July 2004 and 1 November 2008. The evaluation will cover 82 per cent (by value) of completed projects with appraisal summaries that are in accordance with the five main objectives in the Evaluation Framework. The

[259] The report also noted that the proposed performance indicators for projects completed within budget and duration were currently measured and reported by the RTA and, with slight variations, by other State road authorities.

evaluation will have regard to the requirements in the *AusLink (National Land Transport) Act 2005* (the Act), the National Transport Guidelines, the Bilateral Agreements, the Memorandums of Understanding, and the Notes on Administration.

## AusLink business processes

**6.15** The second element of the AusLink evaluation framework (see paragraph 6.5) was to involve evaluation of DITRDLG's business processes so as to measure how well the program was being administered. The contract for the Evaluation Framework consultancy stated that:

> Performance measures for the conduct of AusLink business processes might include references to accuracy of financial forecasting of anticipated and actual project expenditure, compliance with funding/contract management accountability requirements and timeliness issues.

**6.16** The *AusLink: Evaluation Framework and Technical Report* provided to DITRDLG in July 2006 noted that the overall business processes consisted of policy development, Bilateral Agreements and evaluation activities. It included a series of specific performance measures for these business processes to be measured through focus groups, checklists, surveys and assessment of performance indicators (such as the number of project variations required and the number of variations that resulted in increases in AusLink funding). Separate performance measures were also proposed for:

- planning business processes (such as the development of corridor strategies); and
- funding/implementation business processes (relating to the project submission and approval processes, administration including through monthly reporting processes[260] and project completion and acquittal arrangements).

**6.17** The report concluded that business evaluation should be conducted annually, but there was no evidence of this occurring. The report further concluded that, in general, business evaluation results were more relevant to DITRDLG than a wider audience and, therefore, reporting should be primarily

260 As identified in Chapter 2, the information captured as part of the monthly reports, particularly in relation to cost sharing arrangements, has been inadequate. The introduction of the AusLink Project Management System (APMS) in November 2007 has enabled the information to be better captured, however, to date the use of the functionality is inconsistent.

within the department with key performance indicator trends provided in the annual report. However, no such reporting was included in the 2006–07 DITRDLG Annual Report. There was also no evidence of DITRDLG providing the results of any relevant business process evaluations to the State transport agencies.

**6.18** In November 2008, DITRDLG advised ANAO that the Business Improvement Section and the Program Support Section had been established in the Infrastructure Investment Division to review and develop business processes to enhance oversight, assessment and reporting within the Division. Initiatives in place or being developed relevant to business process evaluations include:

- a draft project assessment checklist to ensure that all aspects of assessment are considered by staff before submissions to the Minister are prepared;
- draft templates for project assessment reports and briefs to the Minister;
- a template letter to the States advising of project approvals to ensure that at the conclusion of a project a completion report is provided to the Department summarising performance against scope, schedules, budget and quality. DITRDLG expects that the report will also articulate lessons learnt and any opportunities for improvement in current practices including organisational strategies, business processes, project planning and delivery;
- the above templates, and others yet to be developed, are to form part of a Procedures Manual to ensure a consistent approach by project officers in complying with legislative and Divisional requirements; and
- a consultant has been engaged to review the Division's business improvement initiatives in oversight, assessment and reporting and to identify any further requirements necessary.

**6.19** DITRDLG further advised ANAO that these initiatives are being overseen by two internal working groups. A cross-Division Business Improvement Working Group has been established to work with the Business Improvement and Program Support Sections on the review of existing procedures and development of new processes. An Audit Working Group has also been established, which meets regularly to review progress.

## Project evaluation

**6.20** In the United Kingdom, the Office of Government Commerce promotes the measurement of the performance of construction projects against planned improvements in quality, cost and time so as to measure project effectiveness and encourage continuous improvement.[261] Similarly, the *National Guidelines for Transport System Management in Australia* promote the conduct of individual post-completion evaluations of individual land transport projects.

**6.21** Consistent with the National Guidelines, the third element of the AusLink evaluation framework (see paragraph 6.5) was to involve the individual ex-post evaluations of projects. In this respect, the contract for the Evaluation Framework consultancy required that the consultant consider and interpret the *National Guidelines for Transport System Management* into a practical operational framework to enable ex-post individual AusLink project evaluations to be undertaken.

### Specification of project specific performance indicators

**6.22** The Bilateral Agreements outline a process for the use of project-specific performance indicators so as to enable the regular measurement of achievement of the AusLink objectives. For example, clause 3 in the NSW Bilateral Agreement states that measurement of the achievement of the AusLink objectives would be 'made on a regular basis throughout the term of this Agreement using the performance indicators described in clause 20 (Performance Indicators)'. In this respect, each Bilateral Agreement further states that:

> Specific transport performance indicators for each project will be agreed in writing by the parties in conjunction with the project submission and approval process described in the AusLink Notes on Administration. The parties agree that, wherever appropriate and practical, specification of transport performance indicators for each project will have particular regard for the program objectives (Clause 2) of improving the efficiency, safety and reliability of the National Land Transport Network.

**6.23** In terms of these provisions in the Bilateral Agreements, the *AusLink: Evaluation Framework and Technical Report* provided to DITRDLG in July 2006 concluded that:

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[261] See Office of Government Commerce, *Achieving Excellence in Construction Procurement Guide—Improving performance: project evaluation and benchmarking*, 2007.

> In the case of data from state road authorities, the provisions for performance information in the Bilateral Agreements together with the fact that DITRDLG is often the provider of the greatest funding contribution should give the department a degree of leverage to obtain key data for performance measurement.

### *Project submissions*

**6.24** For projects in the audit sample, the project submissions seeking Australian Government funding included varying levels of detail associated with anticipated project benefits. For example, in relation to the Pacific Highway Bonville Deviation project in NSW, the Project Proposal Report (PPR) submitted by the RTA on 30 September 2005 for funding consideration included detailed justification of the project and an economic analysis of the proposed costs and benefits. The PPR stated[262]:

> Overall, the benefits that will accrue through construction of the Bonville Upgrade will include:
>
> - reduced travel time;
> - reduced number of traffic accidents;
> - reduced vehicle operating costs;
> - increased overtaking opportunities; and
> - an overall increase in standard of safety.

**6.25** The PPR also included monetary quantification of the anticipated benefits associated with the completion of the project, both as specific amounts and as a proportion of the total present value of benefits included in the Benefit Cost Ratio (BCR).

**6.26** Similarly, for the Caboolture Motorway (Upgrade of section between the Caboolture/Bribie Island Road and the Caboolture (northern) bypass connection) project in Queensland, detailed information associated with the proposed benefits and costs of the project was included in the PPR[263] developed by QDMR. In addition, the PPR explicitly stated:[264]

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[262] RTA, Pacific Highway Upgrade Bonville Upgrade *Project Proposal Report (Stage 3a)*, September 2005, p. 5.

[263] QDMR refer to Project Proposal Reports (PPRs) as a project Business Case.

[264] An addendum to the Caboolture Motorway PPR was subsequently submitted by QDMR to DITRDLG in relation to staging options for the proposed works. The addendum stated that the benefits referred to paragraph 6.26 still applied to the project.

The performance of the project will be assessed against the ability of the project to deliver quality outcomes within time and budget constraints while managing the scope for the project. Specific performance measurements include:

- A 30% reduction in rear end accidents. (Currently rear end accidents account for 32% of all accidents along this section of the Bruce Highway);
- To consistently achieve LOS [Level of Service] C for this section of the highway for the twelve months after opening;
- Measurable reduction in the length of vehicle queues for traffic entering and exiting the highway at the Bribie Island Road Interchange (incidence of highway queuing to exit highway reduced by 80%);
- Length of 110km/h section of the Bruce Highway increased to include this section of the highway; and
- Cost of project ±20% of the project cost estimate contained in the RIP [Roads Implementation Program]. Average travel speed on Bruce Highway, delay on side is < 1 minute.[265]

**6.27** By way of comparison to these two examples, there were also PPRs seeking Australian Government funding where no project-specific benefits were documented. In addition, where projects were approved in order to address specific safety concerns the project submission often did not include specific measurable safety benefits to be achieved or broader transport performance indicators. This was the case, for example, in relation to the Halcombe Hill Safety works (NSW), Bonville Safety works (NSW) and the Eight Mile Intersection project at the intersection of the Cunningham Highway and the New England Highway (Queensland). In November 2008, DITRDLG advised ANAO that each of these three projects arose from urgent works required as a result of fatalities on those roads; and, for this reason, decisions were made by the then Minister on the basis of the overall merits of the projects.

**6.28** Infrastructure Australia's published infrastructure decision-making framework shares similarities with the *National Guidelines for Transport System Management*, including the use of economic analysis as part of the project

[265] QDMR OnQ Project Management Methodology, Caboolture River North Interchange Road Infrastructure Business Case (R1003) for project number 25/10A/60, 19 June 2006, pp. 19 and 20.

assessment and prioritisation process. Similar to ANAO's analysis of AusLink National Network projects, in its 2008 report to the Council of Australian Governments, Infrastructure Australia noted four key weaknesses[266] in submissions requesting funding for projects (many of which were land transport projects), namely:

- the quality of problem definition was 'poor'—in most cases, analysis of the nature and causes of the problem and the costs of inaction on the economy, society or the environment was absent making it difficult for Infrastructure Australia to assess the scale of the problem or to identify the most pressing problems;
- consideration of different interventions or solutions was 'rare';
- many of the proposed projects were 'isolated' from city, corridor or network planning making it difficult for Infrastructure Australia to assess how individual projects support long-term plans; and
- the economic analysis was 'weak' or absent in places.[267]

**6.29** Infrastructure Australia reported that, to ensure subsequent rounds of the infrastructure priority list are based on a more robust and high quality list of projects, it proposed to:

- publish more detailed guidelines, expanding on its decision-making framework so as to give States and other organisations a clear process to follow;
- publish detailed guidance on the type of evidence required to demonstrate a project's strategic fit; and
- work with the various jurisdictions, the Australian Transport Council and other sector bodies to produce national guidelines for project appraisal.[268]

### *Project approval*

**6.30** The Bilateral Agreement gave examples of performance indicators such as changes in travel times and operating costs, accident statistics, and

[266] Infrastructure Australia also commented (on page 76) that 'it is clear from the variable results achieved in major infrastructure delivery around Australia that lessons from the past are not always taken on board.'

[267] Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 77.

[268] Infrastructure Australia, *A Report to the Council of Australian Governments*, December 2008, p. 77.

frequency of achievement of specified operating targets. Performance indicators relating to these factors would have been relevant under section 11(c) of the AusLink Act (which relates to 'the extent to which the project will improve transport operations on the Network') as a factor that the Minister may consider when deciding whether to approve a National Project. In addition, section 11(d) provides that the Minister may have regard (under section 11(d) to 'the results of any assessment of the economic, environmental or social costs or benefits of the project'. As part of the project approval process, the DITRDLG project brief to the Minister is able to include specific information for subsections 11(c) and 11(d) of the AusLink Act.

**6.31** However, whilst for some projects in the audit sample the project submission included anticipated transport improvements for the project, in no instance did DITRDLG's documented advice to its Minister include the detailed performance information included in the project submissions. The performance indicators were also not reflected in the Project Approval Instrument.

**6.32** In these respects, it was evident that project specific information was administered differently between the branches within DITRDLG. For example, with the exception of the Acacia Ridge rail overpass project, the briefs associated with new Queensland and Tasmanian projects in the audit sample did not include supporting information referring to section 11 of the AusLink Act. By way of comparison, in NSW there were instances of subsection 11(a) and 11(c) being considered as part of the project approval process. However, in no Project Approval Instrument examined was specific consideration given to subsection 11(d) of the AusLink Act.

**6.33** In November 2008, DITRDLG advised ANAO that the Infrastructure Intranet site has been upgraded to reflect changes in the Network Program and to enable the dissemination of program information and guidelines quickly and efficiently to staff involved in program management. Included in these changes is the development and population of an 'Infrastructure Investment Toolbox (Toolbox)' which is to include greater levels of program information and documentation.

**6.34** A draft project assessment checklist has been prepared to ensure that all aspects of assessment are considered by staff before submission to the Minister. The checklist explains that 'its purpose is also to enhance consistency of approach across the Division in the documentation of the assessment processes.' The checklist explains that, in the assessment of National Network projects, project officers must have regard to the following primary documents: the AusLink Act; and Bilateral Agreements/ Memorandums of Understanding between the Australian Government and the individual States and Territories; the National Projects Notes on Administration[269]; and the *Financial Management and Accountability Act 1997* (FMA Act) and Regulations. The checklist sets out in detail the considerations, sources of information and key references to better inform project assessments. Further, if the PPR has not been completed in accordance with the Notes on Administration template, the checklist recommends that the assessor ask for the PPR to be completed in the required manner to enable a consistent assessment.

**6.35** Draft templates have also been prepared for project assessment reports and briefs to the Minister. The proposed template requesting approval is to include both a project approval summary and the department's project assessment report. The template states:

> The assessment also includes details of performance information identified in the PPR, as well as details of the projects compliance with Sections 10 and 11 of the Act and Regulation 9 of the *Financial Management and Accountability Regulations 1997*.

**6.36** In addition, DITRDLG advised that Part 4 of the template asks for a description of the reasons why the project complies with Section 19 and 11 of the AusLink Act.

### *Notification of project approval*

**6.37** Section 3.3 of the AusLink Investment Program: National Projects *Notes on Administration* state that a funding recipient (proponent) is to be advised when a project is approved or varied, or if it is not approved. The Notes on Administration also state that the agreed set of conditions reached between DITRDLG and the project proponent in the context of the project approval or variation will be set out in correspondence and that this correspondence will form part of the project approval conditions.[270]

**6.38** Notwithstanding the information contained in the Bonville Deviation PPR, and the supporting information presented to the Minister as part of the

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[269] The checklist explains that the Notes on Administration incorporate the Australian Transport Council *National Guidelines for Transport Systems in Australia*.

[270] The Notes also explain that any changes to the conditions will normally be formalised through an exchange of correspondence.

approval for $108.5 million in Australian Government funding to the project, specific transport performance indicators for the project were not agreed in writing in conjunction with the project submission and approval process. The subsequent DITRDLG correspondence to the RTA accompanying a copy of the Project Approval Instrument also made no mention of any performance indicators for the project.

**6.39** Similarly, in relation to the Caboolture Motorway project, not only were the specific performance indicators proposed by QDMR in the PPR not included in the advice to the Minister, the letter advising QDMR that project funding had been approved made no mention to them.

**6.40** Broader analysis of projects within the audit sample showed that in no instance where correspondence existed[271] from DITRDLG to the relevant State road authority accompanying the Project Approval Instrument, did this correspondence make mention of project specific performance indicators.

**6.41** In November 2008 DITRDLG provided ANAO with a draft template letter to the States advising of project approvals (also to be included in the Toolbox when finalised). DITRDLG advised ANAO that the template letter had been prepared to ensure that, at the conclusion of a project, a completion report is provided to the Department summarising performance against scope, schedules, budget and quality. The template letter explicitly notes that States will need to have in place arrangements for capturing and reporting on performance information. Further, the letter requires those project objectives in the PPR considered appropriate as performance indicators to inform any future review or evaluation of the extent to which the project has achieved its objectives, to be explicitly listed. In addition, the letter requires a written acceptance from the State of the offer of funding and agreement to the terms and conditions identified in the letter by signing and returning a copy of the letter.

## Post-project completion reviews

**6.42** Section 7 of the AusLink Investment Program: National Projects *Notes on Administration* addresses post completion evaluation reviews. The Notes

[271] Noting that at times State's were only advised of a project's approval via a brief email attaching a copy of the signed Project Approval Instrument. For example, the $30.6 million approval for the Gympie four-laning project, approved by the then Minister on 12 September 2006, was emailed to QDMR on 18 September 2006.

reinforce the concept that, when a project is approved, specific transport performance indicators may be identified for the project and that the specification of transport performance indicators for a project will have particular regard to the project objectives agreed to during the development of the project proposal. In this respect, the final report of the evaluation consultancy proposed that a projects database[272] be maintained throughout the period from project appraisal/business case submission to post opening evaluation. However:

- the records examined by ANAO did not reveal any evidence of a projects database being developed; and
- it was envisaged that new data such as variations to Schedule A in the respective Bilateral Agreements would be used to update the database whereas Chapter 2 of this report outlined that it has been uncommon for the Bilateral Agreements to be varied to reflect project additions, project deletions or changes to projects.

**6.43** In November 2008, DITRDLG advised ANAO that the AusLink Project Management System (APMS), introduced in November 2007, is used as the projects database for the Network Program. However, in relation to the database capturing and enabling monitoring of key performance indicators for each project, this currently has not occurred. In this respect, DITRDLG advised ANAO that a number of reporting enhancements were currently being made to the APMS product suite included project performance, project forecasting and traffic light reports, and that reporting enhancements will continue to be made to the APMS system throughout its current life.

### *Conduct of reviews*

**6.44** It was recognised by DITRDLG that the impact of infrastructure projects may not be wholly measurable for a number of years and that post-project evaluations would require time for appropriate data collection (such as changes in traffic flows and final actual project costs). DITRDLG expected that these circumstances would be a key factor in determining the timing for evaluations of completed projects. In this respect, the Evaluation Framework consultancy concluded that:

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272 The consultants recommended that, as a minimum, ex-ante data included in the database should comprise: strategic merit test data; detailed Benefit Cost Analysis data; project appraisal data; project cost estimates; project and program details; and 'before' traffic data.

- post-opening evaluations should be undertaken within six to 18 months after opening of the project to traffic;[273]
- post-project evaluations should be undertaken between three and five years after project opening; and
- at the project and corridor levels, evaluations would be most effectively completed in partnership with the States and Territories.

### Post-opening evaluations

**6.45** The final report of the AusLink Evaluation Framework consultancy envisaged that post-opening evaluations undertaken six to 18 months after opening of the project to traffic would comprise the majority of project evaluations. The report noted that the United Kingdom Highways Agency has, for a number of years, conducted an annual program of post-project evaluation studies for recently completed projects on the strategic road network.

**6.46** The consultants' recommended sampling framework for post-opening evaluations was dependent on the size of DITRDLG's budget for project evaluations, specifically:

- with a 'high' evaluation budget, it was recommended that all National Network projects with a value of $10 million or more opened that year be evaluated with a sample of projects with a value less than $10 million evaluated each year; or
- with 'low' evaluation budget, it was recommended that at least two National Network projects of each State with a value of $10 million or more be evaluated each year.

**6.47** The six month timeframe for post-opening evaluations was expected to allow the effects of the project on aspects such as travel volume or travel time to be sufficiently settled as well as providing sufficient time for documentation on the project to be ordered and filed appropriately. In addition, in order that information and feedback on the project could be used to improve future projects, it was recommended that post-opening evaluations not be conducted later than 18 months after the project opening.

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[273] The one identified exception to this timeframe related to safety data where, for reasons of statistical accuracy, the consultants concluded it was often necessary to obtain at least three years worth of post-opening data.

**6.48** The *AusLink Annual Report 2005–06* (page 10) included eight examples of projects for which work was completed in 2005–06. The October 2006 report of DITRDLG's AusLink review advised Ministers that 29 National Network projects had been completed to that time comprising 26 continuing projects and three new AusLink projects.

**6.49** As of September 2008, there were 43 National Network projects that had been completed since August 2006 and had been open to traffic for at least six months. However, DITRDLG records examined by ANAO did not identify that any of the 43 projects (across six States) had been subject to a post-opening evaluation. The results were also not published on the AusLink website and the DITRDLG Annual Report for 2006–07 did not include any key statistics and findings from any post-project evaluations that may have been undertaken.[274]

**6.50** In December 2008, the NSW RTA provided ANAO with evidence of Project Completion Reviews for 37 of its projects (12 of which were projects federally funded in full or part). DITRDLG did not obtain these evaluations (which focus on the two main aspects of delivery and strategy and are conducted shortly after project opening). The RTA further advised ANAO that:

- key factors considered in selecting projects for its annual program of Post Completion Reviews include the review resources available (that is, funds and people), the significance of each project (for example, high cost, technical complexity with key learnings) and whether a project has been subject to an earlier stage review; and
- the program of Post Completion Reviews for 2008–09 includes eight projects that have Australian Government funding in full or part.

### Post-project evaluations

**6.51** Whilst post-opening evaluations were to provide a 'basic indication' of project performance focussing on economic efficiency and operational effectiveness, the Evaluation Framework consultancy did not expect that these evaluations would provide detailed coverage of the full range of appraisal elements that were used to justify project selection. For this reason, the final report of the AusLink Evaluation Framework consultancy proposed that, for

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[274] The final evaluation report proposed that the results of post-project evaluations and syntheses of post-project evaluation results should be made available on the AusLink website and that key statistics and findings form post-project evaluations undertaken during the year should be published in the DITRDLG Annual Report.

certain major projects or appraisal themes, it would be of value for DITRDLG to extend the post-opening evaluation to account for the wider impacts and/or greater complexity of impacts for larger or controversial projects. It was envisaged that the issues to be covered might include:

- complex demand responses such as mode choice and trip redistribution;
- land use/transport interaction;
- wider economic impacts;
- network reliability impacts; and/or
- environmental impacts.

**6.52** DITRDLG records examined by ANAO did not identify that any AusLink National Network projects had been subject to a post-project evaluation. In this respect, in November 2008, DITRDLG advised that the Bureau of Infrastructure, Transport and Regional Economics (BITRE) has been undertaking an ongoing program of ex-post reviews of the economic and social impacts of specific projects under AusLink 1.[275] ANAO comparison of the project locations advised by DITRDLG and those project locations included in the AusLink White Paper and the Bilateral Agreements identified that none of the five projects were to be approved under AusLink or were considered continuing at the time of introducing AusLink. For example, construction was undertaken on the two of the completed evaluation projects in the period 1997 to 1999, some eight to 10 years prior to the published evaluation reports.

### *Synthesis, aggregation and reporting of evaluation results*

**6.53** The final report of the AusLink Evaluation Framework consultancy noted that, in addition to the results of individual project evaluations, further insights can often be gained by grouping project results and identifying common trends or errors.[276] Accordingly, the report emphasised the importance of presenting all significant post-project evaluation results in a

[275] DITRDLG advised that recent reports had been published on two projects (Wallaville Bridge, Queensland—published in April 2007, and Northam Bypass, Western Australia—published in May 2007) and that the BITRE is currently undertaking ex-post evaluations of three projects (Adelaide-Crafers Highway, South Australia, Yass Bypass, NSW, and ACT/Sutton Federal Highway, NSW).

[276] For example, DITRDLG's consultants noted that 'simple analysis techniques such as scatter plots and regression can be used to quantify the degree of consistency between predicted and outturn results. This type of analysis can also isolate outliers, that is, projects that deviate significantly from the overall trend.'

single summary table in a form that is able to be directly compared with the original project appraisal data. The report also stated that:

> The synthesis of post-project evaluation results combines all the information provided by post-project evaluations that relate to one particular theme. This way of synthesising information can also be referred to as horizontal collation of post-project evaluation results. The evaluator analyses one particular aspect of the post-project evaluations. Typically, a representative sample of projects would be used in order to be able to generalise conclusions.

**6.54** At the time of audit fieldwork, post-project evaluations had not yet been undertaken. As a result, to date DITRDLG has been unable to synthesise any results from project evaluations so as to draw conclusions on the overall effectiveness, efficiency and utility of the program. Further, while DITRDLG considers that the Portfolio Budget Statements (PBSs) provide reports on performance outcomes for National Network projects against scope, timeline and on meeting forecasted budgets, such reporting has been at the aggregate program level and was not based on post-project evaluations.

**6.55** DITRDLG has advised ANAO of steps it has underway to implement the first two elements of the AusLink Evaluation Framework, as well as improved governance processes for the specification of performance indicators, and to obtain information from States following project completion on scope, schedules, budget and quality. Further, in February 2009, DITRDLG advised that a program of post-project reviews of 30 projects that had been completed by December 2007 (15 projects with a cost greater than $20 million, and 15 smaller projects) was underway. These post-project evaluations are part of a broader review of AusLink 1. A consultant has been engaged to undertake the evaluation which is to involve consultation with the States and is expected to be completed by mid 2009.

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Ian McPhee | Canberra ACT

Auditor-General | 23 April 2009

# Appendices

# Appendix 1: Agency Formal Comments on the Proposed Report

## DITRDLG

The Department of Infrastructure, Transport, Regional Development and Local Government agrees with each of the Report's four Recommendations.

The Department notes the ANAO's recognition in the Report of the wide-ranging administrative improvements it has put in place over the past eighteen months to enhance oversight of the implementation of National Network projects. The Department is committed to continuous improvement of its administration of the Government's land transport infrastructure investment program.

The Department will work to ensure that delivery of the Government's land transport infrastructure investment programs continues to meet policy and legislative requirements as well as its accountability responsibilities. This will be achieve through continued review and improvement of the regulatory, contractual and operational oversight processes, while at the same time ensuring that projects are managed and resources allocated in accordance with the appropriate strategies to mitigate risk to the Commonwealth.

## Finance

Finance supports the general tenor of the report. Finance also supports the report's four recommendations. Nevertheless, the report could have better addressed the issue of election costings, particularly in regard to developments, such as clarification of the scope of work, which often occur subsequent to an election.

Finance considers that the report does not make sufficiently clear that costed election commitments are usually further considered after an election, for example, in the light of refined policy options or new proposals. This subsequent consideration may result in a revised scope of the proposals originating from election commitments and this may result in higher levels of expenditure. If such factors are not considered, incorrect inferences may be made about the precision of the costings provided under the Charter of Budget Honesty.

The points made in respect of the need to consider the provision of further advice in *The Charter of Budget Honesty, Costing of Election Commitments, Guidelines* to facilitate the costing process are valid and will be considered in the review of the Charter of Budget Honesty.

*ANAO comment*

It is the case that election commitments are usually considered after an election, as indicated by Finance, and reflected in the audit report.[277] The audit report also draws attention to Finance's role in independently costing election commitments prior to polling day, as the Charter of Budget Honesty intends that these costings are to assist the electorate be better informed about the financial implications of election commitments. For Finance's costings, the issue raised by the audit report does not relate to any clarifications or scope changes that may occur after the election, but to opportunities for Finance to improve its pre-election costing analysis. In this respect, the report recognises that additional information was sought by Finance so as to better inform its costing of 2007 election commitments (compared to the approach taken for the 2004 costings).

## Infrastructure Australia

> There is of course an important read-across between projects being funded by AusLink and projects proposed to Infrastructure Australia.
>
> This read across is two-fold. First, from a transport planning perspective, to understand the case for certain projects we need to understand the associated AusLink investments and the impact on demand. Second, in a number of cases, States and Territories have requested support from Infrastructure Australia (and therefore the Building Australia Fund) for projects for which AusLink funding has either been committed or requested.
>
> However, as Infrastructure Co-ordinator, I do not have a role in the selection or delivery of AusLink projects.
>
> I would, though, make a number of points in light of the report and in response to your comments on Infrastructure Australia's own processes.
>
> Infrastructure Australia was set up to deliver a national focus to infrastructure decision making and investment allocations, and in particular to identify those investments which will make the biggest impact upon Australia's economic, social and environmental goals for least cost to the taxpayer. To do so, we need to identify the best solutions to Australia's most pressing infrastructure problems.

277 For example, Chapter 5 of the audit report, paragraphs 5.55 to 5.74, outlines the processes adopted by DITRDLG to progress Ministerial consideration of projects announced as election commitments during 2007.

We have approached our task determined to take an approach which is rigorous, objective, evidence based, and transparent. There are a number of elements to this:

1. Infrastructure Australia adopted an overall Framework to guide its assessments. Importantly, the framework identifies that good investment strategy is not simply a question of choosing well from a list—rather that careful problem definition and open-minded option development (without, for example, modal prejudices) is crucial to creating a high quality list of potential investments that best address the nation's most pressing problems. The framework was published mid-2008 and is available on Infrastructure Australia's website.

2. Infrastructure Australia has developed a thorough, three-stage assessment process to prioritise between investment proposals, based on the Building Australia Fund legislation. We have called this our "Prioritisation Methodology" and this is also available on the website. For each proposal, an assessment is made of:

- The project's "strategic fit"—how well the project meets seven strategic priorities facing Australia (the seven strategic priorities are published on the website);
- The project's economic costs and benefits—measured principally through a project's benefit: cost ratio or BCR, which summarises the economic benefits to Australia per dollar of investment (monetising environmental and social impacts where possible); and
- The project's readiness for delivery the extent to which governance, procurement and risk assessment processes have been considered to ensure successful project delivery.

3. For each stage, a detailed set of rules has been developed to ensure objective and comparable assessments are made. Where appropriate, for instance to validate the economic studies provided by project proponents, expert external and independent advisors have been used to carry out the assessment.

4. As you know, we have sought to be transparent and objective. Our methodology was published head of time; and last year as you know I invited the Auditor-General to scrutinise our methodology and its application—a scrutiny process that is ongoing.

Your letter notes that Infrastructure Australia's 2008 report to COAG identifies four weaknesses in submissions, and discusses various reasons for those weaknesses.

I do not believe that the reason that many of the analytical steps were missing from submissions can be explained by the nature or basis of the submissions process or the timetable.

First, it is entirely appropriate that different project proposals are at different stages of development. In some cases, projects will be "ready to go". In other cases, projects will be at the conceptual stage. Many more will be somewhere along the spectrum between these two points. Therefore variation in the depth and thoroughness of submissions is to be expected.

Second, the comments in the 2008 report relate to the quality of some submissions that proponents believed were ready for decision. I do not believe that the basis on which submissions were called nor the timeframe is an explanation. Whilst the original call for submissions was outside the control of Infrastructure Australia (as the call predated its inception), Infrastructure Australia moved quickly to publicise its framework and its methodology, giving proponents many months to meet our needs.

We engaged regularly with proponents, who had many opportunities to submit more information to Infrastructure Australia over a period of nearly 9 months.

Third—and perhaps more significantly—our process is not radically innovative in substance. The fundamental elements have long been central to good infrastructure policymaking. In short, all proponents should already have been going through the various analytical steps in the course of normal decision making.

Your letter also suggests that variable State or Territory planning processes, and issues of capacity, may be responsible for the weaknesses in submissions. I believe both to be true in some cases. One of the very positive roles Infrastructure Australia can play is to help States and Territories to improve their planning processes and to assist with capacity issues. Again, though, neither explanation suffices: good planning and sufficient capacity is crucial to good infrastructure policy, regardless of Infrastructure Australia's requirements.

Infrastructure Australia was set up to improve the quality of infrastructure planning and investment strategy in Australia. Perhaps we should not therefore be surprised that some of the submissions we received contained weaknesses. A number of explanations can be provided for those weaknesses. Ultimately, I believe it comes down to a simple choice. We can continue to take decisions on large infrastructure projects based on poor planning and insufficient evidence—or we can take those decisions following careful planning and rigorous assessments.

All the members of the Infrastructure Australia Council are committed to the latter approach. We will continue to implement that approach in our own processes; and we will continue to help the Commonwealth, States, Territories and other bodies to implement the approach in their own processes.

# Appendix 2: State Road Transport Authorities Formal Comments on the Proposed Report

*Through the Issues Paper phase of the audit, State road transport authorities included in the audit sample were given an opportunity to provide any comments or information in relation to the analysis and findings in relation to projects they were responsible for delivering and for the discharge of their role in relation to delivering National Network projects.*

*The ANAO has also had regard to the comments from the State road transport authorities in response to extracts provided on the proposed report. Where applicable, comments have been included in the body of the report or revisions have been made. State road transport authorities' overall comments on the report are reproduced below.*

## New South Wales Road and Traffic Authority

> The RTA welcomes the recommendations contained in the proposed report as a framework for strengthening DITRDLG's program and project collaboration with NSW and other jurisdictions. I would however like to register a number of concerns regarding the formulation of recommendation 3(b), in particular various inferences in Chapter 4, which would appear to be the foundation of this recommendation, that the scope of the Accelerated Southern Hume Highway Package was adjusted to fit within the approved $800 million funding limit subsequent to the execution of the project approval instrument.
>
> The inferences made in relation to the Accelerated Southern Hume Highway package in Chapter 4 (and a specific reference to "reductions in the proposed scope of work") fail to recognise and acknowledge that the development of the initial strategic cost estimate for the purposes of early discussions with (then) DoTaRS in 2005 was based on a scope of works that envisaged a combination of (1) two new carriageways and (2) one new carriageway with retention (upgraded as necessary) of the existing carriageway to ultimately provide dual carriageway conditions over the remaining single carriageway lengths between the Sturt Highway and Albury excluding the town bypasses of Tarcutta, Holbrook and Woomargama. The RTA's strategic cost estimate, based on this scope, was the basis for the Federal Government allocation of $800 million for the project.
>
> In subsequent bilateral discussions leading to agreement of the MoU it was clearly understood by both RTA and (then) DoTaRS that the fundamental objective of the project and the reason for the funding was to duplicate the Hume Highway by the most efficient and cost effective means. In this regard if this could have been achieved by simply constructing one new carriageway then this would have satisfied the MoU. However, both organisations also

clearly recognised that due to a combination of constructability and existing deficiency constraints it would be necessary to provide two new carriageways over some lengths. The extent to which this would be required was to be determined in detailed development of the project and more particularly during the Target Outturn Cost (TOC) development phase of the Alliance works.

At the time funding was approved by the Federal Minister, the proposed scope of the project comprised a combination of new carriageways and safety upgrades to the existing carriageway.

## Queensland Department of Main Roads

The audit report combines the six issues papers that have been progressively circulated by the ANAO between July and December 2008. It is pleasing to note that the comments submitted by Main Roads to each of these Issues Papers have been incorporated or considered in some way. While the Department of Main Roads has no significant issues with the revised papers, I have provided the following general comments:

- **Monitoring and managing shared funding arrangements.** The general theme is the risk to the Australian Government of overpayment towards a project, should the Australian Government's payments be made ahead of the state contributions. The alternative of the Australian Government not contributing until state funds have been made available, or expecting states to totally fund projects and then reimbursing 50% to the state, is not supported. This is not in the spirit of a shared funding contribution and may delay projects, where a state funding commitment falls into the outer years. I consider that a more cooperative and flexible approach needs to be adopted. Upon project completion and in the event that the Australian Government has contributed more than its agreed share, this can be balanced across the entire program.

- **Approval and delivery phases.** Comment was made that the project records tended to refer to the former Australian Land Transport Development terminology of stages 2, 3(a) and (b), rather than the new terms. The current phases (as shown in Figure 3.3) do not have a title and, indeed refer to the former titles. Main Roads considers that the former titles should remain until new titles are clarified. This is also reinforced by the ANAO continuing to use the term "stages" throughout the report.

- **Chapter 5—**Main Roads particularly supports the underlying theme of the challenges of maintaining the National Network and delivering projects (announced as election commitments) that will fall short of the actual outturn dollar need.

## Tasmanian Department of Infrastructure, Energy and Resources

Firstly, we support the recommendations that have been made in respect of the activities of the Department of Infrastructure, Transport, Regional Development and Local Government as they will more than likely strengthen project governance, planning, risk management and cost control.

I would, however, like to reaffirm our earlier comments in relation to direct costs of supervision within the program of works. In negotiating the terms of the Bilateral Agreement with the Australian Government, the State was able to clearly demonstrate a fair and equitable process for the handling of agency costs directly related to the program of works. There are two points worth making:

- Tasmania has experienced excellent performance in the past in delivering key projects on the AusLink network within or under budget. This has largely been achieved through strict internal controls on the management of risk and validation of key estimates. The savings that have been achieved through the delivery of the $42 million Penguin/Ulverstone Stage 2 project have allowed the early state of a number of key projects. These savings were realised through better than anticipated contractor pricing received at the time fo tender; and
- The quoted $4 million corporate overhead costs was only partially levied against the project, which contributed to further savings, DIER's administrative process take into consideration the respective quantum of the Australian and State Government Road Programs in any particular financial year and attributes costs based on actual proportions. This has the potential to change the amounts set at the time of preparing PPRs, which at that stage are based only on indicative forward programs.

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