Managing Major Projects

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Managing Major Projects

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VAGO
Victorian Auditor-General's Office
Auditing in the Public Interest

The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the audit *Managing Major Projects*.

Yours faithfully

D D R PEARSON
Auditor-General

10 October 2012

Contents

Audit summary

Investing in and delivering infrastructure is a core function of government. Investments are made to achieve economic, social and environmental outcomes, including increased productivity, access to services and improved service delivery, and improvements to the natural environment.

Victoria’s level of infrastructure investment is significant. The Victorian Government estimates the total value of current projects at around $35.6 billion, with projected expenditure of around $7.6 billion in 2013–14 alone.

Major Projects Victoria’s (MPV) role is to provide ‘expert project delivery services to Victorian Government departments and other agencies engaged in the delivery of complex, technically challenging and unique projects of state significance’. Typically, it delivers projects on behalf of public sector entities that do not have the required in-house project management capability or expertise. MPV is a business unit within the Department of Business and Innovation (DBI).

Conclusions

MPV is not able to demonstrate that it operates, and manages infrastructure projects effectively, efficiently or economically.

MPV operates under the *Project Development and Construction Management Act 1994,* which provides it with considerable scope to perform its functions. The powers that the legislation provides MPV require an effective system of checks and balances to make it accountable to the government, Parliament and the community. Adequate checks and balances do not exist, particularly in the way that MPV manages its internal contracts.

Poor oversight by DBI and the lack of effective internal controls have contributed to poor governance standards and a lack of organisational integrity and accountability—contrary to the behaviours expected in the *Public Administration Act 2004*. DBI responses to Parliamentary committees have provided impressions of MPV’s performance that cast doubt on the veracity of information it has provided. There are continuing weaknesses in managing probity, and it is likely that MPV is not achieving the best use of public resources. By not collecting and reporting reliable data related to its performance, MPV has also failed to meet public sector accountability standards.

MPV’s governance and operational shortcomings are pervasive and should be addressed as a priority.

MPV has reported to Parliament that it has achieved 100 per cent performance over a 14-year period. This raises questions about whether Parliament and the community have been reliably informed, and highlights fundamental shortcomings of MPV’s and DBI’s governance.

MPV is not complying with relevant legislation. In addition to shortcomings in the way that DBI administers elements of the *Public Administration Act 2004*, its record management practices do not meet with the requirements of the *Public Records Act 1973*. Delegations DBI has made under the *Project Development and Construction Management Act 1994* have elements that may conflict with the Standing Directions made under the *Financial Management Act 1994*.

There are also major deficiencies with the way MPV manages internal contracts, with missing contracts, and variations without adequate reason or assessment of performance. This maladministration around contracts not only diminishes transparency and accountability, but increases the risk of error and fraud.

MPV adopts employment practices that do not represent value-for-money and lack transparency and integrity. These practices have included employees resigning and being re-engaged soon after to perform the same work at a much higher cost to the public.

While MPV has established a generally sound project management framework, there remain gaps that have not been addressed for four years. Ineffective oversight and quality assurance processes mean that the framework and better practice are not routinely applied, resulting in poor project planning that could ultimately lead to poor project outcomes and increased costs.

MPV sees itself as a leader in project management across the Victorian public sector. However, it does not have any process to systematically and routinely learn from projects and, therefore, continually improve. Its inability to routinely learn from the projects it undertakes and change practices consequently limits its ability to lead other public sector infrastructure deliverers and set standards for project delivery and management.

Its poor oversight mechanisms mean that it cannot demonstrate a sound understanding of how it is performing across all of its projects. While MPV has performance indicators in place, it does not use them, and it does not have sufficient information to determine how well it is performing.

Findings

Role and governance

Role and function

MPV is generally undertaking its legislated functions, which include facilitating and managing public construction for departments and public bodies, providing consultancies, information and advice to departments and public bodies, and providing advice and information to the Minister for Major Projects. However, it is not performing its roles in the manner the government intended. Rather than routinely delivering ‘major projects’, MPV manages the delivery of a relatively small number of high-value capital projects and a larger number of smaller planning-related projects.

While MPV sees itself as a leader in project management and delivery, it is not performing a leadership role, nor is it performing a research role. MPV’s role extends to other areas that have little apparent ongoing connection to its core role or functions, such as owning and maintaining physical assets, managing leases for three restaurants and sitting as a board member for the company managing the Regent Theatre lease.

Reviews of MPV’s role and functions, such as the October 2007 Cabinet review of major projects in Victoria have resulted in no change, and the issues identified then remain unresolved.

Project human resources

Since its establishment in 1987, MPV has relied on a mix of employees and contractors to perform its functions. However, there are fundamental weaknesses with its contract management, and it is uncertain whether MPV’s staff are, in fact, contractors or employees in both the legal and practical sense. The status of MPV’s staff has significant financial and legal implications for DBI.

There is no documentation within MPV that demonstrates an assessment of the need for any of its contractors, or the existing capability and capacity within the public sector. MPV was able to provide only limited information around its recruitment of contractors. However, in most situations it is evident that MPV considered only the use of contractors. There is strong evidence to contradict DBI’s statements to Parliament about the availability of public sector employees, which implied that it had assessed there were none available. This raises broader questions about the veracity of the information provided by DBI to Parliament.

Of the current staff that MPV considers to be independent contractors, this audit identified four who were working for MPV as public sector employees before they were appointed as contractors. This process of resigning from MPV and being re-engaged within a very short period to perform the same work at a much higher pay rate lacks integrity and transparency, and does not demonstrate value-for-money. Depending on the information the employees had, this process may have provided them with an unfair advantage during tender processes, and at a minimum is a declarable potential or perceived conflict of interest. None of the four contractors or selection panels declared a conflict of interest.

The way that MPV manages its staff raises significant uncertainty about their employment status. While determining the employment status of a contractor requires a case-by-case assessment, based on the evidence of this audit, MPV’s contractors satisfy a number of the criteria that would suggest they are in fact employees at law.

If this is correct, then DBI may be financially liable to past and present contractors for unpaid leave entitlements and for other costs associated with hiring an employee, such as fringe benefits tax, Workcover, training and pay-roll tax. Given the value and length of some contracts, this liability could be significant.

Contract management

Effectively managing contracts is a fundamental good governance issue. It provides appropriate checks and balances so there is assurance that the contractor is providing the required services at the required standard, and that there is efficient and economical use of public funds.

MPV's management of its internal contracts is significantly deficient. There are multiple weaknesses with most contracts that have occurred through MPV's maladministration, which as a consequence is likely to have increased the risk of error and fraud.

Complying with legislation

While MPV does not have its own legislation, in performing its functions it is required to adhere to a range of other legislation. These include the *Project Development and Construction Management Act 1994*, the *Financial Management Act 1994* and the *Public Records Act 1973*.

MPV is complying with the key provisions of the *Project Development and Construction Management Act 1994*, particularly in terms of nominating projects and establishing delegations in a manner consistent with the legislation. However, it is uncertain whether MPV is complying with the Standing Directions relating to authorisation of payments made under the *Financial Management Act 1994*. Within MPV, all the director positions are held by contractors and four of MPV's seven project director roles are held by contractors. They have all been delegated the power to authorise payments. This conflicts with the Standing Directions, which prohibit contractors from authorising payments. DBI has not sought specific advice to be certain of its position.

MPV also may not be complying with the *Public Records Act 1973*, given the deficiencies identified with the way it manages public records.

Project management and performance

Project management

Effective project management requires appropriate knowledge, skills, tools and techniques to successfully deliver a project. To enable consistency across projects—a goal of MPV—at a minimum the tools and techniques should be documented, and used in accordance with established processes.

MPV has a generally sound project management framework in place, which adopts most of the principles of better practice project management. However, MPV is not consistently applying the framework, or better practice principles, across its projects.

Project oversight

MPV does not have effective project oversight mechanisms in place that enable it to quality assure project management practices and learn from projects, and it does not have a sound understanding of the status of its projects at an organisational level.

Despite the project management framework being in place for four years, there is no system or process to update it. MPV does not have systems and processes to routinely capture and assess information from industry and compare it against the project management framework, or assess the currency of the information in it. MPV has not updated the project management framework more generally and it still contains incomplete information, including elements of three sections and four appendices that have not been started.

MPV recognises the importance of continuous improvement in its annual business plans, identifying ‘capturing the learnings from successes and failures’ as one of its key leadership behaviours. Despite this, it does not have adequate systems or processes in place to routinely learn from all projects and continuously improve.

MPV has a range of reporting mechanisms in place to provide DBI’s and its own management with information about the status of its projects. These mechanisms focus primarily on individual projects or broader organisational issues. There is no management information that collates information on all projects and other MPV activities to give management a sense of MPV’s overall performance. Information obtained through meetings about overall project performance is not documented and resides with individuals. This is a gap in MPV’s and DBI’s governance.

Project performance

MPV publicly reports that in delivering projects, it achieves 100 per cent performance. However, it is not clear what elements of projects MPV assesses to determine this level of performance. Given the gaps in its management information, we obtained data from MPV to enable us to assess the actual performance of its projects.

It is recognised that MPV is not responsible for all changes to a project that may impact on costs and time. Factors outside of MPV’s control, such as client entities changing the project’s scope, latent conditions and weather can affect project cost and timeliness. However, this should not prevent MPV from maintaining management information on the actual performance of projects and accounting for these factors in any reporting.

The data that MPV relies on to underpin its monitoring and reporting is unreliable, highlighting major deficiencies in its data management, record keeping and governance.

MPV's data shows that for the main construction contracts—typically the largest part of a capital infrastructure project—most underperform against time and cost measures. The data shows that, on average, contracts exceed the expected cost by around 18 per cent and exceed the planned end date by around 37 per cent. This situation is not reflected in MPV's reporting on its performance in Budget Paper 3 where it reports performance of 100 per cent against targets for its projects.

Reporting performance

Monitoring and reporting performance

MPV has developed performance indicators as part of its external and internal accountability requirements. Both seek to assess performance against departmental objectives, however, there are significant inadequacies. Both indicators differ and neither is related to MPV's objectives. They are neither relevant nor appropriate, and are therefore incapable of fairly representing actual performance. Regardless, MPV does not properly assess its performance against its indicators.

MPV cannot reasonably explain the key elements of its reported quality indicator and what it is intending to measure. Significantly, MPV's 'process' to collate and analyse performance data to inform Budget Paper 3 is deficient and unauditable.

While MPV has reported to Parliament each year that it achieves 100 per cent performance in the delivery of its projects, it could not adequately demonstrate that it actually collects and collates data, and nor could we identify sufficient and appropriate evidence that this occurs.

This raises serious doubts about the veracity of the data reported in Budget Paper 3. It also raises doubts about the veracity of information that DBI has provided to Parliament, particularly through the Public Accounts and Estimates Committee's outcomes and estimates inquiries.

Departmental heads are responsible for the general conduct, and the effective, efficient and economical management of their department. Understanding whether the department or its business units are operating to these standards requires a sound performance monitoring framework.

MPV and DBI have an internal quality measure to assess MPV's performance, included in business and corporate plans: 'achieve delivery of 80 per cent of infrastructure projects within +/– 10 per cent of agreed time, cost and scope'. Despite this indicator having been in place for nearly 10 years, MPV does not monitor its performance against it, and therefore does not know how it is performing at an organisational level. Neither MPV nor DBI collate, analyse or report data for its internal indicators at the business unit or corporate level.

Like its external measures, MPV has no processes in place to assess its performance. This is a further fundamental failing of MPV's and DBI's governance.

There are a range of deficiencies with the MPV and DBI internal quality indicator that make it inappropriate to assess MPV's performance. MPV could not explain the indicator's key elements and what it was intending to measure. This means that MPV cannot track the indicator over time—a key element of an appropriate indicator. It is similarly unclear what 'time', 'cost', and 'agreed' mean, and why these particular performance standards were selected.

A further issue with the indicator is that it has a performance standard of 80 per cent and, of that 80 per cent, within +/– 10 per cent. This indicator is very similar to the quality indicator in Budget Paper 3, which has a performance standard of 100 per cent. MPV's internal indicator appears to accept a lower level of performance compared with the external measure. MPV was unable to explain the reasons for this.

Reviewing Major Projects Victoria's performance indicators

MPV has been aware of weaknesses with its performance monitoring framework since 2009, yet little has occurred to address these weaknesses. In its 2009–10 business plan, MPV developed a business improvement project aimed at improving the consistency and delivery of MPV's services. Specifically, the project intended to:

- develop processes and methods to review all current MPV projects—by December 2009
- determine key performance indicators for MPV projects—by February 2010
- review functionality of processes, methods and key performance indicators—by April 2010.

This project was not progressed and MPV has taken no action to review its performance indicators. Given the weaknesses identified, not just with MPV's indicators but also the absence of processes to assess its performance, this is a significant failing.

In March 2011, DBI reviewed its performance indicators. The context for the review was the planned introduction of the *Public Finance and Accountability Bill* in 2010. The review focused on DBI as a whole, although it addressed to a limited extent MPV's performance indicators.

The review considered that the only indicator MPV could be held accountable for was time and cost. It suggested the indicator 'MPV projects delivered within (%) of agreed time, cost and scope', on the basis that it was attributable and specific; accountable and meaningful; measurable and robust; and available and manageable. This is the same as the existing indicator.

However, the review's assessment of MPV's performance indicators is deficient because it recommends maintaining the current indicator without understanding how or if MPV and DBI use it, among other weaknesses. It is unclear what action MPV has taken in response to the review's findings related to MPV. Despite regarding itself as a leader in major projects across Victoria, MPV has limited knowledge of how other entities assess their performance. MPV recently reviewed the Victorian Budget Papers to determine how other departments report on their capital projects. This was undertaken in response to this audit. MPV has no knowledge of how other similar Australian or international entities assess their performance.

Recommendations

Number	Recommendation	Page
	Major Projects Victoria should:	
1.	obtain legal advice as to the employment status of its contractors and the provision of financial authorisations to them	23
2.	review the skills and capabilities required to carry out its functions and, if necessary, obtain advice from the Department of Premier and Cabinet about the ability for it to create additional public sector executive officer positions within Major Projects Victoria	23
3.	review its contract management practices and implement practices that are consistent, at a minimum, with the processes and policies that the Victorian Government Purchasing Board has established	23
4.	establish and implement a performance management framework for internal contractors so that payments and variations are linked to acceptable performance	23
5.	undertake an independent fraud risk assessment, particularly around contract management and payment systems, given the weaknesses in controls	23
6.	review its recruitment practices involving ex-employees so that, as a minimum, perceived and potential conflicts of interest are managed, and value-for-money obtained	23
7.	establish a conflict of interest register and processes, in line with the Department of Business and Innovation's conflict of interest policy, to enable it to identify and manage perceived, potential and actual conflicts of interest	24
8.	review its records management processes and practices against the requirements of the *Public Records Act 1973* and associated standards and policies, and implement changes as appropriate	24
9.	review the completeness of its key records, including contracts and project documentation	24
10.	review its business planning to provide better clarity around its role, the actions it will implement to fulfil its role and the processes it will use to assess achievement of its role	24

Recommendations – *continued*

Number	Recommendation	Page
11.	The Department of Treasury and Finance should clarify the purpose of Standing Direction 2.4(i) and whether it applies in all situations, and take appropriate action to give the requirement the necessary legislative force	24
	Major Projects should:	
12.	develop a process to routinely capture and assess industry and other information, and update its Project Management Framework as appropriate	42
13.	develop robust oversight processes so that the Project Management Framework is appropriately applied and key stages approved and reviewed, and there is compliance with required project standards, policies and procedures	42
14	establish a project review mechanism so that lessons from each project are identified, assessed, incorporated into practices as appropriate, and communicated	42
15.	define and document governance arrangements for projects without external clients or end users so that there is an appropriate level of accountability, direction and oversight of project implementation	42
16.	develop management information that provides a reliable, documented overview of project performance across all projects	42
17.	define what an original approved budget is and consistently apply it to all projects	42
18.	strengthen financial management system controls so that original budgets cannot be altered, and so there is a clear audit trail of changes	42
19.	review and address data quality and reliability issues, including assessing how it defines key data, and how it collects, collates and manages the data.	42
20	The Department of Business and Innovation should undertake a thorough and robust review of its external and internal indicators related to Major Projects Victoria with the aim of: • developing new Budget Paper 3 measures that better represent actual performance • developing new internal indicators that provide Major Projects Victoria and the Department of Business and Innovation with a robust and reliable assessment of Major Projects Victoria's performance • developing, documenting and using robust systems and processes to assess performance using Major Projects Victoria's external and internal indicators • re-allocating responsibility for assessing performance, given failings with the current functions and responsibilities • establishing quality assurance mechanisms to oversee the performance assessment process to provide assurance about the process.	52

Recommendations – *continued*

Number	Recommendation	Page
21	The Department of Business and Innovation should, in light of the weaknesses identified with its internal and external performance indicators, review the major projects indicator in its Corporate Plan 2009–12.	52
22.	The Department of Business and Innovation should establish quality assurance mechanisms over Major Projects Victoria to provide it with appropriate assurance around Major Projects Victoria's processes to assess performance.	52

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report or relevant extracts from the report was provided to the Department of Business and Innovation and the Department of Treasury and Finance with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments however, are included in Appendix E.

1 Background

1.1 Major projects

Investing in and delivering infrastructure is a core function of government. Investments are made to achieve economic, social and environmental outcomes, including increased productivity, access to services and improved service delivery, and improvements to the natural environment.

Victoria's infrastructure investment is significant. The Victorian Government estimates that the total value of current projects is around $35.6 billion, with expenditure of around $7.6 billion in 2013–14 alone.

The Victorian Government's 2006 Major Projects Governance Protocol provides guidance to support decisions about who is best placed to deliver major projects. The protocol indicates that major projects are generally those projects that meet at least one of the following criteria:

- have a total estimated expenditure of over $100 million
- are a public private partnership (PPP)
- are rated as medium-high to high risk, based on project complexity.

1.1.1 Managing major projects

A range of public sector entities routinely deliver major projects in Victoria. These entities, and their typical projects, include:

- **VicRoads**—road building and upgrades
- **Department of Transport**—rail infrastructure and rolling stock, and port infrastructure
- **Department of Health**—new and upgraded hospitals
- **Department of Justice**—prisons, courts and police stations
- **Department of Human Services**—public housing
- **Department of Sustainability and Environment**—water infrastructure
- **Department of Education**—schools.

These departments and agencies tend to have in-house expertise to deliver their projects, given the routine nature of project delivery and their 'pipeline' of future projects. However, there are a range of departments and entities responsible for infrastructure projects that do not have the required in-house expertise to deliver them. These tend to be 'one-off' projects, such as sports or arts facilities.

Consequently, it is necessary for these entities to either contract in the required capability and resources, or contract out the responsibility for project delivery. In many cases, they outsource the delivery of these projects to Major Projects Victoria (MPV).

1.2 Major Projects Victoria

MPV was first established in 1987 as the Major Projects Unit within the Urban Lands Authority. Its purpose was to manage projects that involved the development and sale of government land from the then Minister for Housing. This reflected the government's aim to promote the efficient use of Crown land. The Major Projects Unit was also responsible for major state projects that the government assigned to it.

Since its establishment, MPV has functioned within six other departments. These are:

- **1992**—Department of Planning and Development, as Office of Major Projects
- **1996**—Department of Infrastructure
- **1999**—Department of State and Regional Development, as Major Projects Division from 2001
- **2002**—Department of Infrastructure, as Major Projects Victoria
- **2008**—Department of Innovation, Industry and Regional Development
- **2010**—Department of Business and Innovation.

MPV's role has changed over time. Between 2002–03 and 2006–07, its stated role was project implementation and delivery of complex property development and construction projects that the Premier assigned to it.

Its role is now less focused on land development projects, and more on managing the delivery of infrastructure projects on behalf of other departments. MPV's current stated role is to provide 'expert project delivery services to Victorian Government departments and other agencies engaged in the delivery of complex, technically challenging and unique projects of state significance'.

MPV has also actively focused its activities on areas such as working in regional Victoria, housing affordability, tourism and ecologically sustainable development.

1.2.1 Governance

MPV is a business unit within the Department of Business and Innovation (DBI). It has three operational areas and uses both contract and Victorian public service (VPS) staff to deliver its functions.

Project Management Group

The Project Management Group is responsible for delivering design and construction projects. These are traditional construction projects and represent the majority of MPV's work, in terms of time expended. This group delivers projects on behalf of other departments, including its own. Recent examples include the Arts Centre (Hamer Hall) and the Melbourne Park (tennis centre) redevelopment.

Property and Land Development Group

The Property and Land Development Group is responsible for managing MPV's land development projects. This type of project typically involves sale of land to, or joint venture arrangements with, the private sector.

This group's activities reflect MPV's primary focus at its inception. Recent projects include the Kew Residential Services (Kew Cottages) and Flinders Street Station Redesign Competition.

Partnerships Victoria Group

The Partnerships Victoria Group is responsible for managing PPPs under the Partnerships Victoria framework. The activities of this group represent a relatively small part of MPV's project work, given it does not deliver many PPPs. Recent projects include the Biosciences Research Centre and the Melbourne Convention Centre development.

Human resources

MPV has 44 VPS staff (42.2 full-time equivalent) and what it considers 13 independent contractors. It has relied on this mix of staff to manage the delivery of projects since its establishment, although the ratio of employees to independent contractors has changed over time. Figure 1A shows the number of employees and contractors for the past ten years.

Figure 1A
Major Projects Victoria employees and contractors, 2002–03 to 2011–12

Year	Employees	Long-term contractors	Short-term contractors	Total
2002–03	30	3	10	**43**
2003–04	54	6	12	**72**
2004–05	108	9	12	**129**
2005–06	86	10	12	**108**
2006–07	102	10	11	**123**
2007–08	33	9	10	**52**
2008–09	32	9	10	**51**
2009–10	36	11	9	**56**
2010–11	37	11	6	**54**
2011–12	34	10	9	**53**
2012–13	30	8	5	**43**

Note: The substantially higher number of employees in the years 2004–05 to 2006–07 was due to the Synchrotron project. Major Project Victoria's longer-term contractors typically have contracts of two years or more.

Source: Victorian Auditor-General's Office based on information from Major Projects Victoria.

VPS employees perform a range of roles, including project director, manager and officer, as well as contract and technical manager. They also perform MPV's business and finance roles. Contractors typically perform project director and project manager roles, but also perform senior management roles. The directors of each operational group are non-VPS contractors.

Funding

MPV generates its funding primarily through project management fees that it charges client agencies. The fees are based on invoiced work rather than a set percentage of a project's costs. MPV operates on a 100 per cent cost recovery model, which means that it needs to cover all costs including human resource, accommodation and corporate costs. For 2011–12, MPV estimated its costs at around $11.6 million, which consists of:

- $8.1 million in salaries and on-costs, with employee costs of $4.4 million, and contractor costs of $3.7 million
- $3.3 million in administration costs
- $0.47 million in corporate charges, including $.02 million for election commitment savings, and $0.13 million in Budget and Expenditure Review Committee savings
- $0.2 million in rebates from CenITex.

In addition to the project management fee, MPV also receives annual funding through a DBI allocation. MPV uses this funding for projects and activities it undertakes where it cannot charge a project management fee, such as business cases and feasibility studies. Figure 1B shows MPV's historical operating budget, based on its business plans, as well as the DBI allocation.

Figure 1B
Operating budget and actual, 2002–03 to 2011–12 ($ millions)

Year	Operating budget	DBI allocation	Total budget	Operating budget actual	DBI allocation actual	Total actual	Difference
2002–03	n.a	1.2	n.a	5.0	0.8	5.8	n.a
2003–04	n.a	1.5	n.a	14.1	0.9	15.0	n.a
2004–05	n.a	1.5	n.a	14.2	1.2	15.4	n.a
2005–06	n.a	1.4	n.a	12.9	1.2	14.1	n.a
2006–07	12.1	1.2	13.3	13.3	0.9	14.2	–0.9
2007–08	8.9	1.3	10.2	8.3	0.8	9.1	1.1
2008–09	10.5	1.6	12.1	10.1	0.7	10.8	1.3
2009–10	11.1	1.9	13.0	10.1	1.0	11.1	1.9
2010–11	11.5	1.8	13.3	10.4	1.3	11.7	1.6
2011–12	11.6	1.6	13.2	n.a	1.3	n.a	–

Note: Operating budgets were not included in Major Project Victoria's business plans before 2006–07, and only actuals are available. 'n.a' refers to information that is not available.
Source: Victorian Auditor-General's Office based on information from Major Projects Victoria.

1.2.2 Managing major projects

MPV is currently managing 17 projects. This includes six infrastructure (capital) projects, three property and land development projects—two long standing and one new—as well as a range of other non-capital projects. Figure 1C shows that of the six infrastructure projects, two are nearing completion, while a further two have just started. Appendix D contains a list of all MPV projects completed between 2000 and 2012. This includes around 19 capital and property and land development projects.

Figure 1C
Current Major Projects Victoria projects, July 2012

Project	Type	Client agency
Avalon Fuel Line	Feasibility	Department of Business and Innovation
Aviation Training College	Feasibility	Department of Business and Innovation
Flinders Street Station Design Competition	Feasibility	Department of Business and Innovation
Port of Hastings	Feasibility	Department of Transport
Biosciences research Centre	Capital (PPP)[(a)]	Department of Primary Industries/ LaTrobe University
State Sports Facilities Project	Capital[(a)]	Department of Planning and Community Development
FOLD Facilities Project	Capital[(b)]	Metropolitan Fire Brigade
Shrine Redevelopment	Capital[(b)]	Department of Planning and Community Development
Melbourne Markets Relocation	Capital	Department of Business and Innovation
Melbourne Park Redevelopment	Capital	Department of Planning and Community Development
E-Gate	Property and Land Development	Department of Transport and Department of Planning and Community Development
Kew Residential Services	Property and Land Development	Department of Human Services
Parkville Gardens Residential Development	Property and Land Development	Department of Business and Innovation
Trainshed Way Development	Advice	Department of Planning and Community Development
Victorian Freight Strategy	Advice	Department of Transport
Docklands Film and TV upgrade	Oversight	Department of Business and Innovation
Sustainability Guidelines	Internal	Department of Business and Innovation

(a) These projects are nearing completion.
(b) These projects have just started.
Source: Victorian Auditor-General's Office based on information from Major Projects Victoria.

Responsibilities and accountabilities

In managing the delivery of projects for public sector entities, the Major Projects Governance Protocol outlines the respective responsibilities and accountabilities of MPV and its client entities.

The Minister for Major Projects becomes accountable for the delivery of the project where the Governor in Council nominates a project. The portfolio minister—who oversees the client entity—is responsible for the achievement of project outcomes.

At an operational level, the protocol details the various project stages and identifies responsibilities for each element of the stages. This includes identifying whether the client entity or MPV is responsible, involved, endorses or advises. Client entities are typically responsible for the early planning stages, such as feasibility and business case development. MPV typically has greater responsibility at the latter stages, including procurement, managing construction and making the infrastructure operational. The Major Projects Victoria Governance Protocol is included in Appendix A of this report.

Project management framework

MPV manages the delivery of projects under an in-house project management framework. First implemented within MPV in 2008, the framework provides guidance on MPV's project management activities throughout the project lifecycle, and details processes and procedures for project staff to follow. It describes mandatory requirements and standard information that project staff should include in plans, while allowing flexibility and customisation of plans from project to project.

1.3 Regulatory framework

Public Administration Act 2004

The *Public Administration Act 2004* underpins the work of the Victorian public sector. Parliament enacted it to provide a framework for good governance and public administration.

Among its many aims, the *Public Administration Act 2004* aims to achieve a public sector that is effective, efficient and accountable, and achieves the highest standards of governance and integrity. Supporting these aims are public sector values:

- **Responsiveness**—providing frank, impartial and timely advice, providing high-quality services and identifying and promoting best practice
- **Integrity**—being honest, open and transparent, using powers responsibly and avoiding conflicts of interest
- **Impartiality**—decisions and advice are merit based and not because of bias, favouritism or self-interest, and acting fairly and objectively
- **Accountability**—working transparently, accepting responsibility, achieving the best use of resources and submitting oneself to appropriate scrutiny
- **Respect**—fair and equitable treatment

- **Leadership**—implementing, promoting and supporting the *Public Administration Act 2004* values
- **Human rights**—decisions and advice are consistent with human rights.

Project Development and Construction Management Act 1994

MPV operates predominantly under the *Project Development and Construction Management Act 1994 (*the Act*),* along with Ministerial Directions for tendering and contracting in public construction*.*

The primary purpose of the Act is to facilitate development projects in Victoria. Under the Act, the Premier is able to recommend to the Governor in Council that certain projects be 'nominated'. It also enables the DBI Secretary, as a body corporate, to delegate powers to the head of MPV.

By nominating a project, the Act provides MPV with broad powers relating to acquiring land, and restrictions on the use of the land. These powers include:

- MPV being granted Crown land
- requiring public bodies to surrender or divest land to the Crown
- acquiring land compulsorily and also by agreement
- opening, realigning or closing roads
- overriding easements, covenants and other registrable restrictions, subject to some conditions, from any land.

In addition, the Act also provides MPV, through delegation from the DBI Secretary, with extensive powers to enter into contracts and agreements to enable it to perform its functions. These core functions include:

- facilitating and managing public construction for departments and public bodies
- providing consultancies, information and advice to departments and public bodies
- providing advice and information to the Minister for Major Projects.

Ministerial Directions

As MPV is involved with public construction, it is also bound by both *Ministerial Direction No.1: Tendering Provisions for Public Construction*, and *Ministerial Direction No. 2: Contractual Provisions for Public Constructio*n.

The Directions outline minimum requirements and processes for obtaining quotes for construction work, and also for entering into contracts for building and construction works, and consultancy services.

1.4 Recent developments with major projects

High-value, high-risk projects

A range of major projects have experienced significant time and cost overruns—most of which are not MPV projects. In response, the government has introduced new processes for the planning and delivery of major projects that it considers high value and high risk. Managed through the Department of Treasury and Finance, the new process requires greater centralised oversight of projects that have a total estimated investment of $100 million or more, and/or planning processes identify them as high risk. This includes a requirement to obtain the Treasurer’s approval of project documentation at key stages of the project’s life cycle, as well as compulsory Gateway Reviews.

Public Accounts and Estimates Committee

In addition to the introduction of high-value and high-risk project oversight, the Victorian Parliament’s Public Accounts and Estimates Committee (PAEC) is conducting an Inquiry into *Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*. The inquiry’s terms of reference focus on the competencies and skills to deliver major projects and the management of projects.

This audit was originally scheduled for completion in 2013–14. However, after a request from PAEC, the audit was rescheduled to both inform and complement PAEC’s current infrastructure inquiry.

1.5 Audit objective and scope

The audit objective was to assess how effective, efficient and economical MPV is in managing major capital projects. To address the objective, the audit examined the projects that MPV manages, and whether frameworks were in place that enable MPV to assess and report performance and demonstrate value-for-money.

Specifically, the audit examined whether:

- projects that MPV delivers meet time, cost, scope and quality outputs and outcomes, consistent with industry standards
- MPV identifies and addresses the reasons why projects do not meet project management and performance expectations
- MPV was able to monitor and assess its performance and cost effectiveness, and whether it routinely reported to MPV and DBI management
- performance measures were relevant, appropriate, fairly represent actual performance and demonstrated value-for-money.

The audit also examined MPV’s role and purpose, project management systems and contracted human resources.

1.6 Audit method and cost

The audit was performed in accordance with section 15 of the *Audit Act 1994* and the Australian Auditing and Assurance Standards.

The total cost was $355 000.

2 Role and governance

At a glance

Background

Major Projects Victoria (MPV) has considerable power to perform its functions. This includes having projects assigned to it, and the ability to charge a project management fee. To balance MPV's position and powers, there is a need for effective governance and strong accountability.

Conclusion

MPV is not being effectively governed. It has provided questionable information around employment matters to Parliament and there are major deficiencies with the way MPV manages internal contracts.

Findings

- MPV's recruitment practices enable employees to resign and to be re-engaged as contractors within a very short time frame to perform the same work at a much higher fee—this lacks integrity and transparency.
- MPV's management of its internal contracts is deficient, with missing contracts, unjustified contract variations and the absence of contractor performance assessment.
- MPV provides contractors with the authority to approve payments, which conflicts with Standing Directions made under the *Financial Management Act 1994*. There is consequently uncertainty about MPV's authority for this approach.

Recommendations

Major Projects Victoria should:

- review its contract management practices and implement practices that are consistent, at a minimum, with the processes and policies that the Victorian Government Purchasing Board has established
- undertake an independent fraud risk assessment, particularly around contract management and payment systems, given the weaknesses in controls.

2.1 Introduction

Major Projects Victoria (MPV) is a unique entity. While it is a business unit within the Department of Business and Innovation (DBI), it operates more as a consultancy or separate entity. It has its own financial systems and operates under legislation that, by delegations, gives it considerable power to perform its functions. This includes having projects assigned to it, and the ability to charge a project management fee.

MPV's unique position and powers require accountability and transparency. This includes fulfilling its role and functions, supported by sound administrative and governance arrangements. MPV must also be able to demonstrate that its services provide value-for-money.

2.2 Conclusion

MPV is not being effectively governed. While it is broadly performing its property development and project management roles consistent with the functions outlined in the *Project Development and Construction Management Act 1994*, significant other issues exist. These issues include conflicts with Standing Directions made under the *Financial Management Act 1994*, by providing its contractors with financial authorisations. It is not complying with the *Public Records Act 1973*, given the deficiencies in its record keeping. Through its involvement in Parliamentary committee inquiries, MPV and DBI may have misinformed Parliament, undermining Parliamentary processes.

There are also major deficiencies with the way MPV manages internal contracts, with missing contracts, variations without adequate reason or assessment of performance, and questionable recruitment practices. This maladministration diminishes accountability and transparency, and increases the risk of error and fraud.

2.3 Role and function

A key element of sound governance is the effective, efficient and economical performance of an entity's role and functions. Demonstrating that a public sector entity is doing what it says it will do adds to its accountability.

At a broad level, the *Project Development and Construction Management Act 1994* outlines MPV's core functions as a facilitating agency, which are:

- facilitate and manage public construction for departments and public bodies
- provide consultancies, information and advice to departments and public bodies
- provide advice and information to the Minister for Major Projects.

In addition to the legislative functions, MPV also determines its role through its planning processes, and particularly its annual business plans.

MPV is generally undertaking its specified legislated functions. However, MPV's focus appears to be the delivery of a relatively small number of high-value capital projects and a large number of small, planning-related, projects rather than what might reasonably be described as 'major projects'.

2.3.1 Business planning

MPV has had documented business plans for at least the past 10 years. These plans outline MPV's mission and vision, which relate to MPV providing leadership in project management services and project delivery. They also outline the various roles that MPV considers it could perform.

Over time, the focus of MPV's role has changed. When it was established, the primary focus was on construction of public buildings and the development of surplus land. MPV now considers its key role is to 'provide expert project delivery services to Victorian Government departments and other agencies engaged in the delivery of complex, technically challenging, and unique projects of state significance'.

MPV's more recent business plans identify the key role of taking a leadership role in public sector project management. Specifically, the leadership role was expected to occur through the Project Management Leadership Forum—where leaders from the public and private sector participate in high-level discussions and workshops on topics of interest for the industry.

MPV is not adequately performing this leadership role. It no longer leads or participates in the Project Management Leadership Forum, and it is unclear what other mechanisms MPV uses to provide leadership, let alone assess its effectiveness as a sector leader.

MPV advised that it demonstrates leadership through a range of seminars and conferences. The seminars are focused on people sharing their views on what makes a good leader, rather than being a forum where MPV demonstrates its major project leadership. Similarly, its involvement in conferences is more indicative of participation rather than leadership. Industry research is a key part of being effective, efficient and economical. It provides a framework to understand what better practices are, to compare current practices to better practice and to change operating processes if its practices should be improved. Research may also enable innovation and leadership in certain areas.

A research role was in place at MPV for around two years, until 2011–12. MPV determined a research role was necessary to fill important gaps in industry knowledge and identified an ongoing focus on 'continuing to develop initiatives that promote MPV as an expert within its field by providing research-based working papers and undertaking other research tasks'.

MPV has discontinued this role. The lack of focus on industry research is a missed opportunity and means that MPV is not in a position to adequately understand industry trends and innovations, and consolidate and share this knowledge. Nor is it in a position to adequately understand whether its project management fees are consistent with those in the private sector and whether it is providing value-for-money services.

Strategic plan

In 2009, MPV developed a four-year strategic plan as part of its business planning processes. Strategic planning is an effective way for an entity to take a more considered and longer-term view to achieving its objectives and vision. MPV's strategic plan detailed a range of actions in relation to policy and corporate priorities, and detailed its projects for the four years.

MPV advised that it stopped using its strategic plan after one year, following the election of the current government. Rather than stop using the plan, MPV should have updated it to reflect different priorities. Consequently, MPV is without a fundamental planning document that aids effective governance.

2.3.2 Project focus

MPV is intended to deliver mostly large and complex projects. However, our assessment of the work it manages suggests that the projects it manages typically are not major projects as envisaged by the 2006 governance protocol. Rather, it manages many smaller projects whose complexity, uniqueness or state significance is not obvious.

Major Projects Victoria's project types

Between 2000 and 2012, MPV expects to deliver 98 projects. These include capital projects, property and land developments and feasibility and advisory projects. A complete list is included in Appendix B. Over this time period, MPV has managed:

- thirty-one capital projects, of which three were public private partnerships
- eight property development projects
- fifty-nine 'other' projects, which included:
  - thirty-one feasibility studies
  - seventeen advice projects
  - four oversight projects
  - three 'internal' projects
  - two maintenance projects
  - one administration project
  - one decontamination project.

Of the 98 projects undertaken, 80 are completed and 17 are current, with the status of one project—the Melbourne Exhibition Centre Stage 2—uncertain. Figure 1C in Part 1 of this report outlined MPV's current projects, the type of project (as MPV defined them) and the client agency. Of the 17 current projects:

- four are capital projects—two of which are nearly complete
- four are feasibility studies

- three are property and land development projects—one new and two longstanding
- two are potential capital projects
- two are advisory
- one is internal—MPV-generated work
- one is oversight.

Of note, seven of the projects have DBI—MPV's overseeing department—as the client agency. This creates a situation where MPV is its own client. Situations like this, if not managed adequately, can lead to project governance issues that can undermine projects. We discuss this issue in Part 3 in relation to the recently completed Princes Pier project.

Major Projects Victoria's other roles

In addition to its range of roles that include delivering capital projects to providing advice, MPV's role extends to other areas that have little apparent ongoing connection to its role or functions as a deliverer of major projects. Many of these are legacy roles.

Restaurant leases

MPV is the lessor of three restaurants in Port Melbourne, originating from its role in developing Beacon Cove. As part of the development, restaurants were constructed and long-term leases entered into. These leases are for up to 99 years, if each 20-year extension is granted. The leases strongly favour lease renewal.

MPV is in the process of transferring responsibility for the leases to the City of Port Phillip.

Princes Pier

As part of the Beacon Cove development, MPV took ownership of the Princes Pier and surrounding land in Port Melbourne. MPV is responsible for the ongoing maintenance of these assets, and funding to do this is currently being sourced from unspent Expenditure Review Committee allocations. Long-term funding for maintenance of the pier is uncertain, and attempts to transfer ownership to a more appropriate entity have been unsuccessful.

William Barak Bridge

The William Barak Bridge links Birrarung Marr to the Melbourne Cricket Ground. MPV took ownership of the asset after it was built. Like the Princes Pier, it is responsible for maintaining the asset, and has been unsuccessful in transferring ownership to a more appropriate entity. Funding for long-term maintenance is also uncertain.

Regent Theatre Management Company

MPV has a representative on the board for the Regent Theatre Management Company. The management company, which also comprises members from the City of Melbourne, oversees the lease for the Regent Theatre. This role originated from MPV's involvement in redeveloping the theatre.

Yarra Maritime Reserve

MPV performs the role of committee of management for the Yarra Maritime Reserve, as part of the Convention Centre development.

2.3.3 Reviewing Major Projects Victoria's role

In October 2007, Cabinet's Major Projects Committee requested the Department of Premier and Cabinet (DPC) to coordinate a review, and report about the delivery of major projects in Victoria. A specific focus of the review was the future role of MPV and its functions.

The review was undertaken by the Major Projects Review Committee, which was established with representatives from DPC, the Department of Treasury and Finance (DTF), MPV and the Department of Primary Industries.

While the review was intended to examine MPV's functions, it focused more on MPV's role in relation to the broader system, and how its role could be clarified and expanded. The review identified a range of proposed changes to MPV's functions. Many of these were significant and would have made MPV the main project delivery agency across the Victorian public sector, as well as performing a key leadership role. There was no apparent assessment of MPV's capability to take on these new roles, as the review did not assess MPV's performance in its role.

The review recommended that MPV's role should be expanded so that it:

- was a centre of major projects excellence within government, and took a leadership role in strengthening project management capability and careers across government
- acted as a central point of information for government and the private sector, and as an interface between the two
- acted as a resource for central agencies, line agencies, and external stakeholders on major projects issues, such as through assisting with business case analysis and project scheduling and prioritisation.

Specifically, the review proposed that MPV undertake the following functions:

- a leadership role in developing project management specialists, industry knowledge, project review and risk assessments
- a supporting role in whole-of-government project coordination, business case development and project performance reporting.

While MPV drafted a Cabinet submission proposing that the recommendations be accepted, it was never completed. Consequently, no action has taken place in relation to the review.

2.4 Project human resources

Infrastructure projects often require a broad range of skills at different times throughout the project. Maintaining this skillset on a payroll may not be financially viable, particularly if there is not a known and regular stream of projects planned. In situations such as this, using a mix of employees and contractors can provide the required skills in a flexible way—if managed appropriately.

To perform its role, MPV uses a mix of employees and what it considers independent contractors. It has used this approach since its inception in 1987. However, its current approach has significant deficiencies, lacks accountability and transparency, and does not represent value-for-money. Fundamental weaknesses exist with its contract management, and it is uncertain whether MPVs staff are in fact employees in both the legal and practical sense.

2.4.1 Employment

The use of contractors for publicly-funded projects is a legitimate function of any public sector entity. However, there needs to be a sound rationale for using a contractor over an existing public sector employee. While contractors can provide an entity with flexibility by allowing for alternative length and conditions of the engagement, the cost of contractors can often be much higher than public sector employees. This additional cost is ultimately borne by taxpayers.

At a minimum, the entity engaging the contractor must first assess the need for a contractor, as well as the capability and capacity within the public sector.

In response to the Public Accounts and Estimates Committee’s 2011 question on why a public sector employee or equivalent could not undertake the work, DBI stated that ‘the work requires a skill and remuneration level currently not available within the Victorian Public Service’.

Contractors

MPV currently has what it considers to be 13 independent contractors performing a range of functions related to infrastructure projects. These functions include three senior management roles, and five project director and manager roles.

Of the 13 contractors, MPV consider eight to be long term and five short term. The average length of long-term contracts is around four years, although this ranges from two and a half years to nine years. MPV short-term contracts range from four months to 17 months.

Despite DBI’s advice to Parliament, there is no documentation within MPV that demonstrates an assessment of the need for any of its contractors, or any assessment of the capability and capacity within the public sector. The limited information MPV was able to provide around its appointment of contractors suggests that in most situations contractors are the only option considered.

Indeed, there is strong evidence to contradict DBI's statement about the availability of public sector employees. This raises questions about the veracity of the information provided by DBI to Parliament.

Within MPV's current contractors, we identified four who were working for MPV as public sector employees a very short time before they were appointed as contractors. For example:

- An employee resigned in December 2005, with MPV engaging them as a contractor in 2006. Precise dates are unknown due to a lack of documentation. Since 2006, MPV has paid this contractor around $1.67 million in contract fees.
- An employee resigned in October 2009, and was engaged as a contractor by MPV in the same month to provide the same services. The contract was for an estimated cost of $903 000 over three years.
- Another employee resigned in December 2009 and was engaged by MPV on a short-term contract in January 2010. The contractor was then engaged by other entities to provide services for projects that MPV was involved in. In December 2010, MPV re-engaged the contractor on three different contracts to the value of $196 000 over an 18-month period.
- A fourth employee resigned in March 2010 and in April 2010 was engaged by MPV on a three-year contract to provide the same services. The estimated cost of the contract is $816 000.

This process of resigning from MPV and being re-engaged soon after to perform the same work at a much higher pay rate lacks integrity and transparency.

DBI advised that these examples reflect the evolution of project roles as projects progress. It stated that 'At a point in time, MPV may judge that a project that is currently led by a VPS staff member at level VPS 6 or 7 is now of sufficient complexity as to require the services of a more senior project director. When this role is advertised, the incumbent project manager may apply for it and be considered alongside other applicants. This occurred in three of the four cases identified in the report'.

Based on MPV's advice, this means that in at least three cases MPV considered the incumbent VPS staff member did not have the skills to manage the complexities of their projects and that these skills needed to be procured through contracted services. Three incumbents were allowed to submit a proposal, and were successful in being appointed to the more complex role despite an apparent earlier assessment of a skill deficit.

At a minimum, MPV's contractor appointment process raises questions around the impartiality of the selection processes, particularly where previous line managers made decisions around the preferred candidates.

MPV also advised that there was a competitive contractor selection process for each of the ex-employees, However, there is a lack of documentation to demonstrate that a competitive process was used. Assessment of the available evidence shows that:

- for the first ex-employee, there is only a memorandum highlighting that an appointment process was entered into
- for the second ex-employee, there is evidence that 52 people applied, but only two internal MPV candidates were interviewed and both were successful
- for the third ex-employee, there is no information that indicates a competitive process—rather, the available information indicates that the ex-employee was the only candidate considered
- for the fourth ex-employee, there was only a memorandum discussing the results of a selection process.

Given the nature of MPV's contractor appointment processes, it is not evident that public sector probity standards and any potential or perceived conflicts of interest were identified and appropriately addressed during selection processes. Despite MPV regularly engaging contractors, it does not have a conflict of interest policy. It advised that it uses the DBI policy, however, this has only been in place since 2011.

Employment status

The way that MPV manages its staff, and has managed staff in the past, raises significant uncertainty as to their employment status. Whether a person is a contractor or an employee depends on a range of factors.

A genuine independent contractor will typically be autonomous rather than subservient in its decision-making; financially self-reliant rather than economically dependent upon the business of another; and generating profit rather than simply a payment for time, skill and effort provided.

In the case of MPV very few, if any, of their contractors appear to meet these criteria. With the possible exception of one or two short-term contractors, the remaining contractors are in subservient decision-making positions, and are economically dependent on MPV.

They are also heavily integrated within MPV, using its premises and equipment to conduct their business. In the case of the three group directors, each is entitled to annual public sector executive officer salary increases and/or bonuses. These three group directors, along with the executive director, make up MPV's senior management team.

While determining the employment status of staff requires a case-by-case assessment, based on the evidence collected for this audit, MPV's contractors satisfy a number of criteria that would suggest they are, in fact, employees at law.

If MPV's contractors are, at law, employees, then DBI may be financially liable to past and present contractors for unpaid leave entitlements. MPV has never sought legal advice on this issue.

Departmental employees are entitled to four weeks annual leave each year, and 13 weeks long service leave for every 10 years of service. The department is required to recognise a liability for any annual leave or long service leave owed to employees. In addition, there are other costs involved in hiring an employee such as fringe benefits tax, Workcover, training and payroll tax costs that DBI may be liable for. Given the value and length of some contracts, this liability could be significant.

Public sector salary structures

Private sector rates for equivalent work in the public sector are often considerably higher. In some situations, this may limit an entity's ability to employ someone within the public sector salary structures.

DPC sets limits on the number of executive officers within each department, although there is some flexibility to alter this depending on need. Based on the contract cost information provided by MPV, all of the current contract costs could be accommodated within the VPS executive officer salary structures.

While MPV may not have these positions available, it is not evident that it has ever sought DPC approval to create additional executive officer positions and, therefore, fit its contractors within its salary structure. Doing this may reduce the existing uncertainty around the employment status of its staff.

2.4.2 Contract management

Effectively managing contracts is a fundamental aspect of good governance. It provides appropriate checks and balances so that there is assurance that the services are being provided, the contractor is performing according to the contract, and there is efficient and economical use of public funds.

MPV's management of its internal contracts is seriously deficient. There are multiple weaknesses with most of the contracts that have occurred through MPV's maladministration. The absence of appropriate checks and balances means that there is likely to be an increased risk of fraud. While DBI has a fraud risk register that includes generic fraud risks for MPV, this is not based on the findings in this audit around the weak controls and needs to be revised.

A detailed assessment of weaknesses with MPV's management of its current contracts is included in Appendix C. The following is a summary of the key issues.

Missing contracts

MPV has engaged 13 contractors using 15 contracts. As part of this audit, it was only able to locate 10 documented contracts—it has no record of the other five contracts. Together, these five missing contracts have an estimated value of around $1 million.

Contract variations

MPV regularly varies contracts for both time and cost. Of the current contracts, six have a total of 14 variations. There is very little documentation to support the reason for the variations. Further, MPV were unable to explain the basis for extensions to contract length or revised payment terms.

MPV has not assessed the performance of any contractor prior to agreeing to any of the contract variations. It is not evident that anything has been done by MPV or DBI to satisfy themselves that the contractor has performed according to the terms of the contract, and that their performance was to an acceptable standard. This is despite most contracts containing performance standards. One contract was varied four times over 17 months, however, MPV did not have a documented contract.

There is also poor oversight of contract variations. One of MPV's contractors has been on a contract for nine years, with four variations. The third variation occurred in June 2011 with DBI's Secretary approving an extension of time on the condition that MPV went to tender for the contract upon expiry. In December 2011, the contract was varied again for a further 12 months at a cost of $378 000.

Contract terms

Two of MPV's contractors are appointed on open-ended contracts. The reasons for this are not known because MPV does not have copies of the contracts, nor adequate supporting information. In a draft memo to DBI's Secretary in March 2012, MPV noted that the two contractors were '…currently employed at MPV under open agreements with no end date. As the limits under which their services were contracted have now been exceeded, MPV considers it preferable to have a fixed-term contract going forward'. In the absence of contracts, it is unclear how MPV knew the contract terms or that the contract costs had been exceeded. With MPV indicating that these contractors should move to fixed-term contracts, it is unclear on what basis it has demonstrated an ongoing need for the contractors to manage projects, or the need for the contractors rather than VPS staff.

One contract provided the contractor, through a variation, with the option to extend the contract for a further two years. No conditions were placed on the option to extend, and it appears that it provided the contractor with the sole discretion to vary the contract. This was done without any performance assessment. The contractor again exercised an option to extend the contract for a further eight months. This second option is not included in any contract documentation. Based on available documentation, it appears that there was no authority to extend for the further term.

Several of the contracts, and particularly those developed to engage senior MPV management, include contract terms that state the contractor is not an employee. However, these same contracts provide the contractors with similar benefits to those typically available only to public sector employees, such as annual executive officer salary increases and executive officer performance bonuses. At a minimum, this further increases the likelihood that the contractors are, in fact, employees at law.

Contract payments

There is a difference between the expected cost of some contracts and the actual cost, based on recorded payments. For the two contractors with missing open-ended contracts, it is not possible to determine what they should be paid. Other MPV information indicated that their current contracts started in April 2010, although the actual dates are uncertain. Based on its tender submissions, we conservatively estimated the value of their current contracts at around $340 000 and $280 000 per annum, respectively. However, comparison with actual cost data shows the two contractors had been paid $1.67 million since June 2006, and $1.08 million since April 2007, respectively.

Two other MPV contractors appear to have been paid $113 000 and $56 000 over their expected contract cost. MPV advised that this is because of clauses in its contracts that allow for annual adjustments in their fees, in line with DBI's executive officers. For the contractor that has been paid an additional $113 000, this amounts to around $22 600 each year, or 9.8 per cent of the yearly fee. For the other contractor, this amounts to $9 300 each year, or 3.3 per cent of the yearly fee.

Contract reporting

MPV is required to publish details of its contracts valued over $100 000 on the Victorian Government's contracts website. This provides some transparency around public sector contracting.

There are discrepancies between what is reported on the contracts website and the information that MPV has provided to us during this audit. Contracts for two contractors, totalling around $2.7 million in contract costs over a six-year period are not reported on the contracts website.

2.5 Complying with legislation

Departmental heads are responsible for the general conduct and the effective, efficient and economical management of the department's activities and functions. This includes complying with legislation and policies that it is responsible for, and which apply to it.

While MPV does not have its own legislation, in performing its functions it is required to adhere to a range of other legislation. These include the *Project Development and Construction Management Act 1994* (PDCMA), the *Financial Management Act 1994* (FMA) and the *Public Records Act 1973*.

MPV is complying with the key provisions of the PDCMA, particularly in terms of nominating projects and establishing delegations in a manner consistent with the legislation. However, it is uncertain whether MPV is complying with Standing Directions relating to authorisation of payments, made under the FMA. It is not complying with the PRA, given the deficiencies identified with the way it manages public records.

2.5.1 Delegations

Under the PDCMA, as a body corporate DBI's Secretary can delegate any of his functions and powers related to a nominated project—except for any of the delegated powers—to anyone within the department. Delegating can provide a range of operational efficiencies and is standard practice across Victoria's public sector under various legislation.

Within DBI, the secretary has delegated his powers, and the power to sub-delegate, to the Executive Director of MPV. The executive director has subsequently sub-delegated powers to two 'classes of persons' within MPV—directors and project directors. This has occurred in accordance with the PDCMA.

The delegated powers include those relating to entering into contracts for contractors and consultants, varying these contracts and approving payments related to the contracts. Figure 2A shows the various 'classes', the applicable function and the financial limits that the delegations impose.

Figure 2A
Major Projects Victoria's sub-delegations and financial limits

	Function					
Position	**Approve payments ($mil)**	**Approve contractors ($mil)**	**Approve consultants ($mil)**	**Approve variations–contractors ($mil)**	**Approve variations–consultants ($mil)**	**Approve contracts–administrative ($mil)**
Director, Project Management	5.0	1.0	0.25	0.25	0.05	0.10
Director, Partnerships Victoria	2.0	0.5	0.10	0.05	0.02	0.10
Director, Property and Land	2.0	0.5	0.10	0.05	0.02	0.10
Project Director	2.0	0.5	0.10	0.05	0.02	–
Manager, Finance and IT	–	–	–	–	–	0.02
Manager, Business and Executive	–	–	–	–	–	0.02
Executive Assistant/ Administration Manager	–	–	–	–	–	0.005

Source: Victorian Auditor-General's Office based on data from Major Projects Victoria.

These delegations are documented and reflected in MPV's financial systems. However, the delegated power to approve payments conflicts with the Standing Directions made under the FMA, if the delegates are indeed contractors.

Financial Management Act and Standing Directions

FMA is a key piece of Victorian legislation, dealing with financial management and accountability within the public sector. This includes financial responsibility, budget management, supply management and financial reporting. Supporting the FMA are Standing Directions of the Minister for Finance. These Directions have legislative force and public sector entities must comply with them.

Standing Direction 2.4 deals with authorisations—the ability to approve payments. This Direction explicitly excludes contractors and consultants from holding an authorisation, and notes that only employees can hold these authorisations.

Within MPV, all the director positions listed in Figure 2A are held by what MPV considers to be independent contractors and similarly, four of MPV's seven project director roles are held by what MPV considers to be independent contractors.

The conflict between the delegations and the Standing Directions means it is uncertain whether DBI is complying with the Standing Directions. Neither DBI nor MPV has sought specific legal advice on this issue.

While DBI provided us with legal advice it received in 2008 that it claims addresses this issue, we do not consider that the advice includes a clearly stated position on authorisations under the Standing Directions. Its primary focus was the status of delegations following a machinery of government change, and in particular settling issues around the secretary as a body corporate. In relation to the delegations, the advice stated 'I confirm that the delegations that were put in place after the machinery of government changes are valid and that [the Executive Director] and Major Projects Victoria are able to operate under these delegations'. DBI was unable to provide us with the questions it asked that resulted in the advice.

Under the Standing Directions, the Minister for Finance may exempt persons, or a class of persons from the provisions within the Standing Direction. These exemptions may be unconditional or conditional. It is not evident that either MPV or DBI has sought such an exemption.

Our legal advice on the issue has been equivocal. There is a view that the authorisation power within the delegations is inconsistent with the Standing Directions. The effect of this interpretation is that the Standing Directions would prevail. The alternative view is that the Standing Directions do not apply to the delegations. This would provide the contractors with the ability to authorise payments but appears at odds with the Minister for Finance's policy intent, as expressed in the Standing Directions.

If the advice is that the Standing Directions is correct, it raises several issues. First, it has the potential to significantly diminish the effectiveness of the Standing Directions, making them essentially inoperable if they conflict with primary legislation or instruments created under primary legislation. Second, this could create the ability to use delegations to avoid obligations.

DTF needs to clarify these issues as a matter of priority.

2.5.2 Managing public records

The *Public Records Act 1973* requires public sector entities to keep full and accurate records. Responsibility for this rests with the head of the entity. For MPV, this is DBI's Secretary.

MPV has recognised deficiencies in its records management systems. In 2010, it committed to establish a records taskforce which was responsible for consolidating project information, improving knowledge management, and improving retention of information.

The taskforce's specific focus was on the storage of contracts and agreements, with its key output being the development of guidelines for giving documents an appropriate title, and managing folders and documents within the records management system.

MPV did not undertake an assessment of whether all contracts and agreements were accounted for. Nor has it assessed whether records are being managed in accordance with the guidelines. It is evident from this audit's findings around contract management that there are significant deficiencies with the way MPV manages key public records.

The following Parts of this report discuss other records management issues including MPV's inability to provide key project information such as project planning documents, construction contracts, project data, and consultant reports and data that it had paid for.

Recommendations

Major Projects Victoria should:

1. obtain legal advice as to the employment status of its contractors and the provision of financial authorisations to them
2. review the skills and capabilities required to carry out its functions and, if necessary, obtain advice from the Department of Premier and Cabinet about the ability for it to create additional public sector executive officer positions within Major Projects Victoria
3. review its contract management practices and implement practices that are consistent, at a minimum, with the processes and policies that the Victorian Government Purchasing Board has established
4. establish and implement a performance management framework for internal contractors so that payments and variations are linked to acceptable performance
5. undertake an independent fraud risk assessment, particularly around contract management and payment systems, given the weaknesses in controls
6. review its recruitment practices involving ex-employees so that, as a minimum, perceived and potential conflicts of interest are managed, and value-for-money obtained

Recommendations – *continued*

7. establish a conflict of interest register and processes, in line with the Department of Business and Innovation's conflict of interest policy, to enable it to identify and manage perceived, potential and actual conflicts of interest
8. review its records management processes and practices against the requirements of the *Public Records Act 1973* and associated standards and policies, and implement changes as appropriate
9. review the completeness of its key records, including contracts and project documentation
10. review its business planning to provide better clarity around its role, the actions it will implement to fulfil its role and the processes it will use to assess achievement of its role
11. The Department of Treasury and Finance should clarify the purpose of Standing Direction 2.4(i) and whether it applies in all situations, and take appropriate action to give the requirement the necessary legislative force.

3 Project management and performance

At a glance

Background

Effective infrastructure project management requires a framework that enables a consistent approach that maximises the likelihood of projects being delivered on time, to cost and to the intended scope. It also requires robust oversight frameworks and reliable management information on projects.

Conclusion

Major Projects Victoria (MPV) has a sound framework to guide the management of its projects, although there remain some gaps. However, it does not routinely apply the framework or better practice in operation. Ineffective oversight and quality assurance processes mean that MPV cannot demonstrate that it has a sound understanding of how it is performing across all of its projects and has not established processes to routinely learn from them.

Findings

- MPV does not have effective project oversight mechanisms in place that enable it to quality assure project management practices and learn from projects. It also cannot demonstrate that it has a sound understanding of the status of its projects.
- On average, the main construction contract for projects are over the expected cost by around 18 per cent and over the planned end date by around 37 per cent. This differs significantly from MPV's reported 100 per cent performance in delivering projects against 'agreed plans'.
- MPV's project data is unreliable.

Recommendations

Major Projects Victoria should:

- strengthen financial management system controls so that original budgets cannot be altered, and so there is a clear audit trail of changes
- review and address data quality and reliability issues, including assessing how it defines key data, and how it collects, collates and manages the data.

3.1 Introduction

Major Projects Victoria's (MPV) main role is to manage the delivery of infrastructure projects, typically on behalf of other public sector entities. Effective infrastructure project management requires a framework that enables a consistent approach that maximises the likelihood of projects being delivered on time, to cost and to the expected scope.

Effective project management also requires robust oversight frameworks and reliable management information on projects. These support project planning and management activities to meet required standards, and enable management to take action where standards are not being met.

3.2 Conclusion

MPV has a sound framework in place to guide the management of its projects, although there remain some gaps. However, ineffective oversight and quality assurance processes mean that the framework and better practice are not being routinely applied operationally. MPV also has not established processes to learn from all projects and, therefore, continually improve.

MPV's approach to project oversight means that it cannot demonstrate that it has a sound understanding of how it is performing across all its projects. Data indicates significant differences between actual and reported performance—the latter suggesting perfect performance—notwithstanding there are major deficiencies that render the data unreliable.

3.3 Project management

Effective project management requires appropriate knowledge, skills, tools and techniques to successfully deliver a project. MPV aims to be consistent across projects. This requires the tools and techniques to be documented and used in accordance with established processes.

MPV has a sound framework in place to guide project management that adopts most of the better practice project management principles. However, MPV is not consistently applying the framework or better practice principles across its projects in operation.

3.3.1 Project management framework

MPV has a Project Management Framework (PMF) that it first issued in July 2008. The PMF provides guidance on MPV's project management activities, processes and procedures for project phases that include initiation, development, procurement and delivery. The PMF also describes mandatory requirements and standard information to be included in plans, but allows some flexibility and customisation of plans from project to project.

Before 2008, MPV had no documented project management framework and it relied on the skills and experience of its staff and contractors to manage project delivery. There are significant risks in not having a documented framework, including the failure to adequately develop key project management documents. Adequate planning is likely to have a positive impact on the effectiveness of project management.

MPV recognised these risks in deciding to develop the PMF to guide all MPV project management staff in their roles and responsibilities, and to enable a consistent approach in managing and delivering projects.

Applying the framework and better practice

To understand how effectively MPV implements its PMF and to assess its systems and processes against better practice, we assessed three projects: the Melbourne Recital Centre and Melbourne Theatre Company's Theatre (MRC/MTC) development, the Princes Pier renewal and the State Sports Facilities Project.

We assessed the three projects by reviewing project management plans (PMP) for each project against guidance in MPV's PMF and against better practice guidance from the Project Management Body of Knowledge which outlines various inputs and outputs to the project planning process. Key outputs have been mapped against MPV's PMF for project planning and there are many similarities, including:

- project scope statement
- procurement management plan
- quality management plan
- communication plan
- work breakdown structure
- schedules
- control costs or project cost management
- performance reporting
- risk management plan.

We also assessed key project information, such as approved budgets, signed main construction contracts, project reporting, financial reporting and the management of project variations.

With the exception of elements of the Princes Pier and the MRC/MTC projects, we were satisfied that MPV had adhered to the PMF and project management better practice in delivering these projects. Our assessment included reviewing PMPs, project governance arrangements, monthly client and contractor reports on project status, the assessment and payment of contract progress claims, quality assessments of works, certificates and directions issued to contractors and the management, and approval of project variations.

For Princes Pier, there were a range of deficiencies in the way that it planned the project, including a poorly developed PMP, and the lack of appropriate project governance.

For MRC/MTC, while its planning was generally sound, there were weaknesses around approvals and review of the plan. Issues related to these two projects are detailed in Figure 3A.

Figure 3A
Princes Pier renewal and MRC/MTC Theatre

Princes Pier renewal

This project involved the partial demolition and restoration of the Princes Pier in Port Melbourne. For this project, DBI was the client and project manager, as well as the end user. This is not the normal practice for most projects that MPV delivers, with an external client and end user more typical.

While there is a project management plan for this project, it has many deficiencies that are likely to have contributed to poor project outcomes. The plan does not conform to MPV's PMF or better practice. Issues include:

- The plan consists of six individual files and document or version control is poor. It is unclear how the plan as a whole could be easily viewed and understood as separate files.
- The plan was not approved and remained a draft document throughout the life of the project.
- The plan lacks sufficient detail about objectives, governance and management, and time frames.
- Significant gaps exist in the plan and key sections are missing. These include a project overview, work plan and work breakdown structure, schedules, project monitoring and performance measurement, procurement strategy, and risk management—although some risk registers do exist for the project.
- The plan refers to Schedules that do not exist and refers to project governance arrangements that did not exist during the project.
- The plan was not regularly or routinely updated during the project, despite significant changes to time frames and cost occurring during the life of the project. The plan was created in 2006 and updated once in 2010.

MPV's PMF states that a project management plan documents how a project will be managed so that it is delivered on time, within budget and meets performance criteria. The project did not have a complete, comprehensive and coherent plan, and the project was completed significantly over time and budget. It was originally scoped as a five stage project with initial funding of $14 million to complete stages one and two with additional funding of $6 million estimated to complete stages three, four and five. All five stages were intended to be completed by April 2008. The project was completed in December 2011 at a total cost of $32.5 million. The completed project consisted of the first three stages of the original plan and a 'forest' of piles at the seaward end of the pier. Delays and increased costs to complete the project were primarily due to the existing pier structure being in a worse condition than initially planned for.

MPV did not establish a Project Control Group—the key governance and oversight body for projects—or equivalent for this project. Rather, the project director reported directly to the Executive Director, MPV. This is significant given that DBI was the client organisation and project manager for this project, and also owns the infrastructure. There is no rationale about why MPV did not adopt its generic governance model for this project. Consequently, DBI was essentially overseeing itself with little or no outside or independent oversight for delivery of the project. This approach lacks accountability and transparency.

Melbourne Recital Centre and Melbourne Theatre Company Theatre

This project was completed in 2008. It involved developing a Recital Hall (Melbourne Recital Centre) and Melbourne Theatre Company's (MTC) new theatre facility. There were separate project control groups established for the two major components of the project—the Recital Centre and MTC Theatre—as they have different stakeholder/end users (Recital Centre Interim Board and the University of Melbourne for the MTC Theatre).

Figure 3A
Princes Pier renewal and MRC/MTC Theatre – *continued*

MPV developed a PMP for this project, and it addresses most elements of MPV's PMF and better practice. However, some sections were not developed and neither MPV's Executive Director, nor the project's project control group approved the PMP. It remained unapproved throughout the life of the project. There were three iterations of the plan, all completed in May 2004. There were no further updates to the PMP during the project, which finished in 2008. Some sections are marked 'to be developed' or 'preliminary not finalised or agreed'. MPV is unable to explain why this is the case.

Source: Victorian Auditor-General's Office based on Major Projects Victoria information.

3.4 Project oversight

Project oversight is fundamental to the effective, efficient and economical delivery of projects. It involves performing a quality assurance role around the actions that project directors and managers make during projects, continually learning from projects, and improving practices. It also requires having robust management information that enables an assessment of projects, and remedial action to be taken where performance is not meeting expectations.

MPV does not have effective project oversight mechanisms in place, and cannot demonstrate that it has a sound understanding of the status of its projects.

3.4.1 Quality assurance

MPV's PMF is one aspect of quality assurance in that it provides a framework that, if applied as intended, should result in quality project management. Better practice identifies the need for a role of Project Management Office to support project managers by:

- managing shared resources across all projects administered by the Project Management Office
- identifying and developing project management methodology, best practices and standards
- coaching, mentoring, training and oversight
- monitoring compliance with project management standards, policies, procedures, and templates via project audits
- developing and managing project policies, procedures, templates, and other shared documentation
- coordinating communication across projects.

Within MPV, the Director of the Project Management Group is expected to perform these roles, as this role has oversight and responsibility for all infrastructure projects. This includes the delivery of projects by each project director, as well as the development and maintenance of the PMF.

However, two of three projects we examined contained fundamental shortcomings. While the director meets with project directors on a weekly basis to discuss projects, this is not a substitute for developing robust procedures to enable critical project documentation to be properly assessed, understood, approved and routinely reviewed.

Maintaining the project management framework

MPV requires that it updates its PMF quarterly to reflect the latest developments, amendments and changes in government policies and legislation that may affect the project management environment. It should also reflect changes in industry standards and trends.

The PMF requires that there is a process in place to update the framework. The Director of the Project Management Group is responsible for overseeing the PMF’s review.

Despite the PMF being in place for four years, there is no system or process to enable its update, nor does MPV have systems and processes to routinely capture and assess information from industry, and compare it against the PMF. Apart from some changes to the PMF to reflect legislative changes, MPV has not assessed the currency of the information in the PMF, nor has it updated it more generally. The PMF still contains incomplete sections, including elements relating to project procurement, project completion, and handover and corporate services. Four of the appendices also remain undeveloped.

Continuous improvement

Continuously improving practices is an element of effective governance. It enables entities to assess their performance, identify what worked and what did not and, as appropriate, change processes and systems to improve future performance.

MPV recognises the importance of continuous improvement in its annual business plans, identifying ‘capturing the learnings from successes and failures’ as one of its key leadership behaviours. Despite this, it does not have any systems or processes to routinely capture information about projects to enable continuous improvement. Nor does it routinely or regularly assess projects for this purpose.

While MPV conducted a ‘lessons learned’ exercise in 2009, this was at the request of the Minister for Major Projects, not because of any established practice. MPV advised of two other reviews that it has undertaken in relation to individual projects. These were a 2005 review of the Austin Health redevelopment and Mercy Hospital for Women relocation and a 2011 review of the Melbourne Park redevelopment project. The Melbourne Park review resulted in ‘project principles’, which have been applied to later stages of the project. MPV has no plans to establish any systems or ongoing processes that would enable it to continuously improve.

Given the quality assurance weaknesses relating to the project documentation, the PMF and continuous improvement, MPV is not demonstrating that it represents value-for-money.

3.4.2 Management information

From an organisational perspective, understanding the status of all projects is a key element of good corporate governance. Having this information readily available to MPV's senior management and the Minister for Major Projects requires effective management information systems that produce relevant, current and reliable information.

MPV has a range of reporting and meeting mechanisms in place to provide its management with information about the status of its projects. While these mechanisms appear extensive, particularly with regard to briefings, their focus is primarily on individual projects or broader organisational issues.

MPV's key reporting and meeting mechanisms include:

- Fortnightly reports to the Deputy Secretary, Secretary and Minister for Major Projects. These reports are high-level, one-page summaries that describe issues around project time lines and progress, financial information, risks and issues, and future events and milestones. They are largely descriptive reports with few metrics.
- Quarterly reports for the deputy secretary. These are a compilation of the most recent monthly project control group reports. Typically they are voluminous reports with some metrics. However, they require a degree of prior knowledge to understand them, and because of the level of detail they require careful reading to readily understand the status of the project.
- Monthly risk reports to the executive director. These reports contain information about possible risks and contingencies for each project.
- Weekly project director and group head meetings to discuss the status of each project. Outcomes of these meetings are undocumented.
- Weekly group head meetings with the executive director. These meetings focus on MPV's operations, with some focus on projects.
- Weekly executive director meetings with the deputy secretary. These meetings focus on MPV's operations and some projects, rather than overall project delivery.
- Weekly executive director and deputy secretary meetings with the Minister for Major Projects' office. These meetings focus on specific projects, and also significant operational issues, such as external audits of performance.

There is no evident management information that provides collated information on all projects and other MPV activities to give management a sense of MPV's overall performance. While MPV considers that it has sufficient information about the status of projects and overall performance from meetings and project reports, it cannot demonstrate this understanding, nor is it transparent. Information obtained through meetings about projects resides with individuals, and any assessment of overall performance is undocumented. This is a gap in MPV's and DBI's governance.

3.5 Project performance

While MPV has some systems and processes in place to provide it with information about the status and performance of its projects, these do not provide it with adequate information about all of the capital projects it is managing. Information of this type is not typically available within MPV.

In addition, MPV publicly reports that, in delivering projects it achieves 100 per cent performance in delivering against ‘agreed plans’. Part 4 of this report discusses MPV’s reported performance. Given the gaps in MPV’s management information, and because of its reported performance, we obtained data from MPV to enable us to understand the actual performance of its projects.

It is important to note that MPV is not responsible for all changes to a project that may impact on costs and time. Factors such as client entities changing the project’s scope, and weather can affect the cost and timeliness of projects.

MPV’s data shows a marked difference between actual and reported performance, with most projects exceeding cost and time measures. This is not the impression that DBI’s external performance reporting creates. There are major deficiencies with MPV’s data and data management practices that mean the underlying data are unreliable. This has implications for its public reporting and other reports that have relied on MPV data.

While the unreliable data undermines the usefulness of the project data that this report presents, the value of including even unreliable data outweighs this given the absence of publicly available data.

3.5.1 Project data

MPV has previously sought to understand its project performance by undertaking benchmarking studies. However, this is the extent of its assessment of actual performance across all projects.

For this audit, we sought similar data to that provided for the benchmarking studies. Primarily, this data related to the main contract for projects. There are usually other contracts and other costs associated with project delivery. However, the main construction contract typically forms the largest portion of a capital infrastructure project. Analysis of the main construction contract as one measure of MPV’s performance is consistent with the approach taken in the benchmarking studies, and therefore provides a good indicator of a project’s, and MPV’s, performance. We also obtained data on the whole project cost and time, which has all costs in addition to the main contract, and all time charged to a project.

Benchmarking studies

In 2009, MPV contracted an external provider to undertake a benchmarking study of its projects. MPV’s poor record management practices mean that it was unable to locate information relating to the commissioning of the studies, and hence the reason for MPV benchmarking its performance.

The statistical analysis was based on project completion time and project cost data based on the main contract for MPV projects from 1998 to 2008 inclusive. It compared MPV's performance with that of the private sector and interstate government projects. We have assessed the benchmarking studies and consider they are methodologically sound. The analysis found that the MPV projects studied:

- had gradually improved cost and time performance, although the magnitude of the average improvement is not specified in the document
- performed better on cost than the private sector projects studied—68 per cent of MPV projects were within a 15 per cent budget contingency, compared with 56 per cent for the private sector projects
- had better on-time performance compared with private sector projects studied—45 per cent of MPV projects were within a 15 per cent time contingency, compared with 35 per cent for the private-sector projects
- performed less well than the interstate government projects—68 per cent of MPV projects were within a 15 per cent budget contingency, compared with 79 per cent for the interstate government projects, and 45 per cent of MPV projects were within a 15 per cent time contingency, compared with 73 per cent for the interstate government projects.

These results are supported by a subsequent benchmarking study completed by the same external provider for MPV in August 2010. The 2010 analysis used essentially the same methodology and reached a similar conclusion on the trend in project performance. However, it examined a broader range of Victorian Government projects, not just MPV projects.

In 2011, DBI advised the Public Accounts and Estimates Committee that the 2010 benchmarking study was completed to determine the value of efficiencies and effectiveness achieved from MPV planned and delivered projects. However, this benchmarking study focused on projects across the whole of the Victorian Government, and does not specifically benchmark MPV's performance. MPV's representation, therefore, is not accurate. It is unclear why MPV did not disclose to Parliament the existence of the first benchmarking study, which did focus specifically on MPV's performance.

We have identified, through MPV's business plans, that a further benchmarking study was completed around 2006–07. This study appears to benchmark MPV with international projects, with MPV noting that it '…recently benchmarked its performance against international project performance benchmarks and our performance compares favourably with these international benchmarks. In fact, MPV's performance is more than two times better than the international average'. However, MPV has been unable to locate this study within its information management systems.

Comparison of VAGO data to the benchmarking studies

Using the available data for projects between 2000 and 2012, we performed similar analysis to the benchmarking studies to enable comparison. Our analysis focused on:

- The average cost ratio, which is the actual main contract cost divided by the planned main contract cost for the project. A cost ratio of 1.00 means contracts are on budget, on average. In essence, the higher the ratios, the more over budget contracts are.
- The average time ratio, which is the actual main contract completion time divided by the budgeted main contract time. A ratio of 1.00 means main contracts are on time, on average. The higher the ratios, the more over time main contracts are.

Compared with the 2009 benchmarking study:

- MPV is performing about the same on average contract cost but less well on average timeliness for their projects when compared to this study. MPV main contracts are coming in over budget on average with a cost ratio of 1.18 compared to the benchmarking ratio of 1.15.
- The budget performance of MPV projects is below that of interstate government projects and private sector projects as found in the benchmarking study. MPV is performing less well when it comes to timely delivery of projects. It has a time ratio of 1.41 compared to the benchmarking ratio of 1.32. The time performance of MPV main contracts is between that of interstate government projects and private sector projects as found in the benchmarking study.

Differences in our results and the benchmarking results should be expected given we could not precisely replicate the benchmarking study's method. In addition, the data that MPV provided for the benchmarking study differs significantly from the data it provided to us. We discuss data reliability and data management issues after Figure 3B.

Main contract performance

Figure 3B shows the performance of the main construction contract for projects that MPV has managed since 2000. MPV provided us with data on the cost and timeliness of recent major projects. Twenty-one of the projects in the dataset had complete data, which has been used in the analysis represented in Figure 3B.

The data shows that on average, contracts are over the expected cost by around 18 per cent and over the planned end dates by around 37 per cent. This differs significantly from MPV's reported 100 per cent performance in delivering against 'agreed plans', which creates an impression of perfect performance.

We also analysed the data to determine the trend in performance, in terms of the cost and time to complete projects. Contracts that were signed more recently are less likely to run over time than contracts signed in the past. This is consistent with the findings in the benchmarking study. However, in terms of cost performance, contracts that were signed more recently are not performing better or worse on cost than contracts that were signed in the past.

Figure 3B
Main contract performance for completed projects, 2000–12

	Expected cost ($mil)	Actual cost ($mil)	Difference ($mil)	Difference (per cent)	Planned end date	Actual end date	Difference (months)	Difference (per cent)
Museum of Victoria	161.5	185.4	23.9	14.8%	Feb 99	Nov 00	21	80.8%
Sidney Myer Music Bowl refurbishment and Redevelopment	13.64	18.2	4.56	33.4%	Nov 00	Nov 01	12	60.0%
Royal Park Sports Facility	22.6	26.1	3.5	15.5%	Mar 00	Jan 01	10	90.9%
Velodrome / Multipurpose Venue	53.7	62.1	8.4	15.6%	Dec 99	Jul 00	7	43.8%
Sports and Entertainment Precinct Infrastructure Upgrade	18.5	23	4.5	24.3%	Nov 99	Oct 00	11	100.0%
Royal Exhibition Buildings, North Elevation Reconstruction	4.5	4.5	0	0.0%	Feb 01	Feb 01	0	0.0%
Malthouse Plaza	10.2	10.8	0.6	5.9%	Nov 01	Jan 03	14	100.0%
National Gallery of Victoria	94.7	119.1	24.4	25.8%	Jan 03	May 03	4	16.7%
Austin Health redevelopment and Mercy Hospital for Women relocation (new towers)	247.3	273	25.7	10.4%	Jan 06	Jun 07	17	38.6%
Australian Synchrotron	43.3	56.9	13.6	31.4%	May 05	Mar 05	–2	–9.1%
Melbourne Sports and Aquatic Centre Stage 2	51.55	61.2	9.65	18.7%	Jun 05	unknown	–	–
William Barak Bridge	24.3	25.9	1.6	6.6%	Aug 05	Mar 06	7	43.8%
Bonegilla Migrant Settlement Camp (Block 19)	1	1.1	0.1	10.0%	Nov 04	Feb 05	3	37.5%
Parliament House Catering Facilities Redevelopment	4.9	4.9	0	0.0%	Jun 06	Jun 06	0	0.0%

Figure 3B
Main contract performance for completed projects, 2000–12 – *continued*

	Expected cost ($mil)	Actual cost ($mil)	Difference ($mil)	Difference (per cent)	Planned end date	Actual end date	Difference (months)	Difference (per cent)
Melbourne Recital Centre and MTC Theatre	99.2	115.1	15.9	16.0%	Oct 08	Sep 08	–1	–3.4%
Hepburn Springs Bathhouse	8.5	9.3	0.8	9.4%	Nov 07	May 08	6	46.2%
Melbourne Rectangular Stadium (AAMI Park)	216.2	237.4	21.18	9.8%	Dec 09	May 10	4	13.8%
Southbank Cultural Precinct Redevelopment Stage 1	116.6	121.2	4.6	3.9%	Jul 12	Jul 12	0	0.0%
Melbourne Park Redevelopment – Stage 1 (Part A)	19.24	38.5	19.26	100.1%	Nov 10	Sep 11	10	125.0%
Melbourne Markets Relocation	291.4	311	19.6	6.7%	Mar 12	May 13	14	58.3%
Princes Pier	17	21.63	4.63	27.2%	May 11	Dec 11	7	14.9%
State Sports Facilities Project	40.4	49.97	9.57	23.7%	Oct 11	Aug 12	10	66.7%
Melbourne Park Redevelopment – Stage 1 (Part B)	110.6	126.5	15.9	14.4%	Apr 13	Apr 13	0	0.0%
Melbourne Park Redevelopment – Stage 1 (Part D)	2.67	3.11	0.44	16.5%	Apr 12	Apr 12	0	0.0%
Average			**9.7**	**18.3%**			**6.3**	**36.5%**

Note: Some projects are broken into separate portions or stages which each have their own start and completion date. In these instances, the earliest date was taken to be the overall project start date, and the latest date was taken to be the overall project completion date. According to Major Projects Victoria the contract for the Synchrotron main contract is representative of approximately 20–25 per cent of total project cost only.

Appendix D summarises key factors, such as scope changes, which have impacted delivery of projects as reported by Major Projects Victoria.

Source: Victorian Auditor-General's Office based on Major Projects Victoria data.

3.5.2 Data reliability

We experienced considerable difficulty in obtaining standard project information from MPV. This was not due to an unwillingness to provide the information, but rather an inability to readily provide it. MPV's processes are predominantly manual, and much of the information we requested was sourced from hardcopy documents retrieved from archives. Manual processes increase the risk of unreliable data.

Some of the information that MPV had difficulty in readily providing included:

- the original approved budget and costs for project phases
- main contract signing dates, main contract planned site possession and practical completion dates, actual site possession and practical completion dates
- main contract planned cost and actual cost at completion
- project management plans, signed memoranda of understanding, signed main contracts and contract programs.

In addition to verifying a selection of source documents, we also sought the data that MPV provided for the benchmarking study in 2009. We expected much of the data to match given the similar nature of the projects and the time frames, and the nature of the source documents for both. This is particularly so for completed projects, because the data should not change after it is complete.

MPV did not have copies of the benchmarking data, which it had developed only three years ago, in its record management systems. Instead, we obtained the data from the study's author.

There is a substantial difference between the projects and cost and time data that MPV provided to us for this audit, and that it provided for the benchmarking study. This includes different data for completed projects that were included in the benchmarking study and our data in Figure 3B. This means the data is unreliable, and raises significant questions about how MPV can provide different data for the same projects. MPV cannot explain the differences, and this highlights major deficiencies in its data management, record keeping and governance.

Major Projects Victoria data provided to VAGO

There are significant differences in the types of projects that MPV provided to us and to the benchmarking study, despite their similar focus. These differences include:

- MPV provided us with data on 22 projects undertaken for the period 2000–12, and provided the benchmarking study with 29 projects for the period 2000–09.
- There were eight projects that MPV provided to us that it did not provide for the benchmarking study. While four of these projects were completed after 2009, this does not account for the other four projects.
- MPV provided the benchmarking study with 15 projects that it did not provide to us, and 14 projects that it provided to both us and the benchmarking study.

The 14 projects covered in information provided by MPV to both VAGO and the benchmarking study are listed in Figure 3C.

Figure 3C
Comparison of Major Projects Victoria data provided to different parties

Project	VAGO data	Benchmarking data	Difference
Austin Hospital[a]			
Contract cost ($ million)	$247.3	$227.6	$19.7
Actual cost ($ million)	$273.0	$251.2	$21.8
Contract completion	13/01/06	31/12/06	11 months
Actual completion	22/06/07	31/12/07	6 months
Museum of Victoria			
Contract cost ($ million)	$161.5	$176.2	$14.7
Actual cost ($ million)	$185.4	$186.2	$0.8
Contract completion	01/02/99	21/12/99	10 months
Actual completion	06/11/00	21/12/00	1 month
Royal Park State Netball & Hockey Centre			
Contract cost ($ million)	$22.6	$22.5	$0.1
Actual cost ($ million)	$26.1	$29.2	$3.1
Contract completion	20/03/00	30/04/00	1 month
Actual completion	24/01/01	30/11/00	2 months
Melbourne Sports and Aquatic Centre Stage 2			
Contract cost ($ million)	$51.6	$51.0	$0.6
Actual cost ($ million)	$61.2	$63.9	$2.7
Contract completion	30/06/05	[b]	n.a
Actual completion	[b]	[b]	n.a
Nagargee Centre for Contemporary Art			
Contract cost ($ million)	$10.2	[b]	n.a
Actual cost ($ million)	$10.8	[b]	n.a
Contract completion	01/11/01	31/12/01	2 months
Actual completion	[c]31/01/03	31/12/01	25 months
Parliament House Catering Facilities			
Contract cost ($ million)	$4.9	$3.9	$1.0
Actual cost ($ million)	$4.9	$3.9	$1.0
Contract completion	[c]30/06/06	28/02/08	26 months
Actual completion	[c]30/06/06	03/05/08	23 months
Hepburn Springs Bathhouse			
Contract cost ($ million)	$8.5	$9.3	$0.8
Actual cost ($ million)	$8.7	$9.6	$0.9
Contract completion	[c]30/11/07	30/11/08	12 months
Actual completion	30/05/08	03/05/08	1 month
MRC/MTC Theatre			
Contract cost ($ million)	$99.2	$99.2	$0.0
Actual cost ($ million)	$115.1	$113.9	$1.2
Contract completion	23/10/08	05/12/08	2 months
Actual completion	12/09/08	30/09/08	0 months
Sidney Myer Music Bowl			
Contract cost ($ million)	$13.6	$14.2	$0.6
Actual cost ($ million)	$18.2	$18.4	$0.2
Contract completion	01/11/00	[b]	n.a
Actual completion	30/11/01	[b]	n.a

Figure 3C
Comparison of Major Projects Victoria data provided to different parties – *continued*

Project	VAGO data	Benchmarking data	Difference
Multi-Purpose Arena			
Contract cost ($ million)	$53.7	$56.1	$2.4
Actual cost ($ million)	$62.1	$61.2	$0.9
Contract completion	(c)31/12/99	(b)	n.a
Actual completion	(c)31/07/00	(b)	n.a
Australian Synchrotron(c)			
Contract cost ($ million)	$43.3	$206.3	$163.0
Actual cost ($ million)	$56.9	$221.0	$164.1
Contract completion	15/05/05	31/08/07	27 months
Actual completion	03/03/05	31/03/07	25 months
William Barak Bridge			
Contract cost ($ million)	$24.3	$30.8	$6.5
Actual cost ($ million)	$25.9	$32.8	$6.9
Contract completion	15/08/05	31/12/05	4 months
Actual completion	15/03/06	31/12/05	3 months
Melbourne Rectangular Stadium			
Contract cost ($ million)	$216.2	(b)	n.a
Actual cost ($ million)	$237.4	(b)	n.a
Contract completion	22/12/09	31/12/09	0 months
Actual completion	30/04/10	(b)	n.a
Bonegilla Migrant Settlement			
Contract cost ($ million)	$1.0	(b)	n.a
Actual cost ($ million)	$1.1	(b)	n.a
Contract completion	(c)30/11/04	31/03/03	20 months
Actual completion	(c)28/02/05	01/09/03	18 months

(a) Austin Hospital project – Information provided by Major Projects Victoria to VAGO refers to the 'new towers'. The Benchmarking data refers to the 'Mercy Towers'. These are considered to be the same project.

(b) Major Projects Victoria could not provide this data.

(c) Month only dates have been provided. We have assumed the last day of the month.

(d) Synchrotron project – two projects are listed in the projects provided by Major Projects Victoria to the Benchmarking Study (Australian Synchrotron and National Synchrotron). The Benchmarking Study author advised that there was a main contract and then supplementary contracts for the same facility. The main contract has been used for the Benchmarking Study data shown.

Note: Where a project consists of more than one portion or sub-project and each has different practical completion dates, the latest planned date and latest completion date has been used.

Final data used by the Benchmarking Study has been used for analysis. This data was finalised after numerous updates by Major Projects Victoria and cross checks by Benchmarking Study researchers. The Benchmarking Study used all data they could gain and confirm from Major Projects Victoria. No data was excluded from the study if it was available.

The Benchmarking Study used only projects where data was complete for either time or cost – some projects had complete data while some had only complete cost or time data.

Source: Victorian Auditor-General's Office from data provided by Major Projects Victoria and the Benchmarking Study author.

As shown in Figure 3C, there are significant differences in both the cost and time data. In no case does the data match. For example, the cost difference between the information MPV provided the benchmarking study and to VAGO for one project is around $160 million, while for others the cost differences range from hundreds of thousands to millions. Similarly, for time the differences in the data, where completion dates are known, range from one month up to two years. This data should be identical, particularly as it was provided to the benchmarking study and VAGO only three years apart—in 2009 and 2012.

3.5.3 Data management

A key aspect of MPV's data management is the management of project budget data. Project budgets inform whether MPV has successfully managed the project from a cost perspective. The project budget is essentially the baseline for project cost data.

MPV does not manage its project budget effectively. This is because it has a poor and inconsistent view of what an 'original approved budget' is.

Given MPV spends other entities' funds while it manages their projects, it needs to know how much it can spend. The Project Control Group (PCG) also needs to know what the project budget is so that it can monitor expenditure against it. Therefore, it is logical that the approved budget is that which the PCG agrees to. This is consistent with the approach taken in the benchmarking study.

While MPV's Insynergy system identifies the need for an original approved budget, MPV does not define what an original approved budget is. It is therefore not possible to reliably determine what the baseline is for each project, or how MPV determined it. This approach diminishes the ability to audit MPV's budget data and provides little confidence about its reliability. This is a major weakness in MPV's data management.

Regardless, the way that MPV manages the data that it does consider being the approved budget highlights further weaknesses. These relate to how its data management practices can affect project performance data, and also the integrity of its systems.

Project budget information

According to the Insynergy user guide, once a project's original approved budget is entered into Insynergy it should not be changed. Any revisions to a project's budget, such as the provision of additional funding, should be shown as a revision/transfer. The sum of the approved budget and any revisions/transfers then provides the current budget for a project. This provides a transparent approach to project budget changes.

Original approved budget figures that MPV provided were frequently not what they were purported to be. Rather, they were the current approved budget, inclusive of revisions. For some projects it was clear MPV was providing a current approved budget, while for other projects it was not apparent. Often the only way to identify this was through a detailed assessment of original project documentation. This is not an efficient way to obtain this information, and raises questions—to which MPV had no answers—about why original approved budgets were changed, despite its own controls prohibiting this.

Insynergy only shows the most recent information. While an audit trail of changes made to budget and other data is maintained in the system, it is not evident for all projects that changes may have been made. Examples of issues around changes to the original budget are included in Figure 3D.

Figure 3D
Discrepancies with original approved budgets

Princes Pier

Funding of $14 million was provided to complete the first two project stages, while an estimated $6 million, was to be sought at a later date to complete the final three stages. The project therefore had an estimated total investment of around $20 million.

The final cost for the project was $32.5 million. While the original approved budget was $14 million, MPV's systems reflect the original budget as $34 million, which is the current budget.

State Sports Facilities project

In July 2008 the original project budget was $44.3 million and the project was scheduled for completion by June 2011. In April 2009 additional funding of $10 million was provided and a further $12.9 million in April 2011, bringing the approved revised budget to $67.2 million.

MPV cost reports from July 2012 shows the approved budget as $46.3 million, rather than the original $44.3 million. MPV advised that this figure is the original budget, plus allowances for South Melbourne Football Club redevelopment, external signage, general expenses and furniture. MPV could not provide documentation to adequately explain the discrepancy.

MPV has also provided VAGO a figure of $67.2 million (April 2011) as the approved budget for this project as part of summary data for all capital projects. This figure is clearly not the original approved budget approved by the PCG which was $44.3 million and this does not accurately reflect the original approved budget for the project.

MRC/MTC Theatre project

There are some discrepancies with approved budget figures for this project. The most recent version of the project plan lists the budget as $94 million, while the Insynergy master report from July 2012 lists the approved budget as $121.5 million, with revisions of $6.5 million and a current budget of $128.03 million. MPV provided VAGO with an approved budget figure of $128.4 million during the audit which differs from both the Insynergy approved budget figure and the figure in the project plan provided by MPV.

Source: Victorian Auditor-General's Office.

This approach can misrepresent the performance of projects. By using a current budget as a baseline for project costs, actual expenditure generally matches, or is very close to, this continually revised baseline. Comparing actual expenditure to the original approved budget would show the difference between current and intended costs—albeit there may be legitimate reasons for revisions to the budget. It is a more transparent approach.

Our analysis of main contract costs identified average cost overruns of around $9.7 million, representing 18.3 per cent of the project's main contract cost which is only a portion of the whole cost of a project. Our analysis of whole-of-project cost performance using the original approved budget MPV provided suggests average cost underruns of –3.5 per cent. This indicates a 21.8 per cent difference between the main contract cost and the whole-of-project cost, however, we do not consider this data to be reliable.

Recommendations

Major Projects Victoria should:

12. develop a process to routinely capture and assess industry and other information, and update its Project Management Framework as appropriate
13. develop robust oversight processes so that the Project Management Framework is appropriately applied and key stages approved and reviewed, and there is compliance with required project standards, policies and procedures
14. establish a project review mechanism so that lessons from each project are identified, assessed, incorporated into practices as appropriate, and communicated
15. define and document governance arrangements for projects without external clients or end users so that there is an appropriate level of accountability, direction and oversight of project implementation
16. develop management information that provides a reliable, documented overview of project performance across all projects
17. define what an original approved budget is and consistently apply it to all projects
18. strengthen financial management system controls so that original budgets cannot be altered, and so there is a clear audit trail of changes
19. review and address data quality and reliability issues, including assessing how it defines key data, and how it collects, collates and manages the data.

4 Reporting performance

At a glance

Background

Monitoring and reporting performance is a key element of effective governance and public accountability. Public sector agencies have a responsibility to monitor and to report how they use public funds efficiently and economically to achieve intended outcomes.

Conclusion

Major Projects Victoria's (MPV) systems and processes for monitoring performance are deficient and it cannot demonstrate at an organisational level whether it is effective, efficient and economical. MPV has reported to Parliament that it has achieved 100 per cent performance over a 14-year period, despite a lack of supporting data demonstrating its performance.

Findings

MPV and the Department of Business and Innovation have developed performance indicators as part of their external and internal accountability requirements, however, significant shortcomings exist:

- The indicators are neither relevant nor appropriate, and are incapable of fairly representing actual performance. MPV does not properly assess its performance against its indicators.
- The veracity of reported performance data and the information that the Department of Business and Innovation has provided to Parliament is not assured.

Recommendations

The Department of Business and Innovation should:

- undertake a thorough and robust review of its external and internal indicators related to Major Projects Victoria assessment process
- establish quality assurance mechanisms over Major Projects Victoria to provide it with appropriate assurance around Major Projects Victoria's processes to assess performance.

4.1 Introduction

Monitoring and reporting performance is a key element of effective governance and public sector accountability. Public sector entities have a responsibility to monitor and report whether they use public funds efficiently and economically to achieve intended outcomes and objectives. Effective performance monitoring and reporting should also enable an agency's management to track performance and act to address underperformance when detected.

4.2 Conclusion

Major Projects Victoria (MPV) has deficient systems and processes in place to monitor performance and demonstrate at an organisational level whether it is effective, efficient and economical, and whether it provides Victoria's tax payers with value-for-money.

While it has performance indicators to assess its performance, MPV does not assess its performance against them, and it does not know how it is performing. The Department of Business and Innovation (DBI) has consistently reported to Parliament that it has achieved 100 per cent performance over a 14-year period, even though its performance cannot be reliably determined. This casts doubt on the veracity of information it has provided. These issues also highlight further fundamental failings in MPV's and the DBI's governance.

4.3 Monitoring and reporting performance

To effectively monitor performance, public sector entities need to have clearly articulated objectives, outcomes and outputs. They also need to have performance indicators that provide information on whether the entity is achieving what it said it would.

To provide a reliable and accurate assessment of performance, an entity's performance indicators need to be relevant and appropriate. A relevant indicator is one that has a logical and consistent relationship to the entity's objectives, and that the entity is responsible for achieving. An appropriate indicator is one that is underpinned by sufficient information to assess its achievements against objectives, outcomes and outputs. This includes assessing trends over time and against predetermined benchmarks.

MPV and DBI have developed performance indicators as part of their external and internal accountability requirements. Both seek to assess performance against departmental objectives, however, significant inadequacies exist. Both indicators differ and neither is related to MPV's objectives. They are neither relevant nor appropriate, and are therefore incapable of fairly representing actual performance. Regardless, MPV does not properly assess its performance against its indicators.

4.3.1 External performance indicators

The Victorian Government's annual Budget Papers outline to Parliament and the public how it intends to collect and spend public money over the next four years. Budget Paper No. 3 *Service Delivery* provides information on the government's service priorities, and on expected and actual performance in delivering these priorities. It includes each department's key performance indicators.

For the years 2011–12 and earlier, the key DBI performance indicators used by MPV to assess its performance have been:

- **Quality**—delivery of nominated Major Projects Victoria projects complies with agreed plans, with a target of 100 per cent
- **Timeliness**—typically one MPV project, with a financial year quarter completion date
- **Cost**—represented by expenditure in $ millions.

In the 2012–13 Budget Paper 3, MPV has reduced its performance indicators to only include a variation of the quality indicator 'delivery of nominated Major Projects Victoria projects complies with agreed plans and contractual frameworks'. DBI has removed its timeliness indicator, and its cost indicator has been combined with other output groups.

The following assessment is based on DBI's performance indicators for MPV for the period 1998–99 to 2012–13.

Quality indicator

MPV's quality indicator—the delivery of nominated Major Projects Victoria projects complies with agreed plans and contractual frameworks—is the main indicator it uses to assess and report externally on its overall performance. However, this indicator is neither relevant nor appropriate. It is not sufficiently related to DBI and MPV objectives and there is an inadequate understanding of what the indicator aims to measure.

Relevance

DBI's Corporate Plan 2009–12 details three broad objectives relating to MPV, and 16 supporting actions. The three objectives are:

- provide project development and delivery services and expertise to other government agencies regarding complex property development and construction projects
- lead project management and delivery
- deliver major projects that achieve economic, social, and environmental outcomes for the Victorian community.

MPV's quality indicator is capable of assessing achievement of the first objective, as its supporting actions clearly identify that it relates to MPV's core roles of providing project management services and advice regarding public private partnerships. However, the indicator is incapable of assessing achievement of the remaining two objectives.

While the second objective appears measureable with the indicator, the supporting actions do not support this. Achieving the first objective would only occur if MPV:

- recruited and retained skilled project managers and infrastructure specialists
- promoted best practice urban design principles, particularly ecologically sustainable design in projects
- promoted MPV's capability in thought leadership, infrastructure research and project management.

None of these actions are sufficiently related to the delivery of nominated projects according to agreed plans—as the indicator details. This is also the case for the third objective, as the indicator cannot assess whether MPV has achieved economic, social and environmental outcomes.

Appropriateness

The fundamental weakness with this indicator is that MPV cannot reasonably explain the indicator's key elements and what it is intending to measure. Consequently, it lacks a clear and consistent understanding of the indicator, which makes assessing performance a challenge.

MPV could not adequately explain what an 'agreed plan' is or how it assessed performance against agreed plans. An agreed plan appears to be whatever plan there is between MPV and the client entity, including where MPV is also the client.

This arrangement means that with each 'agreement', the performance baseline is reset and performance is assessed against that. This enables the baseline to be changed so that the performance standards can always be achieved. Unsurprisingly, MPV has achieved 100 per cent performance in every year that the indicator has been included in Budget Paper 3.

However, an indicator such as this does not accurately reflect the actual performance of MPV in managing infrastructure projects. The data for the projects discussed in Part 3 of this report consistently shows project costs and time frames are exceeded. While there are often legitimate reasons for a project exceeding costs and time, the external reporting creates the impression that performance is significantly better than it is. This diminishes both transparency and accountability. The Public Accounts and Estimates Committee (PAEC) also identified this issue in its *Report on the 2009–10 and 2010–11 Financial and Performance Outcomes.*

There is also uncertainty about what projects are included in this indicator. In 2005–06 and 2006–07, notes in Budget Paper 3 stated that 'the projects referred to in this output are those for which funding is received directly by the department. The department also manages the delivery of major projects that are funded through other departments and agencies'. This statement was not repeated for other years and it is unclear why only those years were chosen to report on these projects, or whether the practice has continued.

The practice of reporting against MPV's own projects was also supported by the government in 2011, in response to a PAEC recommendation where it stated that 'MPV only reports on projects for which it receives direct funding'. The number of projects that MPV receives direct funding for is a small subset of its total projects, and reporting only against those projects does not accurately reflect MPV's overall project delivery performance. It also does not enable adequate tracking of performance over time.

When raised with MPV during this audit, it did not know about the note in 2005–06 and 2006–07, and advised us that it did not think the government's 2011 statement was correct. MPV should have a solid understanding of these issues and if it was appropriately assessing its performance each year these uncertainties would have been known and considered in collating the data. The lack of awareness raises further reservation around the veracity of the Budget Paper 3 data.

Actual performance

To accurately report to Parliament on its performance, DBI needs effective and efficient processes to collect, collate and analyse its performance data. It also needs reliable data on which to assess its performance. MPV's 'process' to collect and collate and analyse performance data to inform Budget Paper 3 is deficient and unauditable.

While DBI has reported to Parliament each year that MPV achieves 100 per cent performance in the delivery of its projects, MPV could not adequately demonstrate that it actually collects and collates data, nor could we identify sufficient and appropriate evidence that this occurs.

This casts doubt about the veracity of the data reported in Budget Paper 3 and about the information that DBI has provided to Parliament, particularly through PAEC's outcomes and estimates inquiries. It also raises the prospect that DBI has misinformed Parliament through its responses to PAEC questions about the MPV quality measure. As part of its response DBI:

- implied that it had a process to determine when a project had not met performance standards—when it was material—which MPV does not have
- indicated that it had an understanding of the elements of 'agreed plan'—key milestones, completion dates and final costs—which MPV has not documented, and is inconsistent with our findings about the lack of a process related to this indicator.

MPV does not have documented procedures that detail how it collects and collates performance data or what data it should collect. Its 'process' typically relies on one person to manually obtain the information. It involves asking project directors and managers—responsible for managing the delivery of MPV's projects—to provide information on the status of their projects. According to MPV, for each of its projects this includes data on time, cost and quality. It is unclear what aspects of time, cost and quality MPV assesses.

MPV does not document the information provided, or any analysis. Without documenting this information, it is unclear how information from a range of projects is accurately collated and analysed to enable inputting onto a DBI spread sheet, which records quarterly performance information. This process is improbable, and despite MPV's advice, this data collection is unlikely to occur.

There are no mechanisms in place to provide assurance around data quality, with the information received by the collator in 'good faith'. Manual data collection processes increase the risk of error in the collection and collation of this data. Even if MPV did collect, collate and analyse data, the absence of any quality control over it, combined with the data reliability issues discussed in Part 3 of this report, means the likelihood of it being reliable would be low.

These shortcomings raise further reservation about the poor governance within MPV and at senior management levels within DBI.

Timeliness indicator

The timeliness indicator typically relates to only one project that MPV is managing, and assesses performance based on the achievement of a quarterly milestone. There is no apparent rationale for which project or milestone MPV selects. Fundamentally, this indicator does not provide an overall assessment of how timely MPV is for project management generally.

The most significant deficiency with the timeliness indicator is that performance against this measure cannot be assessed. Each year MPV selects new projects, or new parts of existing projects, and considers them as new measures for reporting purposes. Because of this, MPV has never reported the actual performance against the planned performance of these projects. DBI removed this indicator for the 2012–13 reporting year. Combined with the inability to track performance over time, transparency and accountability is further diminished.

Costs indicator

DBI reports on MPV's direct and indirect costs as part of its Budget Paper 3 reporting. There are a range of issues with its cost reporting that diminish transparency and accountability. This is particularly so for the most recent years. Importantly, MPV advised that the costs indicator includes its operational costs, including depreciation, fit out and assets, as well as costs associated with the sale of land as part of the Kew Redevelopment.

While the sale of land may be a legitimate reportable cost for the purpose of Budget Paper 3, it is not possible to differentiate this from MPV's operational costs. This prevents Parliament or the public from tracking MPV's operational costs over time, or assessing MPV's efficiency and economy.

MPV also advised that since at least 2010–11, its cost indicator includes costs associated with Invest Assist (a separate division of DBI), which has no apparent relationship to the delivery of major projects. DBI determines the costs target and the attribution to Invest Assist. This inclusion in MPV's costs has not been publicly disclosed.

There is also a lack of transparency about how DBI has reported this indicator over time, particularly in terms of actual expenditure and reasons for variances. In all but one year between 2000–01 and 2009–10, no explanations were provided for variations between target and actual cost, even though differences ranged from $2.4 million to $68 million across these years. In four years, actual costs were not reported, preventing assessment of their performance.

In terms of transparency and accountability, for the 2012–13 Budget Paper 3, DBI combined MPV's costs with Investment Attraction and Facilitation. This prevents any assessment of MPV's performance in relation to target costs, and prevents reporting of actual costs for both 2010–11 and 2011–12.

4.3.2 Internal performance measures

Departmental heads are responsible for the general conduct, and the effective, efficient and economical management of their department. Understanding whether the department or its business units are operating to these standards requires a sound performance monitoring framework.

The key mechanisms that MPV has established to monitor its performance internally are through its annual business plans. These plans contain performance indicators intended to provide information on MPV's performance. DBI, through its corporate plan, also aims to assess MPV's performance.

MPV's business plan includes three performance indicators to assess its performance as a business unit. Two indicators are the same as those included in Budget Paper 3—quality and timeliness—and are not internal measures. This means that MPV has one internal measure—'Achieve delivery of 80 per cent of infrastructure projects within +/– 10 per cent of agreed time, cost and scope (five-year average)'.

DBI's corporate plan indicator is the same as MPV's indicator, with the exception that it does not include the 'five-year average' element—Achieve delivery of 80 per cent of infrastructure projects within +/– 10 per cent of agreed time, cost and scope.

The indicators are neither relevant nor appropriate, and are therefore unable to represent MPV's actual performance.

Relevance

MPV's business plans do not have stated objectives. Rather, it uses DBI's corporate plan objectives to guide its activities. As was the case for the external performance indicators, MPV's and DBI's internal indicator has a logical relationship to only one of the objectives—the provision of project development and delivery services and expertise. For the same reasons as previously outlined, neither indicator has a relationship to the other objectives. Consequently, the indicators cannot be considered relevant.

Appropriateness

There are a range of issues with the MPV and DBI indicators that make them inappropriate to assess MPV's performance. Like the external measure, MPV could not explain the indicator's key elements and what it was intending to measure. For example, while the indicator quantifies scope, with a target of 80 per cent of projects within +/– 10 per cent, MPV was unable to explain how it would quantify scope. This means that MPV cannot track the indicator over time—a key attribute of an appropriate indicator. It is similarly unclear what 'time', 'cost', and 'agreed' mean, and why the particular performance standards were selected.

It is also uncertain what projects the indicator intends to measure. MPV manages a range of projects. These are primarily nominated projects, which is what the external indicator is intended to assess, however, MPV also manages other capital projects that have not been nominated. Including all infrastructure projects would provide a better understanding of how well MPV performs its project management role.

While the business plan cites DBI's corporate plan as the source of the indicator, the two indicators differ. The business plan includes a five-year average, yet MPV does not know the purpose of this average and why it was added. Given changes to the indicator over the past five years, it would not be possible to get a reliable assessment using the five-year average.

A further issue with the indicator is that it has a performance standard of 80 per cent, and of that 80 per cent, within +/– 10 per cent. This indicator is very similar to the quality indicator in Budget Paper 3, which has a performance standard of 100 per cent. MPV's internal indicator appears to accept a lower level of performance compared with the external measure. The reasons for this are unknown to MPV.

Actual performance

Despite the indicator having been in place for nearly 10 years, MPV does not monitor its performance against it, and therefore MPV does not know, at an organisational level, how it is performing. Neither MPV nor DBI collect, collate, analyse or report data for MPV's internal indicators at the business unit or corporate level.

Like its external measures, MPV has no processes in place to assess its performance even if it wanted to. This is a further fundamental failing of MPV's and DBI's governance.

4.4 Reviewing Major Projects Victoria's performance indicators

4.4.1 2009 Major Projects Victoria review

MPV has been aware of weaknesses with its performance monitoring framework since 2009, yet little action has occurred to address these weaknesses. In its 2009–10 business plan, MPV developed a business improvement project, which had the aim of improving the consistency and delivery of its services. Specifically, the project intended to:

- develop processes and methods to review all current MPV projects (by December 2009)
- determine key performance indicators for MPV projects (by February 2010)
- review functionality of processes, methods and key performance indicators (by April 2010).

This project was not progressed and MPV has taken no action to review its performance indicators. Given the weaknesses identified, not just with MPV's indicators but also the absence of processes to assess its performance, this is a significant failing.

Despite regarding itself as having a leadership role in major projects across Victoria, MPV has limited knowledge of how other entities assess their performance. MPV recently reviewed the Victorian Budget Papers to determine how other departments report on their capital projects. This appears to have been undertaken in response to this audit. MPV has no knowledge of how other similar Australian or international entities assess their performance.

4.4.2 2011 Department of Business and Innovation review

In March 2011, DBI reviewed its performance indicators. The context for the review was the planned introduction of the *Public Finance and Accountability Bill* in 2010. The review focused on DBI as a whole, although it addressed, to a limited extent, MPV's performance indicators.

In relation to MPV, the review considered that only one indicator was required, and that it should relate to time and cost—the only measures that it considered MPV could be held accountable to. The review suggested the indicator 'MPV projects delivered within (per cent) of agreed time, cost and scope', as it met the criteria of attributable and specific; accountable and meaningful; measurable and robust; and available and manageable. This is the same as the existing indicator.

However, the review's assessment of MPV's performance indicators is deficient for the following reasons:

- it recommends keeping the existing indicator without having critiqued it. There is no assessment of what time and cost to measure, and from when
- it also does not assess how to measure scope—particularly relevant given MPV does not know how to quantify or assess scope, and the review considered this was not something for which MPV could be held accountable
- the recommended indicator suggests 'per cent' of agreed time, cost and scope, yet does not specify what the percentage should be, or what is meant by 'agreed'. It is unclear whether it would be the same as the +/– 10 per cent.
- there is also no discussion around the appropriateness of the 10 per cent target in the existing internal indicator
- there is no assessment or discussion of the external indicator, and whether it is relevant or appropriate.

It is unclear what action MPV has taken in response to the review's findings related to MPV.

Recommendations

20. The Department of Business and Innovation should undertake a thorough and robust review of its external and internal indicators related to Major Projects Victoria with the aim of:
    - developing new Budget Paper 3 measures that better represent actual performance
    - developing new internal indicators that provide Major Projects Victoria and the Department of Business and Innovation with a robust and reliable assessment of Major Projects Victoria's performance
    - developing, documenting and using robust systems and processes to assess performance using Major Projects Victoria's external and internal indicators
    - re-allocating responsibility for assessing performance, given failings with the current functions and responsibilities
    - establishing quality assurance mechanisms to oversee the performance assessment process to provide assurance about the process.
21. The Department of Business and Innovation should, in light of the weaknesses identified with its internal and external performance indicators, review the major projects indicator in its Corporate Plan 2009–12.
22. The Department of Business and Innovation should establish quality assurance mechanisms over Major Projects Victoria to provide it with appropriate assurance around Major Projects Victoria's processes to assess performance.

Appendix A.
Major Projects Victoria governance protocol

In 2006, the Premier endorsed a Major Projects Governance Protocol which provides two options for delivering major projects, and which highlights when MPV should be considered as an appropriate delivery agency during the planning for major project:

- **Option 1: Client department engages MPV for advice as required**—where the Minister for Major Projects has no delivery accountability.
- **Option 2: MPV delivers a project on behalf of a client department**—where the Minister for Major Projects is nominated as the minister responsible for delivering a project (or nominated components) under the *Project Development and Construction Management Act 1994*. Under this option, the responsible minister is sufficiently empowered to direct the facilitating agency and therefore MPV.

The Major Projects Governance Protocol (below) explains how governance arrangements are addressed. The protocol also includes a template for allocating project responsibilities between MPV and a client.

The updated Protocol below clarifies MPV's client/deliverer relationships and includes a revised project manager/client responsibility split.

Because MPV's projects can be generated by both internal and external stakeholders, each also has the potential to act as an important service driver. While the Premier's protocol determines how projects are delivered by MPV, and by a number of other key areas across government, there are inherent imbalances in some of the project delivery relationships. We will continue to apply the protocol as a risk mitigation initiative and monitor its progress.

The Major Projects Governance Protocol has three steps.

Step 1 – Which projects should be considered for MPV delivery?

MPV may be the appropriate agency for delivering a project if:

- it has a TEI (total estimated investment) of $100 million or greater
- it is delivered as a public private partnership
- it has a Gateway project profile model greater than 35
- the Premier has requested it.

If a project does not meet any of these criteria MPV does not need to be considered for delivery.

The project profile model (PPM) is the first step in the Gateway process.

A PPM total score in the range 21–40 indicates that a program/project is medium risk. For medium risk projects, the Gateway Unit within the Department of Treasury and Finance appoints an independent team leader to oversee an independent department/agency review team. A department or agency nominates this team from resources outside a project team.

Step 2 – Determining who is responsible for delivering a project

The principle behind determining delivery responsibility for major projects is that major projects should be delivered by the agency that is best able to do so.

When deciding if a client agency or MPV will deliver a project, the client minister and the Minister for Major Projects consider:

- its size (such as its TEI)
- the delivery mechanism (for example, via a public private partnership, an alliance, or a design and construct)
- its risk profile
- its complexity (including stakeholders and innovation)
- a client agency's capacity (due to existing workload), experience and current expertise in similar projects and delivery mechanisms
- MPV's experience and current expertise in similar projects and delivery.

All criteria are to be considered as part of the overall decision regarding the most appropriate arrangements

In general, MPV would be expected to deliver projects that are larger, more complex, or where the client agency lacks expertise or experience.

Once these factors are considered, a client minister writes to the Premier and Treasurer advising that either:

- they and the Minister for Major Projects agree that either the client department or MPV will deliver a project and explain why

or

- they and the Minister for Major Projects cannot agree and request the Premier and Treasurer to decide responsibility for a project.

While it is expected that the criteria should provide clear guidelines in most cases, and the Premier and Treasurer's involvement will not be required, it is acknowledged that responsibility may sometimes be unclear.

Delivery responsibility should be resolved before the Business Expenditure Review Committee (BERC) considers project funding. The business case should detail and explain delivery responsibility.

Step 3 – Allocating responsibilities between Major Projects Victoria and a client department

When MPV is responsible for delivering a project, project responsibilities are allocated to MPV and the client agency according to Figure A1.

There are also other processes in terms of allocating responsibilities:

- The Minister for Major Projects and the client minister or relevant senior executives meet to discuss and allocate responsibilities based on Figure A1. Departures from the template are permitted but must be documented and explained.
- Formal project governance arrangements are confirmed at this meeting, such as the chair and membership of a project steering committee.
- The timing of MPV's involvement in a project should accord with table 1.1 below or with other agreed arrangements.
- Budget arrangements must be documented before participating in the Business Expenditure Review Committee process.
- A letter detailing agreed governance arrangements for a project that includes relevant information such as budget arrangements is delivered to the Premier and Treasurer. This information can be used for *Project Development and Construction Management Act 1994* declaration and appointment purposes.

Figure A1
Allocating responsibilities between Major Projects Victoria and a client department

Project stage	Task	Department	MPV
Project feasibility	Basic project scope & parameters	Responsible	Advice
Initial 'seed' funding	Basic outputs, functionality, performance	Responsible	
	Policy fit and delivery outcomes	Responsible	
	Inter-departmental liaison	Responsible	
	Central agency liaison	Responsible	
	Initial business case	Responsible	
	Preliminary project costings and time frame	Responsible	Advice
BERC developmental funding	Management of project development budget	Responsible	
GATE 1 Strategic assessment			
Project business case	Engagement of project business case design team	Responsible	Involved
Development/ schematic design	Management of process of business case design	Responsible	Involved
	Further development of business case and project outputs, functionality, performance	Responsible	Involved
	Finalise overall design concept	Responsible	Involved

Figure A1
Allocating responsibilities between MPV and a client department – *continued*

Project stage	Task	Department	MPV
GATE 1 Strategic assessment – *continued*			
	Develop operational model	Responsible	
	Stakeholder/related party engagement	Responsible	
	Capital works commercial and procurement analysis	Responsible	Endorse
	Capital works project budget estimates	Responsible	Endorse
	Fundamental project design parameters agreed	Responsible	Endorse
	Finalised project costing and time frame	Responsible	Endorse
	Project governance	Responsible	Endorse
GATE 2 Business case			
BERC project funding decision			
Project conceptual design	Engagement of project design team	Responsible	Endorse
	Management of process of conceptual design	Responsible	Involved
	Further development of business case and project outputs, functionality, performance	Responsible	Involved
	Finalise overall design concept	Responsible	Involved
	Develop operational model	Responsible	
	Stakeholder/related party engagement	Responsible	
	Capital works overall commercial and procurement analysis	Responsible	Endorse
	Detailed commercial/procurement analysis once overall direction decided; for example Partnerships Victoria vs traditional delivery	Endorse	Responsible
	Management of capital works budget and finances	Involved	Responsible
	Fundamental project design parameters agreed	Responsible	Endorse
	Finalised project costing and time frame	Responsible	Endorse
	Project governance	Responsible	Endorse
Project development design	Ongoing but increasingly detailed development of design content	Responsible	Endorse
	Stakeholder/related party management	Responsible	
	Ongoing management of design process	Involved	Responsible

Figure A1
Allocating responsibilities between MPV and a client department – *continued*

Project stage	Task	Department	MPV
GATE 2 Business case – *continued*			
	Finalisation of procurement and contracting approach	Endorse	Responsible
	Provide alternatives for dealing with scope budget tension	Involved	Responsible
	Provide guidance on feasibility of scope vs budget solutions	Responsible	Involved
	Confirmation on capital works costings and time frame	Involved	Responsible
	Management of capital works budget and finances	Involved	Responsible
	Project governance	Responsible	Endorse
GATE 3 Procurement strategy			
Procurement	Management of procurement process	Involved	Responsible
	Assessment and identification of preferred bidder	Involved	Responsible
	Nomination of preferred bidder	Endorse	Responsible
	Selection of preferred bidder	Responsible	Endorse
GATE 4 Tender decision			
Construction	Management of construction issues		Responsible
	Management of capital works cost and time frame	Involved	Responsible
	Management of capital works budget and finances	Involved	Responsible
	Decisions regarding scope change/reduction/deletion where required for financial reasons	Responsible	Endorse
	Decisions regarding scope change/reduction/deletion where required for operational reasons	Responsible	Endorse
	Preparation for handover to operations	Responsible	Involved
	Project governance	Responsible	Endorse
GATE 5 Readiness for service			
Operations	Transition from construction to operations	Responsible	Involved
	Construction defects rectification	Involved	Responsible
	Construction warranty obligations	Involved	Responsible
GATE 6			
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Source: Victorian Auditor-General's Office based on information from Major Projects Victoria

Appendix B.

Major Projects Victoria projects 2000 to 2012

Figure B1
Projects by type and status

Project name	Project type	Status
Austin Health redevelopment and Mercy Hospital for Women relocation (new towers)	Capital	Completed
Australian Synchrotron	Capital	Completed
Avalon Fuel Line	Feasibility	Current
Aviation Training College	Feasibility	Current
Balaclava Business case	Feasibility	Completed
Ballarat Transit Cities	Feasibility	Completed
Bastion Point	Advice only	Completed
Bayside (Beacon Cove)	Property	Completed
Bio Tech Centre Feasibility	Feasibility	Completed
Biosciences Research Centre	Capital	Current
Bonegilla Migrant Experience Heritage Park	Capital	Completed
Brimbank Civic Centre Project	Feasibility	Completed
Brooklyn/Tottenham Precinct Re-use	Advice only	Completed
Bundoora – Larundel Psych Hospital Redevelopment	Property	Completed
VBRRA – Bushfire Reconstruction	Advice only	Completed
Commonwealth Games Athletes Village	Property	Completed
Corio Norlane Urban Renewal	Advice/feasibility	Completed
Docklands Film & TV – Upgrade	Oversight role	Current
Docklands Film and Television Studio	Oversight role	Completed
Docklands Gas Remediation	Decontamination	Completed
Double Fault – Development over rail concept	Feasibility	Completed
E-Gate	Feasibility	Current
Exhibition Building Refurb	Capital	Completed
Federation Arch	Capital	Completed
Federation Square East	Feasibility	Completed
Flinders St Station – Business Case	Feasibility	Completed
Flinders Street Station Design Competition	Feasibility	Current
Florey Neuroscience Institute	Advice	Completed
FOLD Facilities Project (MFB)	Capital	Current
Former Fish Market Site redevelopment	Property	Completed

Figure B1
Projects by type and status – *continued*

Project name	Project type	Status
Former Melbourne Convention Centre	Advice only	Completed
Geelong Cultural Precinct – Bus Case	Feasibility	Completed
Geelong Station Precinct	Feasibility	Completed
Gippsland Infrastructure Study	Feasibility	Completed
Government House Refurbishment	Feasibility	Completed
Hazardous Waste Strategy	Feasibility/ environmental approvals	Completed
Hepburn Springs Bathhouse	Capital	Completed
Jolimont Station Improvement	Feasibility	Completed
Jolimont/Eastside	Capital	Completed
Kew Residential Services	Property	Current
Land development adjacent to rail	Feasibility	Completed
Lynch's Bridge – Abattoirs	Property	Completed
Lynch's Bridge – Saleyards	Property	Completed
MCG Redevelopment	Oversight role	Completed
MCG/Melbourne Park Footbridge	Maintenance	Completed
Media House	Advice only	Completed
Melbourne Convention Centre Development	Capital	Completed
Melbourne Exhibition Centre Stage 2	Feasibility	Potential PPP
Melbourne Markets Relocation	Capital	Current
Melbourne Park Redevelopment – Stage 1	Capital	Current
Melbourne Recital Centre and MTC Theatre	Capital	Completed
Melbourne Rectangular Stadium (AAMI Park)	Capital	Completed
Melbourne Sports and Aquatic Centre	Capital	Completed
Metropolitan Intermodal System	Feasibility	Completed
MOPT Car Park Funding	Feasibility	Completed
Mount Buffalo Chalet	Advice only	Completed
Mount Martha Quarry Site	Advice only	Completed
Museum of Victoria – Carlton	Capital	Completed
National Gallery of Victoria	Capital	Completed
Ngargee Australian Centre for Contemporary Arts	Capital	Completed
Spencer Street Rail Project – oversight	Advice/oversight	Completed
Parkville Gardens Residential Development	Property	Current
Parliament House catering upgrade	Capital	Completed
Point Grey/Slaughterhouse Site	Advice only	Completed
Port Geelong Autos Feasibility	Feasibility	Completed
Port of Hastings	Feasibility/establish authority	Current
PPP – Water Conservation	Internal feasibility	Completed
PPP – Social Housing Project	Feasibility	Completed

Figure B1
Projects by type and status – *continued*

Project name	Project type	Status
Princes Pier	Capital	Completed
RCH Assessment	Advice	Completed
Regent Theatre/City Square	Oversight role	Completed
Regional Office Accommodation	Feasibility	Completed
Royal Melbourne Showgrounds	Capital	Completed
Royal Park Sports Facility	Capital	Completed
Seal Rock Phillip Island Study	Advice only	Completed
Shrine Redevelopment	Capital	Current
Sidney Myer Music Bowl Refurbishment	Capital	Completed
Southbank Cultural Precinct Redevelopment	Capital	Current
Sports Infrastructure Upgrade	Capital	Completed
State Library (stages 4–6 works)	Capital	Completed
State Shooting Facility	Feasibility	Completed
State Sports Facilities Project	Capital	Completed
Student Housing – PPP	Feasibility	Completed
Sustainability Guidelines	Internal	Current
TAFE Chisholm/Franks PV Lite	Internal	Completed
Trainshed Way Development	Advice only	Current
Transit Cities	Feasibility/advice only	Completed
Velodrome	Capital	Completed
Vic Comprehensive Cancer Centre	Advice to evaluation	Completed
Vic Urban Oversighting	Admin role	Completed
Victorian Arts Master Plan	Feasibility	Completed
Victorian Freight Strategy	Advice only	Current
VicTrack Affordable Housing	Feasibility/advice	Completed
Wehi Redevelopment	Advice only	Completed
Western Intermodal Freight Terminal	Feasibility	Completed
Westgate Memorial	Capital	Completed
William Barak Bridge	Capital	Completed
Yarra Precinct Lighting Works	Maintenance	Completed

Source: Victorian Auditor-General's Office based on information from Major Projects Victoria.

Appendix C.

Major Projects Victoria contractor details

Figure C1
Contractor details

Contractor 1		
Contract details		**Audit comments**
Contract	Yes	The original contract term was between May 2002 and May 2006 to work as a project director on the Austin Hospital. However, the contract was not signed until October 2003. Five variations to the contract's term were made. These occurred in: • May 2006, with a 25-month extension (to June 2008) and a change in duties (additional nominated project and acting group head duties) • January 2007 to July 2011 because of role as group head • June 2011– extending until December 2011 • December 2011– extending until December 2012. At no point was the market tested before the variations were made, nor was performance assessed and documented. In June 2011, the DBI Secretary approved the variation on the basis that it was the last, and the market was tested at expiration. In December 2011, the acting secretary approved the variation on the condition that under no circumstances would another extension be given without testing the market. In relation to cost, a bonus of $22 000 was paid in the first year based on an unsigned self-assessment. In January 2004, the contract was varied to remove the bonus, but the value of the contract was increased by 9 per cent to $1 155 million. A second variation occurred in October 2005, with the contract increased by a further 6 per cent. In May 2006, the contract was varied to provide the contractor with annual increases of 3 per cent, in line with the VPS executive officer salary increase. The contractor was also provided with six weeks annual leave. In January 2007, the contract was varied to bring the annual rate to $321 200. It was $264 000 in 2002. In April 2010, the contract was varied to increase the rate by 5 per cent. In June 2011, when the contract was extended by six months, the value was varied by $189 330, bringing the annual rate to $378 660. In December 2011, the contract was varied again for further $378 000.
Expected contract dates	05/2002–05/2006	
Expected contract term	4 years	
Actual contract end	12/2012	
Actual term	9 years	
Difference	5 years	
Expected contract cost	$1.144m	
Expected final cost	$3.501m	
Difference	$2.357m	
Actual cost at July 2012	$3.300m	

Figure C1
Contractor details – *continued*

Contractor 2		
Contract details		**Audit comments**
Contract	Yes	The contractor was engaged to provide project director services for the Rectangular Stadium between 2006 and 2009. In June 2008, the contract was varied and extended to May 2010 so the contractor could work on another nominated project (the Biosciences project). At this time, the contract was varied to give the contractor the option, without conditions, to extend the contract for a further two years. In March 2010, via email, the contractor exercised an option to extend the contract by two years, until April 2012. In December 2011, the contractor exercised a further option to extend the contract, until December 2012. For the first option to extend, the lack of any conditions created a situation where it appears that it was the sole discretion of the contractor to extend. There was no assessment of the ongoing need for the contractor, nor was there any assessment of the contractor's performance before extensions. There are also no documented approvals of the extension. It is unclear on what basis the second extension was made, as there is nothing to indicate that the contract was varied again to provide for this. In relation to cost, a variation was made to the contract in June 2008, increasing the value of the contract by around $12 000 each year (from $247 500 per annum to $260 000 per annum). In March 2010, the contract was varied, increasing by $2 000 each year to compensate for Major Projects Victoria (MPV) no longer providing the contractor with a mobile phone. The contract provides for annual increases in the fee, and this is the reason for the estimated contract cost being exceeded.
Expected contract dates	05/2006–05/2009	
Expected contract term	3 years	
Actual contract end	10/2012	
Actual term	6 years	
Difference	3 years	
Expected contract cost	$742 500	
Expected final cost	$1.686m	
Difference	$944 000	
Actual cost at July 2012	$1.742m	
Contractor 3		
Contract details		**Audit comments**
Contract	Yes	The contractor was an MPV employee immediately before being engaged as a contractor, finishing with MPV in March 2010. There are no declarations around conflicts of interest. This is a standard contract with no documented variations to date. However, there is no documented need for the contractor, with the recruitment process focused on contractors only. There was no assessment of capability and capacity within the public sector. There is also no documented performance management.
Expected contract dates	04/2010–03/2013	
Expected contract term	3 years	
Actual contract end	03/2013	
Actual term	3 years	
Difference	0	
Expected contract cost	$816 000	
Expected final cost	$816 000	
Difference	0	
Actual cost at July 2012	$638 475	

Figure C1
Contractor details – *continued*

Contractor 4		
Contract details		**Audit comments**
Contract	Yes	This is a standard contract with no documented variations to date. However, there is no documented need for the contractor, with the recruitment process focused on contractors only. There was no assessment of capability and capacity within the public sector. There is also no documented performance management. In October 2010, the contract was varied by extending the term by two years and by increasing the annual rate by around $12 000. There is no documented rationale for the variations.
Expected contract dates	04/2010–10/2010	
Expected contract term	6 months	
Actual contract end	10/2012	
Actual term	2.5 years	
Difference	2 years	
Expected contract cost	$111 000	
Expected final cost	$580 000	
Difference	$469 000	
Actual cost at July 2012	$562 721	

Contractor 5		
Contract details		**Audit comments**
Contract	No	The contractor was an MPV employee immediately before being engaged as a contractor, finishing with MPV in December 2005. MPV engaged the contractor in 2006, with the first payment for services recorded in June 2006. There is no documented contract, although according to a 2012 MPV draft memo, the contractor is ‘currently employed at MPV under open agreements with no end date. As the limits under which their services were contracted have now been exceeded, MPV considers it preferable to have a fixed-term contract in place going forward’. Contract time frames have been determined based on the contract times for other contractors that were appointed through the same recruitment process. Given the contractor came through the same recruitment process as contractors three and four in this list, it is unclear why different contract arrangements were put in place. The contract cost is an estimated annual amount, based on the daily rates submitted as part of the tender process. The actual cost is unknown.
Expected contract dates	04/2010–unknown	
Expected contract term	Open	
Actual contract end	Open	
Actual term	Open	
Difference	n.a	
Expected contract cost	$340 000–unknown	
Expected final cost	Unknown	
Difference	n.a.	
Actual cost at July 2012	$1.674m	

Figure C1
Contractor details – *continued*

Contractor 6		
Contract details		**Audit comments**
Contract	No	The contractor was employed, on a secondment basis, with MPV before being contracted. The first payment for services with MPV was April 2007. There is no contract on record for the contractor. Like contractor 5, this one is 'currently employed at MPV under open agreements with no end date' and similarly '...the limits under which their services were contracted have now been exceeded'. The contractor also came through the same recruitment process as contractors three, four and five in this list. Contract time frames have been determined based on the contract times for other contractors that were appointed through the same recruitment process. Give the contractor came through the same recruitment process as contractors 4 and 5 in this list, it is unclear why different contract arrangements were put in place. The contract cost is an estimated annual amount, based on the daily rates submitted as part of the tender process. The actual cost is unknown.
Expected contract dates	04/2010–Unknown	
Expected contract term	Open	
Actual contract end	Open ended	
Actual term	Open	
Difference	n.a	
Expected contract cost	$280 000 Unknown	
Expected final cost	Unknown	
Difference	n.a	
Actual cost at July 2012	$1.082m	

Contractor 7		
Contract details		**Audit comments**
Contract	Yes	The contractor was an MPV employee immediately before being engaged as a contractor, finishing with MPV in October 2009. MPV then engaged them as a contractor in the same month. There are no declarations around conflicts of interest. This is a standard contract with no documented variations to date. However, there is no documented need for the contractor and nor is there documented performance management.
Expected contract dates	10/2009–10/2012	
Expected contract term	3 years	
Actual contract end	10/2012	
Actual term	3 years	
Difference	0	
Expected contract cost	$903 000	
Expected final cost	$903 000	
Difference	0	
Actual cost at July 2012	$837 946	

Figure C1
Contractor details – *continued*

Contractor 8		
Contract details		**Audit comments**
Contract	Yes	This is a standard contract with no variations to date. There is no documentation around the need for the contractor or for performance management. The contract provides for annual increases in the fee, and this is the reason for the estimated contract cost being exceeded.
Expected contract dates	09/2007–09/2012	
Expected contract term	5 years	
Actual contract end	09/2012	
Actual term	5 years	
Difference	0	
Expected contract cost	$1.155m	
Expected final cost	$1.155m	
Difference	0	
Actual cost at July 2012	$1.268m	

Contractor 9		
Contract details		**Audit comments**
Contract	Yes	The contract was originally for 2.5 months to work on the Beacon Cove project. The contract was varied once, adding a further 1.5 months at an additional cost of $22 900. The reason for the variation is cited as delays by other parties in the project. While the actual contract end date was expected to be March 2012, it appears that the contractor is still performing against the contract. However, there is no documentation of further contracts or contract variations. The status of this contract is, therefore, uncertain. While the actual cost for this contractor is $983 457, this relates to the contractor entity. It has provided a range of different contractors for MPV over a long period of time.
Expected contract dates	12/2011–02/2012	
Expected contract term	2.5 months	
Actual contract end	03/2012	
Actual term	4 months	
Difference	1.5 months	
Expected contract cost	$23 375	
Expected final cost	$46 365	
Difference	$22 990	
Actual cost at July 2012	$983 457	

Figure C1
Contractor details – *continued*

Contractor 10		
Contract details		**Audit comments**
Contract	Yes	The consultant was contracted to provide services relating to Beacon Cove. The original contract was for a three-month period, with a value of $25 000. In March 2012, a further contract was entered into, for the same services. However, the time frames for the second contract are unclear. They are stated in the letter of acceptance as 'resolve matters as soon as possible'. There is also no quote for the second contract, when at least one should be required. Both letters of acceptance from DBI state that the contract fee has been set at $25 000 to comply with DBI's 'single select' procurement guidelines. Given the short time frames between contracts (for the same work), it appears as contract splitting—the practice of minimising contract costs to avoid more onerous quotation requirements. As the consultant has been identified by MPV as current, the uncertain time frames may mean that this contract has no end date and is ongoing. On 8 March 2012, a third contract was entered into with the consultant for similar services, but a different site (former fish market). The contract value was $15 000, and this contract is also not supported by a single quote. There is also no end date stipulated, suggesting that the contract is ongoing.
Expected contract dates	10/2011–12/2011	
Expected contract term	3 months	
Actual contract end	Unknown	
Actual term	Unknown	
Difference	n.a	
Expected contract cost	$25 000	
Expected final cost	Unknown	
Difference	n.a	
Actual cost at July 2012	$263 755	
Contractor 11		
Contract details		**Audit comments**
Contract	No	MPV originally sought the recruitment of a public sector employee for this position. A departmental freeze on VPS staff meant that MPV recruited a contractor to circumvent the freeze. There is no documented contract, and information has been established through limited other information. There is also no documented evidence of the need, or the recruitment process, other than references to referrals from recruitment agencies. The value of the contract was $75 000, which included recruitment agency fees and 'other' taxes and levies. In October 2011, the contract was varied to extend it to January 2012. In December 2011, the contract was varied again to extend it to March 2012. In April 2012, the contract was varied again, until June 2012, and in June 2012, the contract was varied until September 2012. It is questionable whether this represents a short-term contract as originally intended.
Expected contract dates	04/2011–10/2011	
Expected contract term	6 months	
Actual contract end	09/2012	
Actual term	17 months	
Difference	11 months	
Expected contract cost	$75 000	
Expected final cost	$225 000	
Difference	$150 000	
Actual cost at July 2012	$179 061	

Figure C1
Contractor details – *continued*

Contractor 12		
Contract details		**Audit comments**
Contract A	No	The contractor was an MPV employee immediately before being engaged as a contractor, finishing with MPV in December 2009. MPV then engaged the contractor in January 2010 to work on its project management framework. Between January 2010 and November 2010, the contractor also worked on two other projects (see contracts B and C below) that, while not contracted by MPV, were projects that MPV was managing. In December 2011, MPV entered into a contract with the contractor in an area he had previously managed at MPV—ecologically sustainable development (ESD). There is no documented contract information for this engagement and details have been obtained from internal memos. The contract was for $25 000 (capped), which represented 25 days over a six-month period. The rationale for the contract was that interest in ESD had waned, and it therefore needed a dedicated resource.
Expected contract dates	12/2010–06/2011	
Expected contract term	6 months	
Actual contract end	06/2011	
Actual term	6 months	
Difference	0	
Expected contract cost	$25 000	
Expected final cost	$25 000	
Difference	0	
Actual cost at July 2012	$181 500	
Contract B	Yes	In April 2011, in response to a request for tender (RFQ) for contractors to work on three projects, the contractor was appointed for a period of six months, at a rate of $77 000. This was to work on one of the Port of Hastings redevelopment. In November 2011, the contract was varied because additional funding had become available. The contract term was extended until June 2012, while the contract value was also varied by $72 000. The total value of the contract ($149 000), with extensions, is coincidently just below $150 000 at which point an open tender would have been required.
Expected contract dates	04/2011–01/2012	
Expected contract term	6 months	
Actual contract end	06/2012	
Actual term	14 months	
Difference	8 months	
Expected contract cost	$77 000	
Expected final cost	$149 000	
Difference	$72 000	
Actual cost at July 2012		

Figure C1
Contractor details – *continued*

Contractor 12 – *continued*		
Contract details		**Audit comments**
Contract C	Yes	In June 2011, a third contract was created for services under the early 2011 RFQ. These services were for a period of six months, working on the second of the three projects in the RFQ. The value of the contract was $22 000. It is questionable that two contracts were required for the one RFQ, or whether it should have been on the one, particularly given the similarity in time frames. This creates the impression of contract splitting to avoid compulsory tender processes. Since December 2010, the total value of continuous contracts created is $226 000.
Expected contract dates	06/2011–01/2012	
Expected contract term	6 months	
Actual contract end	06/2012	
Actual term	6 months	
Difference	0	
Expected contract cost	$22 000	
Expected final cost	$22 000	
Difference	0	
Actual cost at July 2012		

Contractor 13		
Contract details		**Audit comments**
Contract	No	The contractor was originally performing administrative tasks for MPV under an arrangement with a recruitment agency. MPV's efforts to fill a project support vacancy internally were unsuccessful, and it was not permitted to advertise externally. The contractor was engaged to perform this role because they were already contracted for another purpose. There is no documented contract, and very little information about the arrangements.
Expected contract dates	Unknown –10/2012	
Expected contract term	Unknown	
Actual contract end	10/2012	
Actual term	Unknown	
Difference	Unknown	
Expected contract cost	Unknown	
Expected final cost	Unknown	
Difference	Unknown	
Actual cost at July 2012	$72 000	

Source: Victorian Auditor-General's Office.

Appendix D.

Notes to Figure 3B

Figure D1
Summary of key factors that affected delivery of projects as reported by Major Projects Victoria

Project	Summary of impacts on project delivery
Museum Victoria	Scope changes included additional capacity for 300 cars and the inclusion of the IMAX theatre
Sidney Myer Music Bowl refurbishment and redevelopment	Significant industrial issues, additional scope changes and design defects extended time and cost
Royal Park Sports Facility	Scope changes included upgrades to sports provisions and general upgrades to the netball building
Velodrome/Multi-Purpose Venue	Key factors that contributed to cost and time variations included issues with the roofing structure and industrial relations issues
Malthouse Plaza	Additional scope items included landscaping, signage, changes to statutory requirements mid-project regarding safety systems and changes to the quality of fixtures and fittings
National Gallery of Victoria	Additional demolition works and industrial relations costs and delay/extension costs impacted delivery
Austin Health redevelopment and Mercy Hospital for Women relocation (new towers)	There were numerous additions to this project including theatre upgrades, Mercy lift extension works, works to generator sub-station and the Austin PABX and IT upgrade
Melbourne Sports and Aquatic Centre – Stage 2	Additional scope items included ecologically sustainable development initiatives and the addition of a hydrotherapy pool post-tender
William Barak Bridge	Soundscape public art installation was added to the project scope
Bonegilla Migrant Settlement Camp (Block 19)	Delays associated with handover of the site between the Commonwealth and State Government affected project costings and additional entrance and exit works were added to the projects cope

Figure D1
Summary of key factors that affected delivery of projects, as reported by Major Projects Victoria – *continued*

Project	Summary of impacts on project delivery
Parliament House Catering Facilities redevelopment	Two major delays were experienced, firstly due to the discovery of unknown cabling and devices at the commencement of the project, and secondly as asbestos was found in the old kitchen requiring manual removal of concrete
Melbourne Recital Centre and MTC Theatre	Significant scope changes included requirements for additional equipment not included in the original project scope
Hepburn Springs Bathhouse	The physical condition of existing buildings was worse than thought and additional scope included the addition of a retaining wall and decking
Melbourne Rectangular Stadium (AAMI Park)	Major changes related to additional items not in scope such as catering facilities, naming rights, turf installation and fit out of the stadium
Southbank Cultural Precinct Redevelopment Stage 1	Variations mainly related to additional equipment
Melbourne Park Redevelopment – Stage 1 (Early works)	During early works unknown site problems were encountered such as the existence of underground cabling which impacted delivery of the original scope and required additional works
Melbourne Markets Relocation	This is a current project and an extension of time was issued under the terms of the contract. A number of changes initiated by the state were incorporated in 2009, prior to awarding the construction contract
Princes Pier	Delays and increased costs to complete the project were primarily due to the existing pier structure being in worse condition than originally thought by MPV
State Sports Facilities Project	This is a current project scheduled for completion in August 2012. Significant additional scope impacting the cost and time to complete the project includes the addition of another storey to the athletics administration building, refurbishment of Bob Jane Stadium and additional sports lighting
Melbourne Park Redevelopment –Stage 1 (Eastern Plaza)	Material variations include changes to the ecologically sustainable rating of the development and additional costs caused by site contamination issues

Source: Victorian Auditor-General's Office based on information provided by Major Projects Victoria.

Appendix E. *Audit Act 1994* section 16—submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Business and Innovation and the Department of Treasury and Finance with a request for submissions or comments.

The submission and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Further audit comment:

RESPONSE provided by the Secretary, Department of Business and Innovation

Department of Business and Innovation

121 Exhibition Street
Melbourne Victoria 3000
GPO Box 4509
Melbourne Victoria 3000
Telephone: (03) 9651 9999
Facsimile: (03) 9651 9770
DX210074

Mr Des Pearson
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

RECEIVED 28 SEP 2012 VICTORIAN AUDITOR-GENERAL'S OFFICE

Dear Mr Pearson

PERFORMANCE AUDIT OF MANAGING MAJOR PROJECTS

Thank you for your letter of 13 September 2012 inviting comment on the audit report – Managing Major Projects.

The Department of Business and Innovation (DBI) accepts the recommendations of the proposed report and will take steps to implement those which require action from DBI or Major Projects Victoria (MPV).

I note that most of the conclusions and recommendations apply to the internal administration of MPV. I am pleased that you have also found that MPV has a generally sound project management framework in place and that its project management performs better than the private sector in terms of cost and on-time performance.

A key strength of MPV is its ability to assemble strong project based teams for its clients. These teams are accountable through project-specific governance structures for the commercially effective delivery of major Melbourne icons which include:

- Melbourne Convention Centre
- Austin and Mercy Hospitals
- Melbourne Sports and Aquatic Centre
- AAMI Park (Melbourne Rectangular Stadium)
- Hamer Hall
- Melbourne Park Redevelopment Stage 1
- Australian Synchrotron

In acknowledgement of its successful delivery of major projects, MPV's performance has been recognised over the last four years with 48 awards and honours in every aspect of project delivery, including project management, design, construction and engineering. Among these awards are:

- 20 awards for the Melbourne Rectangular Stadium project, including four awards at the 2011 Victorian Architecture Awards and, most recently, the Most Iconic and Culturally Significant Stadium Award at the 2012 World Stadium Awards; and

State Government Victoria

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RESPONSE provided by the Secretary, Department of Business and Innovation – continued

- 19 awards and honours for the Melbourne Convention Centre, including five awards at the 2010 Victorian Architecture Awards, the 2010 Australian Construction Achievement Award and the 2010 Government Partnerships Excellence Award from Infrastructure Partnerships Australia.

DBI's implementation of the report's recommendations should enhance systems for the measurement and reporting of MPV's overall performance across all of its projects. This will enable DBI and MPV to better demonstrate MPV's continuing effective and efficient delivery of projects of state significance.

Yours sincerely

HOWARD RONALDSON
Secretary

2

RESPONSE provided by the Secretary, Department of Treasury and Finance

Department of Treasury and Finance

1 Treasury Place
GPO Box 4379
Melbourne Vic 3001
Australia
Telephone: (+61 3) 9651 5111
Facsimile: (+61 3) 9651 5298
DX 210759

28 SEP 2012

RECEIVED
28 SEP 2012
VICTORIAN AUDITOR-GENERAL'S OFFICE

Mr D D R Pearson
Auditor-General
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Pearson

PROPOSED AUDIT REPORT *MANAGING MAJOR PROJECTS*

Thank you for your letter of 13 September 2012 inviting comment on section *2.1 Complying with legislation* of the proposed performance audit report *Managing Major Projects*.

Based on the facts presented in this section of the report, the Department of Treasury and Finance (DTF) will undertake further examination in consultation with the Department of Business and Innovation to determine and rectify any potential inconsistency between the instrument of delegation and the Standing Directions.

DTF considers that the report raises no conflict between the *Project Development and Construction Management Act 1994* and the *Financial Management Act 1994*. Any potential conflict would likely only be between the subordinate instruments, being the delegation and the Standing Direction.

Further, while the Standing Directions on these particular facts may potentially be diminished insofar as they might apply to contractors in Major Projects Victoria on nominated projects, DTF considers this does not lead to a conclusion that there is an ability to use delegations generally to avoid obligations under the Standing Directions.

Should you require any further information, please contact Sue Eddy, Director, Budget and Financial Management on 9651 5921 or by email on sue.eddy@dtf.vic.gov.au.

Yours sincerely

Grant Hehir
Secretary

Auditor-General's response to the Department of Treasury and Finance

Consistent with our recommendations, we welcome the Department of Treasury and Finance's undertaking to examine and rectify any potential inconsistency between the delegations and the Standing Directions.

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Report title	Date tabled
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Fare Evasion on Public Transport (2012–13:3)	August 2012
Programs for Students with Special Learning Needs (2012–13:4)	August 2012
Energy Efficiency in the Health Sector (2012–13:5)	September 2012
Consumer Participation in the Health System (2012–13:6)	October 2012

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