



PARLIAMENT OF TASMANIA

PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

**REVIEW OF PERFORMANCE OF PUBLIC WORKS COMMITTEE APPROVED
PROJECTS**

MAY 2008 – MARCH 2009

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TABLE OF CONTENTS

Table of Contents.....	i
Abbreviations List.....	ii
Charter of the Committee.....	iii
Terms of Reference.....	iii
Executive Summary.....	iv
Background.....	iv
Projects Reviewed.....	iv
Findings.....	v
Recommendations.....	v
CHAPTER ONE – INTRODUCTION.....	1
Background.....	1
Process of the Review.....	2
CHAPTER TWO – FOLLOW UP OF JSCPW APPROVED WORKS	
- Department of Health and Human Services.....	4
Paediatric Enhancement Project Royal Hobart Hospital.....	4
CHAPTER THREE - FOLLOW UP OF JSCPW APPROVED WORKS	
- Legislative Council and House of Assembly	6
Parliament House Works.....	6
CHAPTER FOUR - FOLLOW UP OF JSCPW APPROVED WORKS	
- Department of Education and Skills.....	8
General Comments.....	8
Newstead School Accommodation Project.....	9
New Norfolk Primary School Redevelopment.....	10
Rocherlea Primary School Relocation.....	10
CHAPTER FIVE - FOLLOW UP OF JSCPW APPROVED WORKS	
- Department of Infrastructure, Energy and Resources.....	13
Lake Secondary Road, Meander Junction to East Church St....	13
Lyell Highway, between Granton and New Norfolk.....	15
Tea Tree Secondary Rd.....	16
Brighton Hub.....	20
Appendix 1 – List of Submissions and other documents received.....	23
Appendix 2 – List of Witnesses.....	24

ABBREVIATIONS LIST

DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DoE	Department of Education and Skills
JSCPW	Joint Standing Committee of Public Works
PAC	Public Accounts Committee

CHARTER OF THE COMMITTEE

The Public Accounts Committee

The Public Accounts Committee (the Committee) is a joint standing committee of the Tasmanian Parliament constituted under the *Public Accounts Committee Act 1970*.

The Committee comprises six Members of Parliament, three members drawn from the Legislative Council and three members from the House of Assembly.

Its functions under the *Public Accounts Committee Act* (Section 6) are to inquire into, consider and report to Parliament on:

- *any matter referred to the Committee by either House relating to:*
 - *the management, administration or use of public sector finances; or*
 - *the accounts of any public authority or other organisation controlled by the State or in which the State has an interest;*
- *any matter arising in connection with public sector finances that the Committee considers appropriate; and*
- *any matter referred to the Committee by the Auditor-General.*¹

The Public Accounts Committee (PAC) also has oversight responsibilities regarding the independence of the Auditor-General, which are derived from the *Audit Act 2008*.

TERMS OF REFERENCE

The Standing Committee of Public Accounts resolved of its own motion to undertake a review of Public Works Committee Approved projects dated May 2008 – March 2009, to determine whether the projects had been effectively managed and whether adherence to authorised budgets was achieved.

¹ *Public Accounts Committee Act 1970, s.6*

EXECUTIVE SUMMARY

Background

Following completion of a report on the successful New Kingston High School Project², the PAC was concerned with the need for future reviews of Public Works Committee (JSCPW) approved projects, to monitor the adherence to authorised budgets. The PAC was concerned that after the Public Works Committee approval process was completed, there was no routine follow-up in place to assess the performance of projects.

Projects Reviewed

The following JSCPW approved projects, covering the period May 2008 - March 2009 were selected for review.

Agency	Project
Department of Health and Human Services (DHHS)	- Paediatric Enhancement Project Royal Hobart Hospital
Department of Infrastructure, Energy and Resources (DIER)	- Lake Secondary road, Meander Road Junction To East Church Street Upgrade; - Tea Tree Secondary Road; - Lyell Highway, between Granton and New Norfolk; and - Brighton Hub
House of Assembly / Legislative Council	- Parliament House Works
Department of Education and Skills (DoE)	- Hazelwood School Relocation – Southern Support School; - Newstead College – Student Accommodation; - New Norfolk Primary School Redevelopment; and - Rocherlea School Relocation

² Parliamentary Standing Committee of Public Accounts Report No. 11, 2008, "Report on Kingston High School"

EXECUTIVE SUMMARY (cont)

Separate Report – Hazelwood School Relocation

The Committee resolved to report separately on the Hazelwood School Relocation - Southern Support School project. Any findings and recommendations in relation to this project will therefore be released at a future date to be determined by the PAC.

Major Findings

Major findings around the review included the following:

- The Paediatric Enhancement Project (DHHS) was effectively managed;
- DoE was unable to respond to PAC requests for information in a timely fashion;
- An unfavourable tender result and initial budget omissions impacted on the costs of the Rocherlea School project (DoE);
- The Newstead School Accommodation project (DoE) met the needs of the stakeholders and was overall well-managed;
- Risk management processes and documentation (DIER and House of Assembly / Legislative Council) could be strengthened. DIER has since issued new processes in this area;
- The Brighton Hub project (DIER) was under budget and well-performed;
- The Tea Tree Secondary Road project (DIER) encountered a time and cost overrun due to contracting issues as well as other delays caused by external factors (eg; Aurora delay due to bushfires in Victoria);
- The Lake Secondary Road project highlighted that DIER could improve stakeholder engagement processes.

RECOMMENDATIONS:

The Committee has made eight recommendations in this report.

The PAC requests that the responsible Minister provide a response to the recommendations that follow in this report.

List of Recommendations

The following table (pages vi – vii) reproduces the recommendations contained in the body of this Report:

Rec No	Ref p.#	Agency	Project	Recommendation
1	7	House of Assembly and Legislative Council	Parliament House Works	The Committee recommends that the House of Assembly and Legislative Council review risk management processes in relation to project management of public works approved projects, thereby strengthening documentation and the monitoring of risk.
2	9	Department of Education and Skills	General	The Committee recommends that within three months of this report being tabled, the Education Department put in place procedures to respond to the PAC in a timely way and to submit a copy of those procedures to the PAC.
3	11	Department of Education and Skills	General	The Committee recommends that the DoE ensures its processes and practices of project management on Public Works projects are aligned with the guidelines given in the “Tasmanian Government Project Management Guidelines”.
4	12	Department of Education and Skills	Rocherlea Primary School Upgrade	The Committee recommends that the DoE review its documentation processes so that project costs and sources of funds are matched together in a high level budget document. This will assist with oversight and budgetary control of public works approved projects.
5	14	Department of Infrastructure Energy and Resources	Upgrade to Lake Secondary Road	The Committee recommends that DIER instigate a formal Road Safety Audit with respect to the Upgrade to Lake Secondary Road, Deloraine to Meander, in accordance with the Austroads guidelines, and that this be performed by a qualified independent party. Further, DIER is strongly encouraged to liaise with the Meander Valley Council concerning remedial or other works, if required, as a result of any safety audit undertaken.

List of Recommendations (cont)

Rec No	Ref p.#	Agency	Project	Recommendation
6	14	Department of Infrastructure, Energy and Resources	Upgrade to Lake Secondary Road	The Committee recommends that DIER review its stakeholder engagement processes to ensure that effective engagement with stakeholders and other concerned parties is undertaken, both during and after completion of major public works.
7	14	Department of Infrastructure, Energy and Resources	Upgrade to Lake Secondary Road	The Committee recommends that DIER ensure its proposed framework for project assessment on public works projects, in particular the processes around project review and evaluation, are aligned with the "Tasmanian Government Project Management Guidelines".
8	15	Department of Infrastructure, Energy and Resources	Lyell Highway to Granton ; and Tea Tree Road	The Committee recommends that DIER continues implementation of its guide for risk management, "Professional Services Specification, PM3 – Risk Management".

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CHAPTER ONE - INTRODUCTION

BACKGROUND

1.1 Following completion of a report on the successful New Kingston High School Project³, the PAC was concerned with the need for future reviews of Public Works Committee (JSCPW) approved projects, to monitor the adherence to authorised budgets. The PAC was concerned that after the Public Works Committee approval process was completed, there was no routine follow-up in place to assess the performance of projects.

Auditor-General's Report on Contract Management

1.2 In a Special Report to the Parliament in June 2009⁴, the Auditor-General made key recommendations on Contract Management:

- 1 The principal formally recognise major risks and develop management strategies for those risks prior to entering into a contract
- 2 Agencies ensure that all major contracts are monitored with regular updates sought at appropriate intervals
- 3 Agencies establish a steering committee in addition to a contract management team for contracts with significant risk, materiality and public interest
- 4 Agencies make use of contract management expertise and guidelines from entities with relevant experience

1.3 The PAC recognised that the above recommendations around risk management strategies being in place; regular monitoring; establishment of an appropriate oversight body such as a steering committee; and the use of experts and guidelines; as being integral to the success of a major project. The Committee considered the above recommendations as a “springboard” which could assist it in identifying projects requiring further scrutiny. This requirement for further scrutiny would also include those projects that have not met time budgets (and so incurred / are incurring complementary cost over-runs), those that have sought additional funding and those that are considered to not have effective monitoring of costs in place.

³ Parliamentary Standing Committee of Public Accounts Report No. 11, 2008, “*Report on Kingston High School*”

⁴ Auditor-General Special Report No. 81, Contract Management, June 2009,

- In summary, the PAC was keen to follow up from a contract management perspective and determine whether a budget overrun on a project was the result of a failure to closely monitor, control and manage the project effectively.

THE TERMS OF REFERENCE

1.4 The Standing Committee of Public Accounts resolved of its own motion to undertake a review of Public Works Approved projects dated May 2008 – March 2009, to determine whether the projects had been effectively managed and whether adherence to authorised budgets was achieved.

PROCESS OF THE REVIEW

1.5 JSCPW approved projects from the period May 2008 - March 2009 were selected for follow up. These dates were selected due to the lag time from approval by the JSCPW, which meant that the projects identified for further scrutiny should either be completed or substantially completed.

1.6 The period under review covered the following approvals:

Agency	Name of Project
DIER	Lake Secondary road, Meander Road Junction To East Church Street Upgrade
DIER	Tea Tree Secondary Road
DIER	Lyell Highway , between Granton and New Norfolk
DIER	Brighton Hub
DHHS	Paediatric Enhancement Project Royal Hobart Hospital
House of Assembly / Legislative Council	Parliament House Works
DoE	Hazelwood School Relocation – Southern Support School
DoE	Newstead College – Student Accommodation
DoE	New Norfolk Primary School Redevelopment
DoE	Rocherlea School Relocation

PROCESS OF THE REVIEW (cont)

Submissions from Agencies

- 1.7 A questionnaire was issued to the concerned Agency for completion, including questions around the following 4 main themes:
- Management of key dates, milestones and major project issues including budgeted to actual expenditure, timelines achieved and reporting on (any) aspects of contract underperformance;
 - Monitoring and review processes in place, including how relationships between the Agency and the Contractor(s) were managed and how risks were managed;
 - Management of the relationship between the Agency and stakeholders; and
 - Contract management guidelines and expertise used.
- 1.8 The concerned Agency also had an opportunity to put in writing to the PAC details of mechanisms in place used to assist in the management of the project at the oversight level, particularly those in situ assisting the Agency to adhere to budget, manage risk effectively and to overall, enable effective monitoring of the project.

Responses reviewed

- 1.9 The PAC received the questionnaire responses from all Agencies, and these responses were subsequently reviewed. Responses included key data about budgeted expenditure and actual expenditure, whether project timelines were met or not, and details of the project management processes in place.

Hearings Initiated

- 1.10 Following the review of responses received, the Committee prioritised the public works projects managed by DoE and DIER for further examination and on Friday 23 September 2011 held hearings in regard to the delivery of those projects. Transcripts of the evidence are available on the Committee's website: pac@parliament.tas.gov.au. Refer to Appendix Two for the list of witnesses.
- 1.11 The Committee would like to thank all parties that contributed to this Inquiry.

CHAPTER TWO - FOLLOW UP OF JSCPW APPROVED WORKS : Department of Health and Human Services

2.0 Department of Health and Human Services

Paediatric Enhancement Project Royal Hobart Hospital

- 2.1 Budget approval included \$2.625m to undertake a project to develop adequate facilities to accommodate service enhancements to paediatric services. Additional funds were provided by Camp Quality (\$200k) to fund the purchase of audiology booths and provide equipment for children's oncology services. Oral Health Services also provided \$200k to incorporate the development of dental surgeries within the area adjacent to Paediatric clinics.
- 2.2 The major component of the project, Stage 1 was to redevelop the former Emergency Department on Argyle St frontage of the Royal Hobart Hospital (RHH) to accommodate enhanced paediatric services. The DHHS supplied information to the Committee demonstrating that the project met budget constraints. Actual expenditure was \$2.4m and \$625,000 (unexpended budget Stage 1) was allocated for undertaking Stage 2 of the project. *"Stage 2, subsequent to moving the Paediatric clinics to the new facility was for light refurbishment of an area in C Block for Women's Clinics consulting rooms."*⁵ However, this part of the work was subsequently subsumed into the broader (RHH) redevelopment arising and *"the budget for the Stage 2 works was not independently appropriated to DHHS but was included in the larger budget allocation by Treasury."*⁶
- 2.3 As well as meeting budget \$ targets, the project was completed in a timely way - within 7 months from its start date. The actual completion date was 23 June 2009 (compared with the contract completion date of 26 May 2009).
- 2.4 While the Committee noted processes in place for adequate project monitoring and review, and the management of relationships between the Agency and the contractor, risk management of the project, as well as stakeholder management processes appeared robust.
- 2.5 Upon review of the DHHS submission to the Committee and after examining the above processes in place, the Committee concluded the project had the characteristics of a well managed project including most attributes expected to enable oversight, monitoring and high level control of project expenditure.

⁵ Hon Michelle O'Byrne MP, DHHS submission to PAC Committee, 19 July 2011, p. 1

⁶ *ibid*, p. 2

2.6 In conclusion, the Committee notes the Minister's comments that: "*Completion of the Paediatric Enhancement Project realized valuable clinical space for the services involved and is a high quality treatment space highly appreciated by staff, patients and the community*"⁷.

Go to next page

⁷ Hon Michelle O'Byrne MP, op. cit., 19 July 2011, p. 2

CHAPTER THREE - Follow up of JSCPW Approved Project: Legislative Council and House of Assembly

3.0 Legislative Council and House of Assembly

Parliament House Works

- 3.1 The works consisted of upgrading and restoration of the House of Assembly Chamber and the provision of a Television Broadcast System. The Chamber work was to retrieve and retain the Chamber's important 1930s form in detail, whilst allowing for efficient functioning, and the Broadcast System work was to achieve comprehensive television access to the proceedings of the Parliament of Tasmania and to replace television and camera usage in Parliament House Chambers, Committee Rooms and the Reception Room. The JSCPW recommended the project at an estimated total cost of \$4,500,000, comprising \$2,600,000 for the House of Assembly Chamber work and \$1,900,000 for the Television Broadcast works.
- 3.2 Actual expenditure on the project was: House of Assembly Chamber building works - \$2.67m (compared with final approved budget \$2.68m); and Television Broadcast Works - \$2.03m (compared with initial budget of \$1.9m). (Note: contract variations (additional \$130k) for TV Broadcasting were approved).⁸
- 3.3 With respect to completion dates, the works were completed within 7 months and met the project completion dates of 26 January 2009 (Chamber building works) and 26 February 2009 (TV Broadcast works) respectively.⁹
- 3.4 The Committee noted processes in place giving rise to:
- adequate project monitoring and review;
 - efficient management of relationships between the Agency and the contractor;
 - and
 - sound stakeholder management processes in place.
- 3.5 The Committee considers that the risk management processes undertaken (which included an initial review of risks before the tenders were called, management of risk throughout the project by the contract management committee, and oversight from a probity auditor), could have been further strengthened by documentation in place including a detailed and regularly monitored Risk

⁸ Hon Sue Smith, MLC and Hon Michael Polley, MP, Legislative Council and House of Assembly submission to PAC Committee, 26 July 2011, p. 2

⁹ Ibid., p. 1

Management Plan and Project Risk Register, as well as oversight of the Plan and its periodic review at the Steering Committee level.

- 3.6 The Committee notes the Department of Premier and Cabinet “Tasmanian Government Project Management Guidelines” (Appendix Three). Of particular relevance in this instance would be the section around Risk Management.
- 3.7 In summary, while aspects relating to risk management documentation could be strengthened, upon review of the submission to the Committee and after examination of the above processes in place, the Committee concluded that the project was timely and overall well-managed.

Recommendation One:

The Committee recommends that the House of Assembly and Legislative Council review risk management processes in relation to project management of public works approved projects, thereby strengthening documentation and the monitoring of risk.

Go to next page

CHAPTER FOUR - Follow up of JSCPW Approved Projects: Department of Education and Skills

4.0 Department of Education and Skills

4.1 As noted in paragraph 1.14, following a review of written responses to the Committee's questionnaires on management of public works projects, the Committee prioritised the DoE and DIER public works projects for further examination and on Friday 23 September 2011, conducted a hearing in regard to the delivery of those projects

Details of those projects and results of the Committee's follow ups are given below.

4.2 The Department of Education was queried regarding 4 projects:

- Hazelwood School Relocation
- Newstead Accommodation
- New Norfolk Primary School Redevelopment
- Rocherlea School Project

4.3 In the first instance, the Committee was concerned that the Department of Education and Skills was unable to respond to written questions in a timely manner. Extensions of time to submit information were needed by DoE. Information about 3 of the projects was able to be submitted after 3 months and information requested about a 4th project, Hazelwood School (to be reported on separately – see p. v of this report), was not able to be formally provided until some 4 months after the initial request by the PAC.

4.4 All other Agencies that were asked to provide written information to the Inquiry were able to do so in a timely fashion.

4.5 The Committee was initially uncertain as to the reason behind the lack of timely information from DoE, but notes that it could have been due to: inadequate record-keeping and lack of control over contract data – as the Department was unable to extract the up-to-date information needed in a timely way; and/or non-availability of staff with the project knowledge; and/or a low priority within DoE.

4.6 The Department however, outlined difficulties in collating responses to the PAC questionnaire due to its format:

Ms FOSTER (DoE) - *The (PAC) templates had some queries for us They did not quite give us the ability to give you guys the right picture, where the project has hit significant issues, especially financially¹⁰.*

4.7 The Committee confirms that while there could have been issues around the questionnaire format, other Departments were able to deal with this. Notwithstanding the explanation given, a 3-4 month general response time by DoE raised unease around the contract management practices and processes in place.

Recommendation Two:

The Committee recommends that within three months of this report being tabled, the Education Department put in place procedures to respond to the PAC in a timely way and to submit a copy of those procedures to the PAC.

Newstead School Accommodation Project

4.8 The Committee notes that the Newstead Accommodation Project appears to have been well-handled and attributes its coming in on budget (“completed for \$4.069m, budget was adjusted down from the original 4,300,000 advised in the PSCPW submission”¹¹) due to factors including: active up-front stakeholder engagement, commitment to the project and good planning at the outset.

MS PARKER (DoE) - *The project was finished in June 2009, which was about a month after the reported completion date. It provides a very comfortable facility, catering for up to 50 students from rural and regional areas of the State. It has a range of single- and double-story buildings, three-, four- and five-bedroom apartments, each with a common kitchen and lounge area. The buildings back onto the shared recreational courtyard and there is a shared laundry and common room study area under one of the buildings. It is a very distinctive, double-story facility. It has not changed at all in design just in realisation. It is fully occupied. There are waiting lists at the start of the year. It was built for 50 students but as the year goes on it drops down to about 40 students as people find other accommodation. It is fully occupied and just a marvellous facility. We came in about \$190 000 under budget.¹²*

4.9 The stakeholder engagement to assess needs also appeared vigorous:

¹⁰ Ms Michelle Foster, Transcript of Evidence, 23 September 2011, p. 1

¹¹ DoE, Written submission to PAC, 19 September 2011, Newstead College – Student Accommodation, p. 1

¹² Ms Cath Parker, Transcript of Evidence, 23 September 2011, p. 22

MS PARKER (DoE) – *There were public meetings held around the needs for students living in regional areas so it was fairly well understood. There were the State Schools Parents and Friends, Isolated Children's Parents Association, and hostel operators. We looked at use models and what the University of Tasmania offered. We just knew that we were looking at a younger student cohort, 17 - 18-year-olds who probably needed more care and attention than a university student, so it was trying to get that mix of an independent living situation but still in a sheltered environment, and I think from all accounts we have been able to achieve that".*¹³

New Norfolk Primary School Redevelopment

4.10 The Committee reviewed written and spoken representation from the Department in considering its overall assessment of this project. Apart from planning time delays (due to illness of main consultant¹⁴), and other small “run of the mill¹⁵” project hiccups which delayed the project completion, it came in within \$ budget.

Rocherlea Primary School Relocation

4.11 This JSCPW approved project, to relocate the Rocherlea Primary School to the Brooks High School site, was commenced in October 2008 for a proposed total cost of \$4.08m. The building component submitted to and approved by JSCPW was \$3.5m. The project was completed in June 2009 at a total cost of \$6.02m.

4.12 Of particular concern to the Committee around this project was the increased actual expenditure (\$6.02m) compared with the approved total works figure (\$4.08m).

4.13 DoE advised that *“the Budget was increased from the original PSCPW submission of \$4,080,000 to incorporate additional works, including \$850,000 for the Building the Education Revolution project¹⁶”*.

¹³ *ibid* p. 22-23

¹⁴ Ms Michelle Foster, Transcript of Evidence, 23 September 2011, p. 26

¹⁵ *ibid* p. 26

¹⁶ DoE, Written submission to PAC, 19 September 2011, Rocherlea School Relocation, p. 1

Rocherlea Primary School Relocation (cont)

4.14 In response to questioning concerning any contract variations and /or amendments which required an increase in project funding, DoE responded with the following information:

“Unfavourable tender result \$691,000.00 which had additional cost implications for consultants fees, furniture and equipment. Additionally, demands for investigation of traffic management studies at a cost of \$95,000.00. Carpark oval works also arose during the project consultation period¹⁷.”

4.15 Additional information obtained from the DoE¹⁸ gave further details around the \$691k unfavourable tender result by disclosing that the construction tender came in over estimate by \$556k (a tender of \$4.1m compared with approved budget \$3.55m) and that the estimate for consultants (\$374k) was \$94k greater than budgeted for (\$280k). Also, a post occupancy contingency of \$25k, as well as costs associated with the relocation of the Grade 7/8 play area, were omitted from the original approved budget.

4.16 DoE noted in an internal Briefing Note dated April 2009 on the subject of the Rocherlea Primary funding, that:

- *“In summary the allocation for Rocherlea Primary was committed to construction without allowance for some non-construction costs”¹⁹*

4.17 The Committee notes the Department of Premier and Cabinet “Tasmanian Government Project Management Guidelines” and noted that DoE should ensure its framework for project management is aligned with those guidelines. Of particular relevance would be the sections around resource management”.²⁰

Recommendation Three:

The Committee recommends that DoE ensure its processes and practices of project management on Public Works projects are aligned with the “Tasmanian Government Project Management Guidelines”.²¹

¹⁷ Ibid, p. 4

¹⁸ DoE, Written submission to PAC, 26 October 2011, Appendix E, p. 1-3

¹⁹ Ibid, p. 3

²⁰ Tasmanian Project Management Guidelines, V7.0, URL:

http://www.egovernment.tas.gov.au/project_management/tasmanian_government_project_management_guidelines, p. 132-142

²¹ Tasmanian Project Management Guidelines, V7.0, URL:

http://www.egovernment.tas.gov.au/project_management/tasmanian_government_project_management_guidelines

Rocherlea Primary School Relocation (cont)

4.18 PAC notes that the additional funds required for this project were sourced from asset sales.

“A decision was made to allocate additional funding through the department’s Asset Sales program to ensure that the new primary school was fully fitted out and functioning to the required level”²²

- It was also noted by DoE that with respect to the project documentation processed at that time: *“Form C”²³ did not sufficiently disclose all potential costs and had not been designed to show a picture of funding sources against anticipated costs”²⁴.*

Further, it was internally recommended by DoE that:

“(Form C) be supported by a Project Budget Control Form every stage of a project and for the PRC”²⁵ also to receive this. This form to have all sources of funds in one column and the anticipated costs in the other. This will provide an overarching document that ties together costs and funding”²⁶.

4.19 The PAC supports the above DoE internal recommendation and makes the following recommendations arising from this project:

Recommendation Four

The Committee recommends that the DoE review its documentation processes so that project costs and sources of funds are matched together in a high level budget document. This will assist with oversight and budgetary control of public works approved projects.

Go to next page

²² DoE, Written submission to PAC, 26 October 2011, Part E, (2), p. 6

²³ Form C - Request for Approval for Tender Form

²⁴ DoE, Written submission to PAC, 26 October 2011, Appendix E, p. 3

²⁵ PRC - Procurement Review Committee.

²⁶ DoE, Written submission to PAC, 26 October 2011, Appendix E, p. 3

CHAPTER FIVE - Follow up of JSCPW Approved Projects:

5.0 Department of Infrastructure, Energy and Resources

5.1 The Committee resolved to examine the following JSCPW approved projects:

- Lake Secondary Road, Meander Road Junction to East Church Street Upgrade
- Tea Tree Secondary Road
- Lyell Highway, between Granton and New Norfolk
- Brighton Hub

Lake Secondary Road, Meander Road Junction to East Church Street Upgrade

5.2 The Committee reviewed written and spoken representations from DIER in considering its overall assessment of this project.

5.3 Initial examination of the DIER written submission to PAC disclosed a project which had, on the face of it, all the attributes of a well managed project. The project came in under \$ budget and was also completed ahead of schedule. It was completed at a cost of \$7.9m compared with a JSCPW approved budget of \$8m. The project commenced in January 2009 and while it was due for completion in February 2010, actual completion occurred earlier in December 2009.

5.4 A submission by the Meander Valley Council (MVC) to the PAC however, highlighted concerns held by MVC with respect to the completed project, particularly in relation to a tight left hand bend on Meander Road, just after the Lake Highway and Meander Road junction. MVC requested additional works be completed (cost estimated at around \$110,000) to improve sight distance and drop off on the corner involved, in order to provide a “better transition between DIER’s upgraded Lake Secondary Road and Council’s Meander Road”²⁷.

5.5 The MVC made further representation in relation to this matter:

“Council considers that DIER did not complete their obligation to the community in the upgrading of this section of the road and that they should assist Council in removing a traffic hazard generated on an adjacent road managed by MVC”²⁸

5.6 DIER officials, while considering that works were completed in accordance with the submitted project plan, have noted the continued concerns raised by MVC

²⁷ MVC, Written submission to PAC, 17 August 2011, p. 4

²⁸ Mr Ted Ross, MVC submission to PAC Committee, 17 August 2011, p. 1

with respect to the curve. DIER communications²⁹ have noted the prudence in having a formal Road Safety Audit as defined by “Austroads Guide to Road Safety, Part 6: Road Safety Audit 2009”³⁰ and a subsequent report completed. PAC confirms the prudence of this proposal and also sees its performance as a matter of importance around effective stakeholder engagement.

Recommendation Five:

The Committee recommends that DIER instigate a formal Road Safety Audit with respect to the Upgrade to Lake Secondary Road, Deloraine to Meander, in accordance with the Austroads guidelines, and that this be performed by a qualified independent party. Further, DIER is strongly encouraged to liaise with the Meander Valley Council concerning remedial or other works, if required, as a result of any safety audit undertaken.

Recommendation Six:

The Committee recommends that DIER review its stakeholder engagement processes to ensure that effective engagement with stakeholders and other concerned parties is undertaken, both during and after completion of major public works.

5.7 With regard to project assessment, DIER officials also highlighted that a framework was being established within the department to assess completed projects.

5.8 The Committee notes the Department of Premier and Cabinet “Tasmanian Government Project Management Guidelines” and noted that DIER should ensure its proposed framework for project assessment is aligned with those guidelines. Of particular relevance would be the sections around “Project Review and Evaluation”.³¹

Recommendation Seven:

The Committee recommends that DIER ensure its proposed framework for project assessment on public works projects, in particular the processes around project review and evaluation, are aligned with the “Tasmanian Government Project Management Guidelines”.

²⁹ DIER submission to PAC, 24 October 2011, p. 2-4

³⁰ Austroads is the association of Australian and New Zealand road transport and traffic authorities. Austroads promote improved Australian and New Zealand transport outcomes by providing expert technical input to national policy development on road and road transport issues. Further information is available at: <http://www.austroads.com.au>

³¹ Tasmanian Project Management Guidelines, V7.0, URL:

http://www.egovernment.tas.gov.au/project_management/tasmanian_government_project_management_guidelines, p. 132-142

Lyell Highway, between Granton and New Norfolk

- 5.9 The Lyell Highway project was completed at a cost of \$14.6m compared with a JSCPW approved budget of \$14m, representing a 4% overrun on the original estimate. The project was commenced in Feb 2008 and due for completion in August 2010. Actual practical completion was on 27 January 2011. DIER's response in relation to the time delay was that *"Extension of time was approved for contractors to delay works over winter periods, and wet summer periods."*³²
- 5.10 The Committee found that with respect to management of this project there was opportunity for improvement, especially in the area of risk management. DIER's response around risk management of the project included the following comments:
*"An organisational audit in 2010 identified that risk assessments were not being carried out consistently and effectively. This has been addressed by formalisation of the DIER Project Methodology and standardising the Risk Assessment Plan, which has been delivered to DIER Project Managers."*³³
- 5.11 DIER submitted a copy of its proposed risk management documentation and standardized risk assessment plan (as outlined above in para 5.10), titled "Professional Services Specification, PM3 – Risk Management"³⁴. The Committee commends DIER for its work in this area to provide a clear guide to consultants and others on the standard of risk management that shall be used in work undertaken for DIER.

Recommendation Eight:

The Committee recommends that DIER continues implementation of its guide for risk management, "Professional Services Specification, PM3 – Risk Management".

³² DIER, Written submission to PAC, 26 July 2011, Lyell Highway, p. 1

³³ Ibid, p. 6-7

³⁴ DIER, Written submission to PAC, 24 October 2011, p 47 - 63

Tea Tree Secondary Road

5.12 The Committee notes that the project was not completed within the expected timeframe, nor for the original approved JSCPW figure.

5.13 The project commenced in December 2008 and while the contract completion date was in April 2009, actual completion occurred in February 2010.

DIER advised that the reasons for the time overrun included:

*Aurora delayed due to bushfires in Victoria (70 calendar days); inclement weather delays (20 days); voluntary suspension of works by Contractors during winter 2009 (98 calendar days); Poor contractor performance issues (whole pavement on Section 1 rejected and re-worked; re-working embankments and cuttings on Section 2 because too narrow); Some design modifications necessary during construction”.*³⁵

5.14 The project was completed at a cost of \$5.3m, compared with the budget approved in the JSCPW report of \$4m. This represented a 33% increase in costs.

DIER advised that the reasons for the increased cost included:

*“Scope changes due substantially to poorer subgrade conditions than anticipated at the design stage; Some design modifications to improve final product; Contractor incurred delay costs due to Principal arranged Aurora work, when crews deployed to Victorian bushfires”.*³⁶

5.15 Further discussion with respect to the time delays and cost increases ensued as follows:

Mr CANTILLON (DIER) - *There were the Victorian bushfires at the time and getting Aurora to come on site resulted in what they call a ‘principal clause delay’ that was worth about \$125,000.*³⁷

CHAIR - *So you mentioned Aurora and the inclement weather, and there was a voluntary suspension of works by contractors during the winter of another 98 days.*³⁸

³⁵ DIER, Written submission to PAC, 26 July 2011, Tea Tree Secondary Rd, p. 1

³⁶ Ibid, p. 4

³⁷ Mr Phil Cantillon, Transcript of Evidence, 23 September 2011, p. 40

³⁸ Chair, Hon Jim Wilkinson, Transcript of Evidence, 23 September 2011, p. 40

Mr CANTILLON (DIER) - It is normal practice to close down in winter for a time. There are some jobs that you can't continue with through winter, and this was one of them. You can't build pavements and get them down through winter. There were a number of issues associated with some of the pavement construction, the roughness and level of it. The job was done in two sections. One section was rebuilt by the contractor at its cost.³⁹

CHAIR - And that was poor work by the contractor, wasn't it?⁴⁰

Mr CANTILLON (DIER) - Yes. Through a negotiated process, as the project became more complex - as in the model we were talking about before - more people stepped in, I stepped in, as did the general manager, and we had a number of negotiations directly with the contractor. The outcome of that was the rebuilding of section 1 and with section 2 there were a number of issues associated with trying to fit a road in a very tight road alignment through there, and also the ground conditions. There was quite a bit of rock encountered and when you encounter rock you pay for it. There were also some soft spots encountered which had to be treated, so there were variations for that. Where the road alignment was a little bit tight in the road corridor there were some retaining walls built. They were some of the design modifications and there was a water pipeline extended as well. They are the sorts of dimensions and the result of that work, particularly the rework, meant that by the time they could garner their resources to carry out that rework the project wasn't concluded until the following year, February 2010.⁴¹

5.16 With respect to the contractor performance and the contracting process, the following comments were made:

Mr DEAN - On the poor contractor performance, were these new contractors or had you used them previously? What was their position?⁴²

Mr CANTILLON (DIER) - This was Negri Contractors and we had a good outcome at the end in terms of our relationship with them but there was a number of negotiations through that process in terms of focusing on what was required to get the right outcome for the project in accordance with the contract and also how the contractor might approach their future dealings with DIER in terms of the learnings from that. So you do it as a cooperative engagement process and we achieved that in the end. There were still liquidator damages applied -⁴³

Mr DEAN - Yes, I was going to ask about that.⁴⁴

³⁹ Mr Phil Cantillon, op. cit., p. 40

⁴⁰ Chair, Hon Jim Wilkinson, op. cit., p. 40

⁴¹ Mr Phil Cantillon, op. cit., p. 40-41

⁴² Hon Ivan Dean, Transcript of Evidence, 23 September 2011, p. 41

⁴³ Mr Phil Cantillon, op. cit., p. 41

⁴⁴ Hon Ivan Dean, op. cit., p. 42

Mr CANTILLON (DIER) - They were applied over about a three-month period at the end.⁴⁵

Mr DEAN - Was that for not coming in on contracted time?⁴⁶

Mr CANTILLON (DIER) - Yes.⁴⁷

5.17 While the Committee was concerned about the management of relationships between the contractor and the Agency, it was noted that there did appear to be close scrutiny by DIER throughout the project lifecycle.

CHAIR - Phil, I am looking at the document in front of us and part of it is how relationships are managed between the agency and contractor and the note says, 'As issues escalated, DIER's Director of Operations and General Manager, Roads and Traffic, became involved in discussion with the contractor', because originally there was the project manager and the contract administration staff which were appointed but with the issues that were coming up there needed to be the Director of Operations coming on board. It seemed to me to be a situation which I would not say got out of hand but slowly started to raise alarm bells until the director became involved. Is that right?⁴⁸

Mr CANTILLON (DIER) - I think it is part of that scrutiny. The approach before was one of risk management where the project managers would deal with the contractors when certain circumstances arise. Ben⁴⁹ is manager of projects and when he is involved I might be aware of it but Ben is dealing with it, and then there might be some issues where I am directly involved in it or the general manager or maybe even the secretary on certain issues.

CHAIR - Could the risk management have been improved at all and, if so, how?⁵⁰

Mr CANTILLON (DIER)- I suppose I have not come prepared to answer that question in terms of a formulated view, but it was very difficult with the notification with Aurora. If the Aurora work was not able to be done it meant that the works slipped over to winter. Obviously that is one stream. The other thought stream is that there were some paving issues associated with the construction of one the areas. What could have been done to get a better outcome out of the construction at that early stage is probably the question, but having said that, the contractor honoured the contractual arrangement with DIER and rebuilt those works at its cost and also applied liquidator damages. The contract was enforced and the contractor honoured his obligations. That was an effective outcome but could we have influenced the way he constructed it? We raised a number of things through those negotiations in terms of the plant he uses, the expertise that he has involved in his team to get the works done et cetera. More

⁴⁵ Mr Phil Cantillon, op. cit., p. 42

⁴⁶ Hon Ivan Dean, op. cit., p. 42

⁴⁷ Mr Phil Cantillon, op. cit., p. 42

⁴⁸ Mr Phil Cantillon, op. cit., p. 42

⁴⁹ Ben Moloney – Manager Project Services DIER

⁵⁰ Chair, Hon Jim Wilkinson, op. cit., p. 42

*broadly, I think that is the area that would have been very rich to have that engagement for the contractor to have that early focus in it. In terms of the contractor, it was a very large contractor in Melbourne which operated very successfully and had started an office in Tasmania.*⁵¹

5.18 Risk management questions around the project were explored further by the Committee:

CHAIR - *The other note we have which was helpful for me to try to understand it was that an organisation audit in 2010 identified that risk assessments were not being carried out consistently and effectively and this has been addressed by formalisation of the DIER project methodology standardising the risk assessment plan, which has been delivered to DIER project managers. Was that right?*⁵²

Mr CANTILLON (DIER) - *Yes. The extent of the level of risk management was probably variable from project to project depending on the size of it and now we have a strengthened process in terms of what all projects are doing, making sure they do the risk management and that we can see evidence that that is occurring. We are also aligning that better to our estimating to the extent that we are now moving to the evidence of best practice estimating which is about the notion of P50s and P90s. In rudimentary terms, that means you have either a 50 per cent probability your construction will be built for that price or you have a 90 per cent probability. To determine those prices, you consider your risk associated with your construction and some of the inherent risks associated with it some of the external, residual risks associated with that. We are always hopefully moving forward, always continuously improving, always self-assessing and we are currently working on strengthening those processes in an integrated way.*⁵³

5.19 The Committee found that with respect to management of this project there was opportunity for improvement, especially in the area of risk management.

5.20 DIER's general response around risk management has previously been noted in this report (as per para 5.10 – 5.11) and the PAC response (also relevant in this instance) has been noted in Recommendation 18 (see p. 18) of this report.

⁵¹ Mr Phil Cantillon, op. cit., p. 42

⁵² Chair, Hon Jim Wilkinson, op. cit., p. 43

⁵³ Mr Phil Cantillon, op. cit., p. 43

Brighton Hub

5.21 The JSCPW project budget for the Brighton Hub was \$78.8m and consisted of the following:

Description of Works	Cost Est /\$M
Bulk Earthworks	11.3
Hub Stage 1	14.5
Rail Access	2.0
Public Roads	3.7
Site Services	0.9
Land Acquisition	5.2
Bulk Goods Yard	3.0
Coolstore	11.0
Pacific National Compensation	2.5
Professional Fees, Admin and Overheads	4.8
Contingency	15.4
Cost Escalation	4.5
TOTAL	78.8

5.22 DIER advised the Committee in August 2011⁵⁴ that the project was 95% complete and that while project expenditure to date was \$73.3m, final project expenditure was estimated to be \$77.4m at completion.

5.23 With regard to project timing, DIER advised “the main contract was completed 11 months ahead of contractual dates (completed 16 May 2011) due to good weather, availability of additional contractor resources and good site management”.⁵⁵

5.24 Relocation of a cool store from Macquarie Point to Brighton was part of the original budget for the hub (\$11m). The Committee was keen to know why this had been costed into the project:

Mr BOOTH - *Why would DIER pay for TasPorts cold store?*⁵⁶

Mr CANTILLON (DIER) - *I am not totally familiar with all of the background. For any specific questions I will probably have to come back you, as to the rationale for*

⁵⁴ DIER, Written submission to PAC, 11 August 2011, Brighton Hub, p. 1

⁵⁵ Ibid, p. 1

⁵⁶ Mr Kim Booth MP, Transcript of Evidence, 23 September 2011, p. 33

*why the cold store was included in it, but I think, aside from who owned it, part of the general tenor was to build a true intermodal facility at the hub site where we have full road, rail, road/road connections. The cold store at the time was seen as an important element of that.*⁵⁷

5.25 The Committee was advised by DIER that the cold store construction was not proceeded with. From the original \$78.8m JSCPW budget “\$11m was removed due to the cold store not proceeding. \$6.4m was allocated to allow for Tasgas pipeline relocation and \$3.2m was included for additional infrastructure that was requested by Tasrail during the construction phase of the project. Final Budget is \$77.4m.”⁵⁸

5.26 The Committee was keen to examine the outcome of this project further:

CHAIR - *Of course, the Brighton hub seems to be a success, and came in on budget 11 months ahead of time. Why did that do so well and, as a result of it doing so well, have you learned something from it to continue to do the same thing as you did with the Brighton hub?*⁵⁹

Mr CANTILLON (DIER) - *Thank you for that feedback; I think it was a highly successful project. I think a key element of that was the early contractor involvement model and the strength of that model is that you get a number of opportunities to align the scope of the project with the risks and costs of the project and you have lots of discussions about that to get a better understanding in terms of the requirements before you award a contract. So by the time you award the contract you have a product you are very certain of. In fact, the variations, as I understand, on that southern contract which included the Brighton Transport Hub, are in the order of about 2-3 per cent which, out of an \$80 million job, is quite outstanding. On the northern bypass at the moment, except for the Jordan, we are about \$300 000. It just comes through that first phase where you have the scope, cost and risk alignment and you use that opportunity to build up your relationships with the various parties in that.*⁶⁰

5.27 With respect to project achievement, the following points were raised:

Mr GUTWEIN - *Obviously the project has come in on time, apart from a little bit of massaging regarding cool stores and other infrastructures. In the context of the environment that the project was originally developed in, which was to move the cold store and to have a true hub operating at Brighton, have we achieved that?*⁶¹

Mr CANTILLON (DIER) - *I think we have but I am saying that as a project director for it. In terms of having a true intermodal facility now with road, rail, road/road*

⁵⁷ Mr Phil Cantillon, op. cit., p. 33

⁵⁸ DIER, Written submission to PAC, 11 August 2011, Brighton Hub, p. 4

⁵⁹ Chair, Hon J Wilkinson, op. cit., p. 32

⁶⁰ Mr Phil Cantillon, op. cit., p. 32

⁶¹ Mr Peter Gutwein, MP, Transcript of Evidence, 23 September 2011, p. 35

*connectivity, that is what you now have. It is an excellent facility. It will be an enormous attractor to the area. There has been enormous commercial/ industrial development in the area and it will continue.*⁶²

5.28 After examining the DIER submissions in relation to the Brighton Hub Project, the Committee concluded that the project had been well managed and that oversight, monitoring and control of project expenditure had been well performed.

⁶² Mr Phil Cantillon, op cit., p. 35

APPENDIX ONE – Submissions and other documents received

No	Name	Organisation	Date of Submission	Project
1	Hon Michelle O'Byrne MP Minister for Health	Tasmanian Government DHHS	19-Jul-11	Royal Hobart Hospital Paediatric Enhancement Project
2	Hon David O'Byrne MP Minister for Infrastructure	Tasmanian Government DIER	25-Jul-11	Lake Secondary Road
3	Hon David O'Byrne MP Minister for Infrastructure	Tasmanian Government DIER	26-Jul-11	Lyell Highway
4	Hon David O'Byrne MP Minister for Infrastructure	Tasmanian Government DIER	26-Jul-11	Tea Tree Secondary Road
5	Hon Sue Smith MLC President, Legislative Council; and Hon Michael Polley MP Speaker, House of Assembly	Tasmanian Government Parliament	26-Jul-11	Parliament House Works
6	Hon David O'Byrne MP Minister for Infrastructure	Tasmanian Government DIER	11-Aug-11	Brighton Hub
7	Mr Ted Ross, Director Infrastructure Services	Meander Valley Council MVC	17-Aug-11	Lake Secondary Road
8	Hon Nick McKim MP Minister for Education and Skills	Tasmanian Government DoE	19-Sep-11	New Norfolk / Rocherlea Primary / Newstead College
11	Hon David O'Byrne MP Minister for Infrastructure	Tasmanian Government DIER	24-Oct-11	Questions on Notice- from Hearing 23 September
12	Hon Nick McKim MP Minister for Education and Skills	Tasmanian Government DoE	26-Oct-11	Questions on Notice- from Hearing 23 September

APPENDIX TWO – Witnesses

Organisation	Representative	Date
Department of Education and Skills	<p>Ms Cath Parker Manager Capital Planning and Development Capital Planning and Development Finance, Facilities and Business Support</p> <p>Ms Michelle Foster Manager Facility Services Finance, Facilities and Business Support Corporate Services</p>	23 / 09/ 2011
Department of Infrastructure, Energy and Resources	<p>Mr Phil Cantillon A/G Director Operations Branch Management Branch Management and Business Services</p> <p>Mr Ben Moloney Manager Project Services Project Services</p>	23 / 09/ 2011

Signed this 30th day of April 2012.

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Hon Jim Wilkinson MLC
Chair of Joint Standing Committee of Public Accounts