Submission No 256

INQUIRY INTO SYDNEY STADIUMS STRATEGY

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audit office
OF NEW SOUTH WALES

Director
Public Works Committee
Parliament House
Macquarie Street
SYDNEY NSW 2000

Contact: Barry Underwood
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Ref: D1809970

25 May 2018

Dear Director

I refer to an email from Public Works, dated 20 April 2018, inviting a submission to the NSW Legislative Council's Public Works Committee Inquiry into the Sydney stadiums strategy.

I note that the Public Works Committee is inquiring into the total cost of the strategy, including acquisition, demolition, construction, compensation to sports clubs and associations, and the reasons for increases in costs.

On 12 December 2017, I published a financial audit volume titled *Report on Industry 2017*. This report discusses the acquisition of ANZ Stadium lease and may be of interest to the Committee's current Inquiry. The relevant detail from this report is:

> *On 1 July 2016, the NSW Government (via State Sporting Venues Authority (SSVA)) acquired 100 per cent of the shares in Stadium Holdings Pty Ltd (SHPL) and its subsidiaries. SHPL held the lease of ANZ Stadium for Sydney Olympic Park Authority, which is due to expire on 31 January 2031. As a result of the acquisition, SSVA became the leaseholder at 1 July 2016.*
>
> *The purchase consideration was $220 million which consisted of $151 million cash and $69.0 million settlement of SHPL's bank borrowings/external debt. SSVA financed the purchase with a loan from the Treasury Corporation (TCorp). The purchase price was equal to the fair value of assets and liabilities acquired.*
>
> *The acquisition was to create a NSW Government owned Stadia network.*
>
> *On 13 April 2017, under the authority of the Sporting Venues Authorities Amendment Act 2017, SSVA transferred the assets, liabilities and rights of SHPL to Venues NSW at no consideration. The transfer included the leasehold interests of ANZ Stadium, associated TCorp loans and the remaining three instalments of purchase consideration payables.*
>
> *The fair value of assets and liabilities divested to Venues NSW on 13 April 2017 was $88.4 million, including $280 million for the ANZ Stadium and $113 million of borrowings.*

At the time of publication, the report also noted:

> *On 24 November 2017 the Premier, Gladys Berejiklian and Sports Minister Stuart Ayres announced that Allianz at Moore Park and ANZ at Sydney Olympic Park will be rebuilt beginning in 2018 and 2019, respectively. Each will take three years to complete at a total cost of $2.0 billion. The accounting for the decommissioning of the existing stadia and the construction of the new facilities will be an area of focus for our audits of Sydney Cricket and Sports Ground Trust and Venues NSW in future years.*

On 20 December 2017, I published a financial audit volume on *Internal Controls and Governance 2017*. This report discusses major capital projects and capital project governance under section 3.2 (see enclosed).

I have attached a full copy of the *Report on Industry 2017* and *Internal Controls and Governance 2017* for your consideration. Should you require further information, please contact Barry Underwood, Director, Auditor-General's Office on or email .

Yours sincerely

Margaret Crawford
Auditor-General of New South Wales

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The table below shows agency performance against budget over the last three years, divided between physical and IT assets.

	Actual	Budget	Overspend/ (underspend)	Overspend/ (underspend)
	($b)	($b)	($b)	(%)
Physical assets				
2016–17	14.0	15.4	(1.4)	(9)
2015–16	11.9	12.2	(0.3)	(2)
2014–15	12.4	13.1	(0.7)	(5)
IT assets				
2016–17	3.0	3.1	(0.1)	(3)
2015–16	2.5	2.5	(0.0)	(0)
2014–15	1.1	0.9	0.2	22

Source: Provided by agencies (unaudited).

3.2 Capital projects

Given the increases in capital spending, we also looked at the way agencies are managing individual capital projects. The volume of projects managed by the 39 agencies in this report meant we could not review all projects they are currently delivering. We selected a total of 97 projects that were at least 50 per cent complete.

Major capital projects

Conclusion

The causes of agency budget underspends warrant investigation to ensure the NSW Government's infrastructure commitment is delivered on time.

The current level of major capital spending is significant

The NSW Government has budgeted that the 39 agencies in this report will spend $20.5 billion on the 97 major capital projects we reviewed over the next four years to 2021. They have already spent $11.5 billion on these projects as at 30 June 2017.

The table below summarises the 2016–17 budgeted versus actual capital expenditure for the major capital projects we sampled that are being delivered by the agencies included in this report. Since the revised and original project budgets are substantially the same, it does not appear underspending is the result of cost savings. The revised budgets suggest the original budgets were not inaccurate in significant respects.

Cluster	Forecast completion year	Original project budget	Revised project budget at 30 June 2017	Total project spend to 30 June 2017
		($m)	($m)	($m)
Education	2018–20	207	247	17
Family and Community Services	2017–18	625	626	556
Finance, Services and Innovation	2017–20	285	316	172
Health	2017–20	1,478	1,417	988
Industry	2016–20	213	218	79
Justice	2017–19	832	873	491
Planning and Environment	2016–21	923	925	663
Premier and Cabinet	2016–17	4	4	4
Transport	2016–20	15,930	15,873	8,477
Treasury	2017–18	9	13	9
Totals		**20,506**	**20,512**	**11,456**

Source: Provided by agencies (unaudited).

The table below summarises the 2016–17 budgeted versus actual capital expenditure for major projects for those agencies included in this report. This shows that they underspent by some $540 million during the year against their planned budgets.

	2016–17		
Clusters	**Original budgeted capital expenditure**	**Actual capital expenditure**	**Overspend/ (underspend)**
	($m)	($m)	($m)
Education	32	12	(20)
Family and Community Services	105	111	6
Finance, Services and Innovation	84	85	1
Health	318	320	2
Industry	58	51	(7)
Justice	393	351	(42)
Planning and Environment	239	78	(161)
Premier and Cabinet	4	4	0
Transport	2,763	2,446	(317)
Treasury	11	9	(2)
Totals	**4,007**	**3,467**	**(540)**

Source: Provided by agencies (unaudited).

Some agencies advise they obtained approval from the Treasury to roll forward a portion of their 2016–17 capital expenditure budget on projects where they were experiencing significant delays outside of their control.

Capital project governance

As well as the risks posed by the sheer volume of capital investment, we looked at the processes agencies use to manage major capital projects.

Conclusion

Agencies that have project management processes that include robust business cases and regular updates to their steering committees (or equivalent) are better able to provide those projects with strategic direction and oversight.

Appropriate governance is critical to delivering major capital projects effectively. This includes:

- developing robust business cases to support the proposal
- appointing a capital project steering committee to oversee the project
- providing the steering committee with regular reports and status updates.

Up to one-third of business cases had some deficiencies

As a first step, all capital projects should emerge from a strong business case that determines their priority and informs decision-making. Treasury Policy Paper TPP 08-05 'Guidelines for Capital Business Cases' requires that all agencies prepare business cases for capital proposals. This states that an effective business case should:

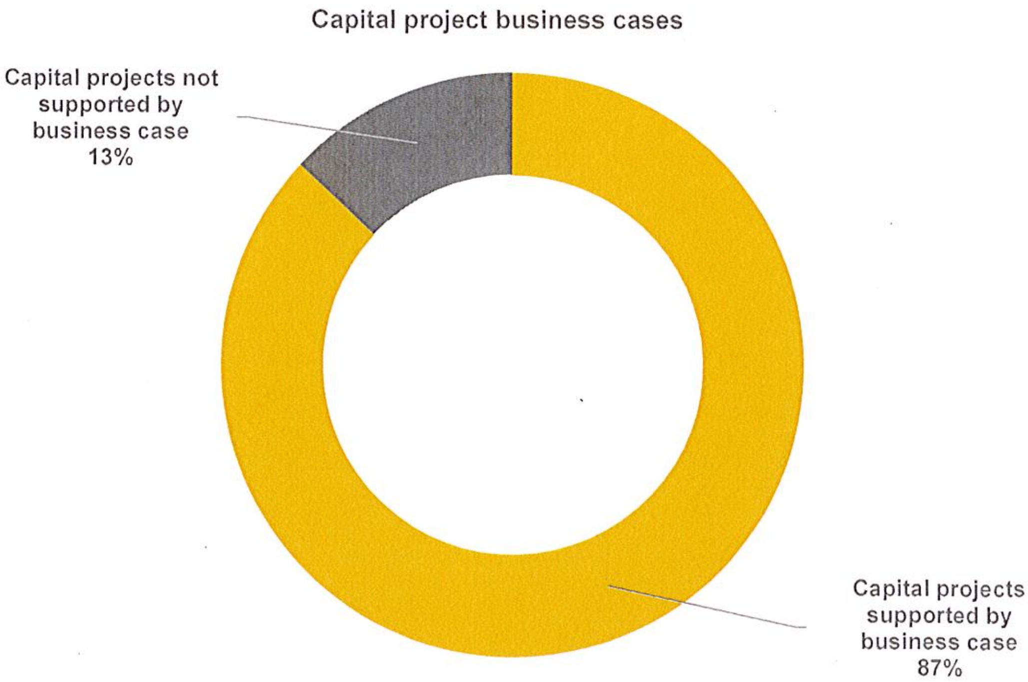
- demonstrate, justify and prioritise the service need
- evaluate the costs, benefits, risks, technical standards and legislative requirements
- document the project plan, governance arrangements, procurement, change management, benefits realisation, and stakeholder consultation strategies and resourcing requirements.

Without this, major capital projects might:

- be inconsistent with government priorities
- waste resources or not offer value for money
- be inadequately resourced
- not deliver the anticipated benefits.

While 87 percent of major capital projects were supported by business cases, we found several deficiencies in those business cases:

- 32 per cent of business cases had not been updated with significant changes to costs, timelines, scoping and workarounds
- 22 per cent of business cases had not considered lessons learnt from similar projects (although this wasn't possible for some new or unique projects).



Source: Provided by agencies (audited).

These findings also mean some agencies may not comply with Treasury Circular TC 12-19 'Submission of Business Cases', which mandates that they provide Treasury with business cases based on the size and risk profile of the project.

Steering committees are not all operating as effectively as they should be

As well as business cases, capital projects need a steering committee to provide strategic direction, oversight and accountability. The steering committee must ensure that:

- the project delivers agreed business outcomes and expected benefits
- the project is on time and in line with the agreed scope and schedules
- project performance is regularly monitored
- an appropriate risk management plan is in place and in use
- risks are addressed appropriately and promptly.

Further, the steering committee should receive regular project reports and status updates. Without these, it cannot effectively monitor progress and address budget variances, delays and scope changes.

We found that 82 per cent of capital projects are governed by a steering committee, but eight per cent of these steering committees had not received a project report in the last three months.

We also found deficiencies in the information provided to these steering committees:

- 20 per cent of status updates did not include sufficient details, such as the current status of the project, what will happen in the next three months and the escalation of risks
- three per cent of project reports did not explain major variances in time, costs, contingency funds, scope and approved budgets
- one per cent of project reports did not measure the extent of unmitigated risks, time and cost overruns, use of contingency funds, scope changes and overall status of the project.

The traffic light approach for managing project risk is embedded in the Infrastructure Investor Assurance Framework developed by Infrastructure NSW. The objective is to ensure the Government's key infrastructure projects are delivered on time and on budget through a risk-based, external assurance framework.

By and large, agencies reported and managed project risks in accordance with the Framework. We found that:

- 88 per cent of agencies used a traffic light approach
- six per cent of agencies used another framework.

However, six per cent of agencies did not include any reporting on project risks.

Agencies overspent $250 million on consultants and contractors

When project governance is lacking, there is a major risk of incurring additional unbudgeted costs. For example, we found that agencies engaged consultants and/or contractors on 82 per cent of major capital projects. Of these agencies, 28 per cent exceeded their original budget for these external costs and used the project contingency funds to absorb the increase. To date, these agencies have exceeded their original budgets for consultants and/or contractors by $250 million.

Of the agencies that deliver significant capital projects, 72 per cent use other appropriate project governance processes, such as:

- using probity auditors to oversee tendering processes
- doing independent assurance reviews
- using external entities to oversee the entire project and report to the Audit and Risk Committee and/or Secretary.

The table below summarises the main deficiencies we found in project governance.

Capital project governance deficiencies	Percentage (%)
Capital projects not supported by a business case	13
Business case not updated for significant changes	32
Business case has not considered lessons learnt	22
Capital projects exceeded original budget for consultants/contractors	28
No capital project steering committee	18
Project risks are not reported	6
Project status update deficiencies	20

Source: Provided by agencies (audited).

3.3 Asset disposals

As well as new capital investment, we reviewed how well agencies are managing their disposal of assets.

Asset disposal procedures

Agencies dispose of assets when those assets:

- have come to the end of their useful lives
- must be disposed under a policy, such as if they no longer comply with workplace health and safety standards
- will no longer be needed due to changed procedures, functions or use
- reach their optimum selling time
- contain hazardous materials or are beyond repair.