

VICTORIA

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Victorian  
Auditor-General

Audit summary  
of  
Management of  
Major Rail Projects

Tabled in Parliament  
23 June 2010

# Audit summary

## Background

The audit examined how well the Department of Transport (the department) had managed recent rail projects.

Effective management means:

- deciding whether a project should proceed and how it should be procured based on a sound understanding of the costs, benefits and risks
- managing risks to deliver the intended benefits on time and within budget
- using the experience to better manage future projects.

Previous VAGO rail audits found that the department had not effectively managed:

- the feasibility work because it underestimated the costs, overestimated the benefits and inadequately assessed the risks
- the projects' delivery because its response to emerging risks was inadequate
- the outcomes because there were cost and time overruns and, in two cases, it did not deliver the benefits as projected.

Since 2002 the department has changed how it manages rail projects.

This audit examined five recent projects to see whether the department had addressed past weaknesses. These were developed between 2004 and 2009 and included:

- **Middleborough Road grade separation**—completed in March 2007
- **Clifton Hill rail duplication**—completed in January 2010
- **Coolaroo Station**—completed in June 2010
- **Sunbury electrification project**—due for completion in December 2012
- **South Morang rail extension**—due for completion in September 2013.

## Conclusion

Improvements to the department's project development processes mean there is greater assurance that major projects are appropriately justified and provide value-for-money. However, the level of assurance is still short of that needed for projects of the scale and cost examined in this audit.

The department should strengthen the work that underpins final business cases and improve the quality of these documents so they provide adequate assurance that projects, if endorsed, are ready for implementation.

The department has significantly improved its management of project risks during delivery. However, it is still unable to reliably demonstrate how well projects realise their intended benefits.

## Findings

The use of business cases and structured reviews to check their content have been positive steps forward. The department needs to build on this foundation to further improve the quality of the business case documentation and the reliability of the information underpinning this.

In particular the department needs to improve the:

- rigour of the analysis of the costs, benefits and risks supporting the business case recommendations
- level of assurance provided in support of deciding to use project alliances
- comprehensiveness of the business case and procurement documentation.

The department’s improved management of project risks during delivery has been reflected in better performance against planned time lines and approved budgets. The three completed projects had met the required time frames and two had delivered within their approved budgets.

However, the department is not able to demonstrate how well projects have realised their intended benefits. It also does not consistently document and apply the lessons learnt from past projects.

## Recommendations

Number	Recommendation	Page
	The Department of Transport should:	
1.	Better analyse, substantiate and document the investment need, project objectives, cost estimates, risk assessments, critical success factors and measures of project benefits.	19
2.	Improve the scope and rigour of project cost estimates and risk assessments.	19
3.	Strengthen quality assurance and improve the documentation of the cost-benefit analyses.	19
4.	Clearly document procurement decisions and their supporting information.	19
5.	When considering project alliances: <ul style="list-style-type: none"> <li>• compare the risk-weighted costs of alternative procurement options, including the estimated direct procurement costs</li> <li>• independently review the procurement decisions.</li> </ul>	19
6.	Apply outcomes realisation plans and post-implementation reviews for the projects examined in this audit and other rail projects completed after the department mandated these in November 2009.	27