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# Freight outcomes from Regional Rail Upgrades

**Tabled 18 March 2020**



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## **Audit Objective**

This audit looked at whether regional rail upgrades are improving rural freight outcomes in a timely and cost-efficient way.

## **What we looked at**

We looked at two regional rail upgrade programs:

- first, the \$440 million Murray Basin Rail Project along with the complementary \$130 million Freight-Passenger Rail Separation Project
- second, three freight-related projects within the \$1.75 billion Regional Rail Revival Program.

The audit examined the Department of Transport, which plans and operates Victoria's transport system, and rail operator V/Line.

## **Conclusion**

The regional rail upgrades we examined are not yet achieving the outcomes expected by stakeholders and government.

Delivery of the Murray Basin Rail Project—including the Freight-Passenger Separation Project—is 15 months late and will need more funds to fully realise intended outcomes.

The freight-relevant Regional Rail Revival projects require more explicit alignment to Victoria's wider freight policy goals.

Current rail freight infrastructure on these corridors is inflexible and will likely require future track adjustments.

## **Background**

Victoria is a very important agriculture producer and exporter. Commodities have to be transported to national markets or to the export ports at Geelong, Melbourne and Portland.

Transport may be by road or by rail.

Historically, rail freight was cheaper because rail can more easily transport greater volumes over longer distances.

However, substandard rail network performance and a lack of investment have increased costs, making road more attractive.

The 2018 Victorian Freight Plan was designed to prepare Victoria's freight and logistics sector for future changes.

The anticipated benefits of rail upgrade programs were incorporated into the plan.

The Victorian government expected the Murray Basin Rail Project to deliver increases in three areas:

- freight capacity
- interstate competition
- investment by rail operators.

The Department of Transport directed V/Line to deliver stage one of this project. V/Line procured and managed a contractor to deliver stages two to four.

However, in June 2019, the Victorian government paused the project.

The complementary Freight-Passenger Rail Separation Project aimed to deliver faster and more reliable services through Ballarat.

However, the Victorian government put this project on indefinite hold in April 2019. The Regional Rail Revival Program came after the 2018 freight plan.

It aims to provide faster, more reliable services on every regional passenger line by 2022. This program also impacts some freight services. We examined three freight-related upgrades, on the Gippsland, Shepperton and Warrnambool lines. These works are still being procured so it is too early to assess performance.

### **Issue 1: Delivery of the Murray Basin Rail Project**

Only 50 per cent of the original Murray Basin Rail Project's scope has been delivered, but 86.7 per cent of the original budget has been used.

This is due to:

- the Department of Transport and V/Line's deficient project planning and ineffective project management
- V/Line's inadequate contract management, which has led to delays, scope changes and increased costs.

Specific issues include:

- over-optimistic assumptions about works complexity
- underestimations of time and cost
- a failure to report on or address risks in a timely manner.

### **Issue 2: Governance of the Murray Basin Rail Project**

The Department of Transport and V/Line's project governance arrangements did not support informed decision-making and were insufficiently documented.

There were gaps in accountability, and patchy or limited corporate knowledge.

Further, critical findings from project reviews were not mitigated or actioned in a timely manner.

### **Issue 3: Inconsistent, incomplete stakeholder engagement**

In managing the Murray Basin Rail Project, the Department of Transport did not routinely analyse or seek to understand stakeholder views.

This included addressing requests for project appraisals from the Commonwealth, which contributed \$220 million to the project.

The Department of Transport's responses were neither forthright nor timely.

### **Where to from here?**

The Murray Basin and associated Freight-Passenger Separation projects will need a considerable injection of funds to fully realise the benefits originally intended. However, the original Murray Basin Rail Project business case is no longer economically accurate and the Department of Transport and V/Line must also address many remaining technical challenges.

### **Recommendations**

We have made 13 recommendations:

- three to V/Line about resolving technical challenges and improving contract management processes
- two to the Department of Transport, focusing on revision of the Murray Basin Rail Project business case
- and eight combined recommendations for both agencies.

For further information, please see the full report on our website: [www.audit.vic.gov.au](http://www.audit.vic.gov.au)