

APPENDIX A

Submissions and comments

We have consulted with DPC, DoT, DTF, MTIA and SRLA, and we considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

DoT, MTIA and SRLA expressed concerns with findings in the report in a joint response signed by the Secretary of DoT and did not accept the recommendations directed at them. We have written to DoT's Secretary and MTIA and SRLA outlining our concerns with this response.

Responses were received as follows:

DPC	62
DoT, MTIA and SRLA	64
DTF	67



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Mr Andrew Greaves
Auditor General
Victorian Auditor General's Office
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BSEC-220801089

Dear Mr Greaves

Thank you for your letter dated 24 August 2022 and for providing the opportunity to comment on the Performance Audit Report on the Quality of Major Transport Infrastructure Project Business Cases (the report).

I note that the Department of Premier and Cabinet (DPC) is not subject to the six recommendations in the report and that the departments and agencies responsible for them will provide a separate response to VAGO.

VAGO's overarching findings and recommendations relate to alignment between the High Value High Risk (HVHR) Guidelines and the approach taken to business cases for the four selected projects, including Suburban Rail Loop (SRL) and Melbourne Airport Rail (MAR).

As noted in the report, the HVHR Guidelines are a guide to support agencies and provide a framework to be scaled to the complexity of the investment. They are not a statutory instrument but provide project assurance checks for major infrastructure investments. For SRL and MAR, which are complex programs of investment to be delivered over long time periods, the rigid application of the Guidelines was not suitable for these atypical projects.

The SRL project was a 2018 election commitment and the SRL Business Case was developed in this context. It is important to note that any commitment taken to an election by a political party, either in government or opposition, inevitably brings a focus to subsequent deliberations. While the role of the public service is to provide advice regarding risk and opportunity, Ministers and Cabinet make the decisions. These are fundamental principles of Victoria's Westminster system of democratic government.

Sensible variations from the HVHR Guidelines and the development of business cases may occur at the prerogative of Executive Government in delivering upon their public commitments to the people of Victoria.

Business and investment cases are instrumental to informing decision makers. However, at times an iterative process aligned to the Government's preferred decision-making timeline is required. Business cases are considered by Cabinet or a relevant Cabinet Committee brought by responsible Ministers for consideration by their Cabinet colleagues, as was the case with SRL.

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.



I note the report acknowledges the view of audited parties that the SRL project is not a conventional transport project. It explicitly aims to deliver a broad range of benefits through a program of urban renewal and precinct investment and activation over multiple decades.

As noted in the report, this is consistent with the vision of Plan Melbourne 2017-2050. Plan Melbourne, originally released in May 2014 and updated in 2017 establishes the vision for a polycentric city and '20-minute neighbourhoods' where people can access most of their everyday needs within a 20-minute walk, cycle or trip on local public transport. Plan Melbourne also establishes the need to plan for a population of 10 million by 2050 and a commitment for 70 per cent of growth to occur in Melbourne's established areas.

The report states there is a risk the methodology for economic and cost benefit analysis adopted for the SRL and MAR business cases overstates the value of the projects. Given SRL's objectives to enable precinct activation, link key activity centres, support housing and public space, and catalyse investment and job creation, I believe it is appropriate that the SRL business case considered Wider Economic Benefits.

The adoption of a four per cent discount rate and Benefit Cost Ratio (BCR) range for the SRL Business Case was considered in a deliberative manner by Ministers and Cabinet. The responsible Minister and Treasurer approved application of the four per cent discount rate prior to government consideration and approval of the final business case.

I consider that a four per cent discount rate is appropriate given the long timeframes and afore-mentioned wider objectives of the SRL project, noting that the same discount rate has been adopted for some other large infrastructure projects, such as the Inland Rail Project. Discount rates of slightly higher or lower than four per cent have also been used internationally for multi-generational projects including Crossrail in the United Kingdom.

Considering the above, I am of the view that the business cases for SRL and MAR met the overarching intent of the HVHR Guidelines and followed a robust development process to support informed and progressive decision making by the government for projects of this scale and complexity.

Any questions relating to this letter should be directed to Mr Andrew Witchard, Executive Director, Infrastructure, Planning and Major Projects in DPC at andrew.witchard@dpc.vic.gov.au.

Yours sincerely



Jeremi Moule
Secretary

7 September 2022



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Dear Mr Greaves

Victorian Auditor-General's Office – Proposed Report – Quality of Major Transport Infrastructure Project Business Cases

Thank you for the opportunity to comment on the Proposed Report: Quality of Major Transport Infrastructure Project Business Cases provided on 24 August 2022 to the Department of Transport (DoT), Major Transport Infrastructure Authority (MTIA) and Suburban Rail Loop Authority (SRLA), which details your conclusions in relation to an assessment of the business cases for four 'transport infrastructure' projects.

The projects in focus are:

- Suburban Rail Loop (SRL)
- Melbourne Airport Rail (MAR)
- Barwon Heads Road Upgrade (BHRU) and
- Mickleham Road Upgrade (MRU1).

I note the six recommendations outlined in the Report. DoT, MTIA and SRLA do not accept recommendations 2, 3 & 4 and defer any opinion on recommendations 1, 5 & 6 which are directed towards the Department of Treasury and Finance (DTF). I wish to bring your attention to my observations and concerns with the recommendations as outlined below:

Recommendation 2

The Department of Transport and the Suburban Rail Loop Authority provide the government with a full business case for the entire SRL program of investments that includes economic analysis results for all stages of the proposed investment program.

The SRL Business and Investment Case (BIC) is a comprehensive 400-page document (supported by more than 600 pages of appendices), that was released in August 2021 after two years of detailed development and rigorous peer review. It was recognised at an early stage that a more appropriate initial approach for a project of such scale, length and duration was to develop a full



BIC for the first two stages of the project (SRL East and North) with a subsequent final business case to occur for the final stage of works at a more appropriate timeframe.

As I have raised in previous correspondence, the characterisation of SRL as a ‘transport project’ does not recognise the scale, scope and ambition of SRL. Rather than simply a ‘transport project’, SRL is an unprecedented urban renewal and precinct development program of works for Melbourne that will be catalysed over multiple decades by a rail investment. Many of VAGO’s conclusions relating to SRL flow from this treatment of SRL as a ‘transport project’. SRLA and DoT have sought to correct this position through written feedback to the Victorian Auditor-General’s Office (VAGO) as well as through direct engagement.

Recommendation 3

The Department of Transport and the Suburban Rail Loop Authority include updated economic analysis results in funding submissions for all future stages of the program.

The SRL BIC is comprised of a comprehensive and transparent application of the economic analysis as per DTF’s ILHVHR guidelines. DoT and SRLA will continue to work with DTF to ensure future business cases adhere to the appropriate guidelines for that project. A future business case will be developed with the appropriate economic analysis for that project as per the current ILHVHR guidelines at that time.

Recommendation 4

The Department of Transport and the Major Transport Infrastructure Authority disclose in any published version of the MAR business case the justification for and impacts of departures from DTF’s ILHVHR guidance for the conduct of and disclosure of results from economic analysis.

The MAR business case has been finalised and lodged with Infrastructure Australia for review and assessment. The business case has comprehensively and transparently applied DTF’s ILHVHR Guidelines in the determination of the economic analysis.

The Report focuses solely on DTF’s ILHVHR guidelines and does not consider the suite of relevant guidelines that apply to economic appraisal of major projects in the Victorian context. Relevant guidelines that were considered for MAR and SRL include:

- Department of Treasury and Finance (2013) Economic Evaluation for Business Cases - Technical Guidelines
- Department of Transport (2019 and 2020) The Standard Approach to Transport Modelling and Economic Evaluation in Victoria v4.0 and April 2020 Reference Case
- Austroads (2012) Guide to Project Evaluation Part 4: Project Evaluation Data
- Transport and Infrastructure Council (2016, 2018 and 2020) Australian Transport Assessment and Planning (ATAP) Guidelines
- Infrastructure Australia (2018) Assessment Framework

VAGO's presentation of a departure from DTF's ILHVHR guidelines without suitable context or consideration of the other guidelines applied is likely to lead to incorrect interpretation of the economic analysis.

In addition to the above observations, DoT, MTIA and SRLA have consistently provided feedback to and raised concerns with VAGO about the preliminary information provided through the audit and the previous draft of the Report and a lack of nuance and recognition of the challenges in applying a single set of guidelines to four Projects of varying complexity and size. DoT, MTIA and SRLA have also repeatedly informed VAGO that all business cases have comprehensively and transparently applied the ILHVHR guidelines in the context of decisions made by the Governments and their Agencies. These concerns do not appear to have been duly considered and I ask that VAGO revisit the information and feedback provided in response to the draft Report.

DoT, MTIA and SRLA are committed to the success of these critical State-shaping Projects and thank you for the opportunity to respond to the Report.

If you require further information, the nominated contacts for this audit are Melissa Dobric, Executive Director – Strategic Projects, DoT (Melissa.Dobric@transport.vic.gov.au) and Peter Short, Executive Director – Project Integration Division, DoT (Peter.Short@transport.vic.gov.au).

Yours sincerely



Paul Younis
Secretary
Department of Transport

7 September 2022



Department of Treasury and Finance

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Dear Auditor-General

PROPOSED PERFORMANCE AUDIT REPORT QUALITY OF MAJOR TRANSPORT INFRASTRUCTURE PROJECT BUSINESS CASES

Thank you for your letter dated 24 August 2022, inviting the Department of Treasury and Finance (DTF) to respond to the proposed performance audit report: *Quality of Major Transport Infrastructure Project Business Cases* (Report).

I note the findings of the Report and the three recommendations directed at DTF. DTF has accepted in full one recommendation and in principle two recommendations.

A proposed action plan for implementing the recommendations directed at DTF is attached to this letter.

DTF notes that for most projects, investment decisions by Government are informed by business cases prepared by the public service. To address the occasional instances where an announcement precedes formal consideration of a business case, DTF will amend the applicable guideline to request a business case with a focus on project delivery, noting a full options analysis in these circumstances has reduced relevance on future project implementation decisions.

DTF does not agree with the red rating assigned to the economic appraisal method for the Suburban Rail Loop (SRL) and Melbourne Airport Rail (MAR) business cases. For these projects, the discount rate adopted was appropriate given that benefits accrue over a long period of time and social benefits are not easily translated into monetary terms. In addition, these projects also include significant urban renewal elements which are again, not easily translated into monetary terms. The use of a range was appropriate to communicate the inherent uncertainty with forecasting project outcomes for these projects over such a long period. A comparable approach has also been taken by other jurisdictions on similar projects.

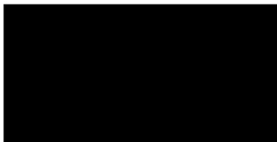
DTF also does not agree with the conclusion that it did not fully address the scope of the High Value High Risk (HVHR) deliverability assessment for SRL and MAR. DTF considers that it has delivered progressive advice that addresses the substantive areas of analyses required in a HVHR deliverability assessment. This approach is necessary in circumstances where DTF is unable to finalise the full scope of the HVHR deliverability assessment at the time Government makes funding decisions for projects such as these.



DTF notes that both SRL and MAR have been and remain subject to extensive and detailed internal and external assurance processes that are more robust than is typically applied to standard projects.

Thank you for the opportunity to comment on the proposed report.

Yours sincerely



David Martine
Secretary

7/9/2022

Department of Treasury and Finance action plan to address recommendations from the
Quality of Major Transport Infrastructure Project Business Cases review

No	VAGO recommendation	Action	Completion date
	<i>That the Department of Treasury and Finance (DTF):</i>		
1	Amend the ILHVHR guidance to provide departments and agencies with clarity on the implications, if any, for business case timing and comprehensiveness in circumstances where government has made project specific commitments, announcements and/or decisions before a business case is completed.	Accept in principle DTF accepts in principle this recommendation and will amend the ILHVHR guidance to request in these circumstances a business case with a focus on project delivery to assist future decision making.	By Quarter 1 2023
5	<i>That the Department of Treasury and Finance (DTF):</i>		
	Amend the ILHVHR guidance to require departments and agencies to include information in business cases to acknowledge, justify and disclose the impacts of any significant departures from the guidance.	Accept in principle DTF accepts in principle this recommendation and will amend the ILHVHR guidance and business case template to request departments to disclose the rationale for any departures in future business cases and/or funding proposals.	By Quarter 1 2023
6	<i>That the Department of Treasury and Finance (DTF):</i>		
	Amend the template for Gateway Review reports to require review teams to explain any departures from the recommended scope for each review Gate.	Accept DTF accepts this recommendation and will amend the Gateway report template.	By Quarter 1 2023