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Discovering Bendigo Project

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The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on the *Discovering Bendigo Project*.

Yours faithfully



DDR PEARSON
Auditor-General

21 November 2007

Foreword

An important objective of any municipal council is to support the local community by assisting and facilitating appropriate tourism and economic development projects. Naturally, councils need to be satisfied that these projects meet identified business needs, are consistent with broader State Government objectives, represent value for money and the best use of council funds, are sustainable and have community support.

Although well intentioned, the Discovering Bendigo Project was never viable, and importantly, it did not have the support of ratepayers and potential users.

In light of this audit, it is pleasing to report that the City of Greater Bendigo, with the benefit of hindsight, has accepted that the project should never have been submitted to the Government for support, and has since instituted improvements fundamental to good project planning, assessment and selection practice. Further, and just as importantly, the City is now adopting robust governance and management arrangements especially in regard to its funding of non-government organisations.



DDR PEARSON
Auditor-General

21 November 2007

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1 Executive summary

1.1 Introduction

The City of Greater Bendigo (the Council) has a long history of working with The Bendigo Trust (the Trust) on tourism activities in Bendigo. The Council has provided financial support to the Trust for over 30 years to support the Trust's tourist attractions. In the last 11 years, the Council provided about \$1.6 million in grants to the Trust. This level of support has increased considerably since 2000.

The Discovering Bendigo project was conceived in 2000 jointly by the Council and the Trust and proposed extending the existing heritage tramways system to include a loop track around Lake Weeroona. The Council adopted the proposal 'in principle' in June 2000 and, in May 2002 lodged a grant application for \$3.7 million with the Regional Infrastructure Development Fund (RIDF).

Although the grant was approved by the Minister for State and Regional Development in October 2002 and legally formalised in May 2003, the Council terminated the project in January 2005 before accessing any of the RIDF grant monies.

1.2 Overall conclusions

The nature of the relationship between the Council and the Trust and the extent of the Council's support for the Trust's operations was not transparent to the Council's ratepayers. Since the financial viability of the Trust was heavily dependent on the Council's on-going financial support, the need for transparency was important.

The current management agreement between the Trust and the Council requires renegotiation to establish procedures and controls to better manage the financial risks inherent in the relationship. The current agreement fails to:

- make the Trust accountable to the Council for its performance
- transfer any responsibility to the Council for maintaining Trust assets that are under the Council's control.

The audit found a number of areas where the Council needs to improve its project management practices, including:

- undertaking sufficient research and analysis of proposed new economic development and tourism products before applying to the State for funding
- establishing processes to approve the commencement of Council projects and changes to the scope of approved projects
- project planning and risk assessment
- properly consulting, engaging and managing communications with community stakeholders during the formative planning phase of a project
- taking reasonable steps to ensure information contained in Council grant applications is accurate and complete, particularly where this information is provided by external parties.

Based on the information provided in the Council's application, audit considers that the project met a significant number of the RDV criteria and, therefore, was eligible for funding.

1.3 Recommendations

Part 3: Council governance

3.1 That the Council:

- implement all of the recommendations included in the 1994 Auditor-General's due diligence report on the Council's operations
- in conjunction with the Trust, key stakeholders and the community, establish a long-term operational strategy for the Trust
- publicly disclose its financial support for the Trust and its decisions relating to the Trust
- assist the Trust to establish a stronger financial base by co-ordinating financial planning and reporting between the council and the Trust
- include in its financial statements all assets under its control but managed by the Trust
- assess into the Council's financial statements
- negotiate a whether assets and liabilities owned by the Trust should be consolidated revised management agreement for Trust-operated tourist activities which receive financial support from the Council.

Part 4: Project selection

4.1 Prior to commencing a project, the Council should:

- identify and assess other project options to meet its identified business needs
- prepare a business case specifying the proposed project and supporting its selection
- confirm that the proposed project proposal is consistent with the Council's strategic objectives and meets its identified needs
- identify community stakeholders and consult with them.

Part 5: Project planning

5.1 That in planning future projects, the Council:

- when discussing and taking project decisions in closed council meetings, minute its reasons for so doing, in compliance with Section 89 of the *Local Government Act 1989*
- prepare project plans, scope statements, budgets and risk assessments
- establish mechanisms to manage project risk and quality and changes to the project scope, cost and timeline
- consult with the community and key stakeholders when initiating and planning new projects, and establish appropriate communications management processes
- require all project documentation to be captured in a record management system and for it to be easily accessible for subsequent scrutiny and capturing of lessons learnt.

Part 6: Grant application and assessment

6.1 Where information provided by external parties is included in the Council's grant applications and project business cases, the Council should independently verify the accuracy of this information.

RESPONSE provided by the Acting Chief Executive Officer, Greater Bendigo City Council

A previous Council in 2000, initiated a project in conjunction with The Bendigo Trust, to extend the tourist tram around Lake Weeroona. A funding application for the project was supported by the State Government. There was a strong community reaction against the project and the current Council terminated the project following the Council Election in 2004.

The City of Greater Bendigo has a substantial capital works budget and has a very good track record in delivering major projects for the benefit of the community. With the wisdom of hindsight it is now acknowledged that there were some major deficiencies relating to the initiation of the Discovering Bendigo Project.

The audit report has been discussed with Councillors. Of the Councillors who were members of the Council for some or all of the period the project was being discussed, one Councillor recalls strong encouragement from the State Government to have a large number of projects that could be considered for funding. The Discovering Bendigo Project was a lower priority for the City of Greater Bendigo and there was some surprise that the project was selected.

In hindsight the project should never have been on a list of projects submitted to the State Government. The project was not a high priority for the City of Greater Bendigo, however it found favour for funding and there were attempts to develop a project that did not have strategic foundations, a sound business case nor community support.

The report is generally an accurate reflection of the circumstances surrounding the project. However the Councillor who was on the Board of The Bendigo Trust did provide verbal reports to Council while the project was actively being considered.

All of the recommendations contained in the report are supported and in fact most of the recommendations have already been acted upon.

Substantial changes have been made to the way project planning and management is undertaken since the Discovering Bendigo Project. Under the current strategy-driven approach to selection of projects, this project would not get to "first base".

2 Background

2.1 Discovering Bendigo Project

The City of Greater Bendigo, located 150 kilometres north of Melbourne, is a major regional centre of North Central Victoria.



The Discovering Bendigo project was conceived in 2000 jointly by the City of Greater Bendigo (the Council) and The Bendigo Trust (the Trust). The Trust is a public company limited by guarantee. It was incorporated in 1973 by an interest group that wished to preserve the City's heritage tramway.

The Council has delegated the management and operations of several key tourist attractions to The Bendigo Trust, including the operation of:

- the City's Central Deborah Gold Mine
- the Discovery Science and Technology Centre
- the Gas Works
- Victoria Hill.

In June 2000, the Trust prepared a proposal for the extension of the heritage tramways system that included a track around Lake Weeroona in Bendigo. The Council adopted the proposal 'in principle' in June 2000. The proposed track extension is outlined in Figure 2A.

Figure 2A
The Bendigo Heritage Tramways Route



Source: City of Greater Bendigo.

In August 2001, a project brief for the project was considered by councillors in a Councillors' briefing.

The \$16.2 million project was to be undertaken in three phases:

- phase one involved a \$4.6 million upgrade and extension of the existing Bendigo tramways network, including \$3.7 million for the track extension around Lake Weeroona and establishment of an integrated ticketing system and interpretive signage

- phases two and three involved the introduction of a night theatre tram, a club car promoting local fine food and wine and the development of an energy park at the Gas Works site. These phases were expected to cost \$11.6 million.

In May 2002, the Council committed \$920 000 toward the project and lodged an application with the State Government's Regional Infrastructure Development Fund (RIDF) for a grant of \$3.7 million. The Minister for State and Regional Development announced the project via a media release in November 2002 and the funding agreement was signed in May 2003.

Subsequently, the proposed extension of the tram route around Lake Weeroona was opposed by a large number of Bendigo citizens, culminating in a legal challenge to the Council's planning permit for the extension of the track.

In June 2004, the Victorian Civil and Administrative Tribunal upheld the Council's case to proceed with the extension of the tram route.

Following extensive public opposition and a review by a newly elected Council, the Discovering Bendigo project was abandoned by the Council in January 2005. No grant payments were made from the RIDF.

2.2 Audit objective and scope

The objective of the audit was to examine:

- the effectiveness of the Council's management of the Discovering Bendigo project
- the Council's relationship with The Bendigo Trust
- the role of Bendigo Tourism in providing visitation data for the Council's RIDF funding application.

To meet this objective, the audit examined:

- the governance of the Trust and its relationship with the Council, including:
 - action to address the recommendations relating to The Bendigo Trust made by VAGO in a 1994 due diligence report
 - the level of support provided by the Council to the Trust and the extent of accountability for this support
 - the financial position of the Trust
 - agreements between the Council and the Trust
- the management of the project by the Council and the Trust
- the assessment of the Council's RIDF funding application by Regional Development Victoria.

The cost of this report was \$190 000.

3 Council governance

At a glance

Background

In 1994, the Victorian Auditor-General's Office (VAGO) conducted a due diligence review of the Council. This review recommended that the Council:

- work with the Trust to help it achieve a stronger financial base
- not provide future financial support for The Bendigo Trust unless the short to medium term future of the Trust was assured.

Key findings

The Council's support for the Trust has benefited regional tourism in Bendigo. However, the Trust's financial position has deteriorated recently, making it increasingly reliant on the Council.

Despite the Council's commitment to the Bendigo Tramways, at the time of the audit, the Council did not have a long-term plan that outlined its vision and strategy for its on-going relationship with the Trust.

The Council did not:

- have an adequate management agreement in place for its commercial arrangements with the Trust
- adequately monitor the Trust's activities.

This created a risk for the Council and its ratepayers.

Key recommendations

3.6 That the Council:

- implement all of the recommendations included in the 1994 VAGO due diligence report on the Council's operations
- in conjunction with the Trust, key stakeholders and the community, establish a long-term operational strategy for the Trust
- publicly disclose its financial support for the Trust and its decisions relating to the Trust
- include in its financial statements all assets under its control but managed by the Trust
- negotiate a revised management agreement for Trust-operated tourist activities which receive financial support from the Council.

3.1 The Council's relationship with The Bendigo Trust

The Council has established various boards and committees to manage and operate its tourism interests within the City of Greater Bendigo. For example, boards of management have been established for Bendigo Tourism and the Bendigo Art Gallery, and a committee of management for the Bendigo Easter Festival. Each board or committee of management generally includes a Council nominee, who usually chairs meetings.

The Bendigo Trust's Board established management committees to oversee the operation of the tram tours and the Central Deborah Gold Mine, two of the main tourist attractions in Bendigo.

3.2 Action on the 1994 due diligence report

In 1994, VAGO conducted a due diligence review of the Council as part of the State's preparation to amalgamate certain municipal councils. As part of this review, the Office reported that The Bendigo Trust:

- had limited liquidity
- owed the Council \$186 562 and held Council guarantees for Trust borrowings of \$150 000
- was not required to pay any rent or other charges on the use of Council assets and did not pay any municipal rates to the Council
- operated on Crown and freehold land which was effectively controlled by the Council.

The Office recommended that the Council:

- determine its future relationship with the Trust to ensure its consistency with the Council's strategic direction
- work with the Trust to help it achieve a stronger financial base
- seek representation on the Board of the Trust
- require the Trust to prepare forward cash flow projections to help in planning its future directions and provide early warning signs of any financial difficulties
- not provide future financial support for The Bendigo Trust unless the short to medium term future of the Trust was assured
- ensure the non-current assets it owns or controls that are leased to or managed by the Trust are recorded in the Council's financial statements.

This audit has established that the Council had taken the following actions in respect of these recommendations:

- the Council had two Council nominees, including one councillor, on the Board of the Trust from 1996

- all non-current Council-owned assets were transferred out of the Trust's books in 2005. However, tramway assets owned by the Trust but controlled by the Council, such as the overhead power cables, were not transferred to the Council's financial statements. This is further discussed below.

The other 1994 recommendations were not implemented.

3.3 Council support for The Bendigo Trust

Between 1994-95 and 2005-06, the Council provided approximately \$3.7 million in grants, interest free loans and bank guarantees to the Trust, including \$3.1 million between 30 June 2001 and 30 June 2006.

Figure 3A outlines the Council's financial assistance to the Trust over the past 11 years from 1995-96 to 2005-06.

Figure 3A
Council assistance to The Bendigo Trust, 1995-96 to 2005-06

Payments	Recorded payments	Unrecorded payments	Total assistance
	(\$)	(\$)	(\$)
Cash grants	1 612 642		1 612 642
Management fees (a)	765 200		765 200
Loan guarantees	777 000		777 000
Total	3 154 842		
Interest-free loans		192 500	192 500
Value in kind (e.g. exemption from paying Council planning permits, Council staff in Acting CEO role, administration of legal matters, HR recruitment, redundancy payments)		192 482	192 482
Public liability and property insurance	-	171 020	171 020
Total	3 154 842	556 002	3 710 844

(a) Annual management fees include amounts paid to The Bendigo Trust for its management of the Victoria Hill site (\$5 200 p.a.) and the Discovery Science and Technology Centre (\$35 000 p.a.). Other payments and loans made by the Council to these entities are not included.

Source: Victorian Auditor-General's Office.

The Council's financial support for the Trust increased around the time the two organisations started collaborating on the Discovering Bendigo project.

Most of the financial support provided was approved by the Council's Chief Executive Officer, under delegated authority, rather than at open meetings of councillors.

3.4 Governance arrangements over Trust operations

As the Council contributes significantly to the operation of the Trust, it is important for the Council to establish management arrangements to ensure this funding is used efficiently and for the purpose it was intended.

The Bendigo Trust is a separate legal entity from the Council, managed by an independent Board comprising nine directors, including two Council nominees.

The audit identified that:

- since 1995, several Council staff and councillors provided services to the Trust. The Council indicated such arrangements provided the Council with knowledge of the Trust's finances and operating activities
- nevertheless, the Council did not oversee the Trust's operations that it funded and did not receive regular performance reports through its representatives on the Trust's Board.

To obtain assurances concerning the Council's continuing financial support of the Trust, the Council commissioned independent reviews in 2002 and 2004 of the finance and administration of the Trust.

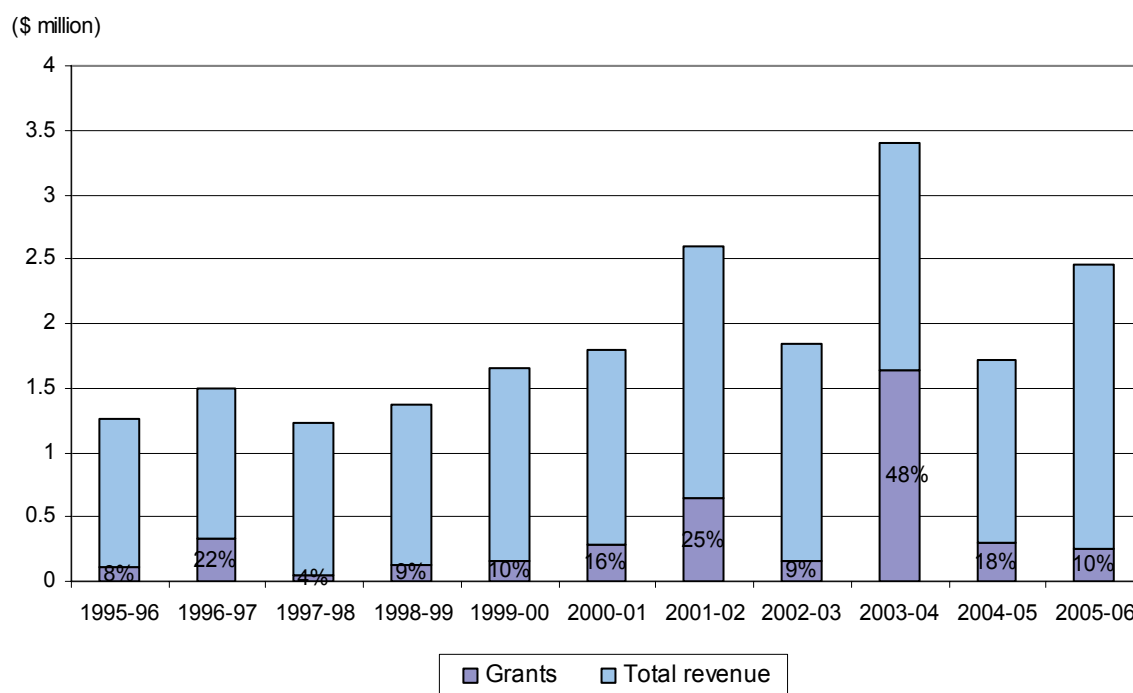
Despite the Council's commitment to the Bendigo Tramways at the time of the audit, the Council did not have a long term plan that outlined its vision and strategy for its on-going relationship with the Trust.

3.5 Financial position of the Trust

Since 1995, a steady decline in the number of people visiting the Trust's tourist attractions has had a negative impact on the Trust's financial performance.

The Trust's operations have generated profits for eight out of the 11 financial years from 1995-96. As outlined in Figure 3B, the Trust's reliance on government grants to meet its operational expenditure has increased significantly in the latter part of this period.

Figure 3B
Grants received by The Bendigo Trust as a percentage of total revenue,
1995-96 to 2005-06



Source: Victorian Auditor-General's Office, compiled from annual reports of The Bendigo Trust.

During the five year period from 1995 to 2000, the average proportion of government grants and subsidies to total revenue was 10 per cent. In the next six years, the average proportion increased to 21 per cent; more than a twofold increase.

Every year since 2001-02, the audit opinion on the Trust's annual financial statements has been qualified due to the uncertainty regarding its ability to continue as a going concern.

The Trust's revenue, expenditure and operating results for the period from 2001-02 to 2005-06 are outlined in Figure 3C.

Figure 3C
Trust revenue expenditure and operating results (\$'000)

Financial year	Revenue	Expenditure	Operating result	Operating result excluding Council funding
2001-02	2 031	1 560	471	(188)
2002-03	1 861	2 236	(375)	(535)
2003-04	3 404	1 931	1 473	(158)
2004-05	1 724	3 936	(2 212)	(2 518)
2005-06	2 457	1 700	757	507

Source: Annual reports, The Bendigo Trust.

As indicated in the above table, the Trust recorded an operating loss in two of the five years to 2005-06. If the Trust had not received grant revenue it would have made an operating loss in each of the above financial years except 2005-06.

The favourable position in 2005-06 resulted from a significant increase in revenue and a small reduction in expenditure. The increased revenue resulted primarily from the Trust receiving \$580 000 in assets from the Council free of charge (assets were shown as revenue at valuation provided by the Council). If these assets are deducted from the operating revenue the Trust would have made a \$73 000 loss.

As the majority of the Trust's grant revenue is received from the Council, the Council's financial support of the Trust's operations is critical to the on-going viability of the Trust.

3.5.1 Accounting for tram assets

In 1994, VAGO recommended that the assets owned or controlled by the Council (that were leased to or managed by the Trust) should be disclosed in the Council's financial statements.

In 1996 Council-owned assets, (including the tram depot sheds, the Gas Works and the Central Deborah Gold Mine) leased or managed by the Trust were included in the Council's financial statements. Up until 2005, the Trust also recorded these assets in its financial statement. In 2005, the Trust removed Council-owned assets from its financial statements.

Given the Trust's reliance on Council grants for its ongoing viability and the Council's involvement in the Discovering Bendigo Project, which was designed to acquire tram infrastructure to be operated by the Trust, it could be argued that the Council effectively controls the Trust. Consequently, the Council should consolidate the Trust's assets and liabilities into its financial statements.



The Bendigo Tramways have been in operation since June 1890.

3.5.2 Maintaining tram infrastructure

A factor affecting the long-term viability of the Trust is its capacity to generate sufficient revenue to enable it to meet the costs of upgrading, repairing and maintaining its tramway assets.

While the Council has recently demonstrated a greater commitment to preserving, promoting and financially supporting Bendigo Tramways as a major tourist attraction, it has also stated an intention to limit the contribution made by ratepayers to support the operation of the tramways.

Despite the Council's commitment to the Bendigo Tramways, at the time of the audit the Council did not have a long-term plan that outlined its vision and strategy for its ongoing relationship with the Trust.

The Council developed an asset maintenance strategy in October 2002 that is now part of a broader risk management strategy designed to ensure the tram operations receive the required safety accreditation. Rail safety accreditation is subject to an inspection of all operational and rail safety standards by Safety and Technical Services, Office of the Director of Public Transport, Department of Infrastructure. The strategy established by the Council identified that an investment of \$5.4 million was required over a 10 year period to upgrade and maintain the tram infrastructure, with most of the works (\$4.3 million) required to be undertaken within five years.

In 2003, a revised Council estimate indicated that the tramways network would require \$12 million in essential capital works over the next 10 years. In 2003-04, the Council started upgrading and renewing tramway assets in accordance with the maintenance strategy. Council has indicated to audit that it intends to provide \$450 000 per year until 2013 for capital works and depreciation in relation to assets owned by it but used by the Trust.

In 2005, the Council applied to Regional Development Victoria for a grant of \$700 000 to help fund new infrastructure works for the Bendigo Tramways. The application proposed infrastructure works that were part of the abandoned Discovering Bendigo project, such as:

- upgrading the tramways' power supply (\$400 000)
- enhancing and promoting tourism facilities and attractions (\$150 000).

The application was withdrawn in September 2007.

3.6 Adequacy of agreements between the Council and the Trust

In commercial arrangements, such as those in place between the Council and the Trust, it is sound practice for the parties to sign a management agreement. Such an agreement usually incorporates governance and risk-management arrangements.

Sound management agreements between councils and associated entities, where the council provides financial and other support to that entity, would normally include the elements outlined in Figure 3D.

Figure 3D
Key elements of effective management agreements

Management agreements should:

- clearly identify the basis for the relationship and define the roles and responsibilities of the parties to the agreement
- outline financial or other support to be provided by the Council and any related risks which the Council has agreed to bear
- address the issue of Council representations on the board or equivalent governing body of the entity and the fact that any such representation is not relied upon by Council as the means of monitoring the performance of the entity
- require the entity to inform the Council of any known or anticipated change in circumstances which could be considered to impact on the nature of the relationship between the Council and the associated entity
- establish mechanisms which allow Council to monitor the operational performance and financial position of the entity and protect the interests of ratepayers
- establish a dispute resolution process
- require the entity to acknowledge the support provided by the Council
- allow the Council to renegotiate the basis for the relationship if circumstances change
- establish a process for the termination of the agreement and relationship.

Source: Victorian Auditor-General's Office 2002, Report on Public Sector Agencies, June 2002, Victorian Government Printer, Melbourne.

Audit found that:

- despite the Council working with the Trust on a number of tourist activities since 1970, a management agreement for two of these activities (Central Deborah Gold Mine and Bendigo Tramways) was not established until January 2001
- the 2001 management agreement did not:
 - outline the roles and responsibilities of each party
 - include a requirement for the Trust to inform the Council of any known or anticipated change in circumstances which may impact on the nature of the relationship
 - include a provision that would allow the Council to renegotiate the basis for the arrangement if circumstances changed
 - indicate the extent of financial or other support to be provided by the Council and any risks which the Council had agreed to bear
 - require Council representation on the Board of The Bendigo Trust
 - include mechanisms to allow the Council to monitor the Trust's performance
 - include a dispute resolution process
 - include a process for the termination of the agreement
 - allow for the Council to be indemnified for damages incurred as a result of negligence or misuse of Council assets, which led to the death or injury to staff or members of the public or to damages to private property.

In March 2005, in recognition of the limitations of the existing management agreement, the Council drafted a new agreement that placed greater responsibility on the Trust by:

- requiring the Trust to report against business-related performance criteria
- incorporating mediation arrangements and indemnities for the Council where the Trust failed to comply with the agreement.

However, due to resistance by the Trust, the introduction of the new agreement has been deferred until the expiry of the current agreement in 2011.

In October 2002, while the Trust continued to operate its tourism activities in Bendigo, the Council assumed responsibility for operating the associated infrastructure. These changed arrangements were not incorporated into the 2001 management agreement, as the agreement did not provide for changes to its terms and conditions.

Conclusion

The Council's support for the Trust has benefited regional tourism in Bendigo. However, the Trust's financial position has deteriorated recently, making it increasingly reliant on the Council.

The absence of a sound agreement between the Council and the Trust covering Council-funded Trust activities and the absence of strong governance over and monitoring of Trust operations by the Council, creates a significant risk for the Council and its ratepayers.

Recommendations

3.1 That the Council:

- implement all of the recommendations included in the 1994 VAGO due diligence report on the Council's operations
- in conjunction with the Trust, key stakeholders and the community, establish a long-term operational strategy for the Trust
- publicly disclose its financial support for the Trust and its decisions relating to the Trust
- assist the Trust to establish a stronger financial base by co-coordinating financial planning and reporting between the Council and the Trust
- include in its financial statements all assets under its control but managed by the Trust
- assess whether assets and liabilities owned by the Trust should be consolidated into the Council's financial statements
- negotiate a revised management agreement for Trust-operated tourist activities which receive financial support from the Council.

RESPONSE provided by the Acting Chief Executive Officer, Greater Bendigo City Council

The 1994 Due Diligence report listed a number of recommendations in relation to The Bendigo Trust. In relation to these recommendations and the recommendations of the Auditor-General's report, the Council has:

- *Requested its internal auditors to examine its relationships with related parties including The Bendigo Trust to put in place a system to manage its relationship risks*
- *A Management Agreement in place between Council and The Bendigo Trust dated January 15, 2001. The internal auditor noted that while the agreement was brief it covered most Council risks.*
- *Made new appointments to the Board of The Bendigo Trust including a councillor and a director responsible for assets and capital works. The City of Greater Bendigo directors on The Bendigo Trust monitor:*
 - *Financial reporting*
 - *Strategic planning*
 - *Compliance*
 - *Operating reports*
 - *Risk management*
- *Clarified that The Bendigo Trust is a Company limited by guarantee*
- *Continued support for The Bendigo Trust by acknowledging the importance of The Bendigo Trust in the Council Plan*
- *Financially supported The Bendigo Trust each year through the Council budget which provides for both recurrent grants and Capital Works*
- *By its Finance Unit, monitored the financial position of The Bendigo Trust*
- *Included in their Financial Statements, the assets that are owned by the Council but managed by The Bendigo Trust and have done so since 1996.*

4 Project selection

At a glance

Background

Project selection involves:

- identifying the most suitable project to meet an identified business need
- preparation of a business case to support the undertaking of a project.

Key findings

The Council decided to undertake the Discovering Bendigo project without:

- assessing other alternatives to meet its business need
- detailing the proposed project and supporting its selection
- identifying, consulting with and gaining the support of project stakeholders.

Key recommendation

4.1 Prior to commencing a project, the Council should:

- identify and assess other project options to meet its identified business needs
- prepare a business case specifying the proposed project and supporting its selection
- confirm that the proposed project proposal is consistent with its strategic objectives and meets identified needs.
- Identify community stakeholders and consult with them.

4.1 Background

The reason for embarking upon a project is to address an organisational need, often identified through an agency's strategic planning processes.

The key elements of project selection are outlined in Figure 4A.

Figure 4A
Key elements of project selection

Identifying the need for the project

Developing a proposal to meet the identified need (Business case). The business case should include:

- an assessment of the various alternatives to meet the identified need (Feasibility study)
- details of the proposed project, including its broad objectives and scope
- the rationale for selecting the project
- major project risks
- the assumptions made in quantifying project costs and benefits.

Assessing community support for the project.

Source: Victorian Auditor-General's Office.

4.2 Selecting the Discovering Bendigo project

Identifying the need for the project

This project was initiated in June 2000, was aligned with the objectives set out in the Municipal Strategic Statement and incorporated into the Greater Bendigo Planning Scheme (June 2000). The Statement includes the following goal and related strategy for tourism:

"To ensure tourism continues to be a leading contributor to the economic and cultural growth of the municipality" and "Market the municipality's built and cultural heritage in order to support the tourism industry"¹.

¹ Greater Bendigo Planning Scheme, Municipal Strategic Statement – Clause 21.05, 22 June 2000.

Prior to the project's initiation, various Council planning documents and other records (dating from 1999) indicated that the Council, in consultation with Tourism Victoria and the Trust, had identified a need for the Council to:

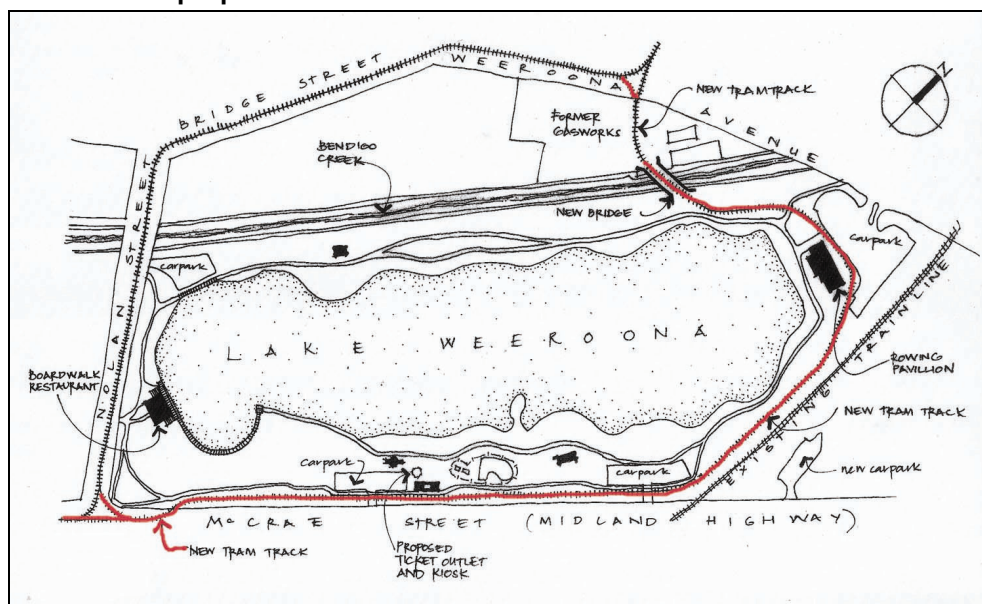
- increase the number of visitors and tourists who stay overnight in the City of Greater Bendigo, for example, through the development of an appropriate night-time attraction
- brand Bendigo as a place to see historic tramways assets and associated infrastructure
- investigate the feasibility of introducing a ticketing system to enable access to multiple attractions
- integrate or link Bendigo's existing tourist attractions to create a more attractive tourism experience.

The above business needs were first drawn together by the Council in July 2001 in a project brief for the "Tourism Opportunities" project.

In 2000, the Trust (with financial assistance from the Council and Heritage Victoria) also identified the need to:

- refresh its main tourism products in order to reverse a long-term decline in the patronage of its "Talking tram tour" and Central Deborah Gold Mine adventure tours
- develop a night tram experience in central Bendigo to provide a new tourism product and additional revenue for the Trust and provide an incentive for tourists to stay overnight
- loop the tram track around the Lake Weeroona Reservation to enhance the tram tour experience and provide access to a new market of potential tram patrons. Refer to Figure 4B.

Figure 4B
The proposed tram track extension around Lake Weeroona



Source: City of Greater Bendigo.

Large Council projects are normally identified and driven by the Council's strategic planning function. However, the project was not identified in the Council's 1999 – 2002 Corporate Plan nor listed in its top 10 priority projects in 2002². It was not until the Council's 2001 – 2004 Corporate Plan that it included a strategy to "Work with State government to access funds to extend the tram track around Lake Weeroona." This Plan included one component of the project and did not outline other project initiatives associated with the project such as:

- the proposed development of the Gas Works site
- introduction of a night tram theatre experience
- interpretive signage
- an integrated ticketing system for packaged tram tours of Bendigo's feature attractions.

The project was also included in the:

- Trust's Central Deborah Bendigo: Strategic Business Plan, 2001-2004
- Victoria's Tourism Industry Strategic Plan, 2002-2006
- 'Final Report – New Directions for Melbourne's Tramways Heritage'³ (January 2002), prepared for the State Government through the Minister for Transport.

Supporting the project selection (business case)

The formative ideas for the Discovering Bendigo project were first developed at a meeting between the Council and the Trust in May 2000.

² "Priority Projects for Greater Bendigo" City of Greater Bendigo, October 2002

³ Final Report – New Directions for Melbourne's Tramways Heritage, Booz, Allen and Hamilton, January 2002, Department of Infrastructure.

In June 2000, the Trust prepared a proposal for the expansion of the tramways system that included a loop track around Lake Weeroona. This proposal was submitted and adopted 'in principle' by the Council. The following month, the Council's Bendigo Tourism Board engaged a consultant to develop a business plan and a creative brief for a night theatre tram experience. The consultant prepared a document titled 'On Track: A Vision for the Bendigo Night Tram Experience, Business Development and Implementation Strategy for the Bendigo Night Tram Experience.'⁴

In mid 2001, the Council prepared a project brief titled 'Tourism Opportunities' (later titled the 'Discovering Bendigo project') which was presented to a Councillors' briefing in August 2001.⁵

The following month, the Trust, in collaboration with Council planning staff, considered six options for a proposed extension of the tram line into the Bendigo central business district and three options for a tram route around Lake Weeroona.

However, the Council did not formally undertake an assessment of other project options to address its identified business need to increase tourism. The only project options that were assessed were changes to the tramline routes within the same project. No other project options were proposed, considered or assessed.

In March 2002, the Council established a broad scope and budget for the project. The project was to be conducted in three phases at a cost of \$16 million, with the first stage (upgrade and extension of the Bendigo tramways network) estimated to cost \$4.6 million.

The Council first outlined the project objectives in its project brief, almost 12 months after the project was initiated. The objectives outlined in the brief were very broadly defined.

Assessing community support for the project

The council initiated the project without assessing the community support for it.

Conclusion

The Council's project selection process was inadequate in that it had not sufficiently detailed the proposed project nor undertaken an assessment of alternatives to meet the identified need.

The Council had not outlined its reasons for selecting the project, nor demonstrated that the project was consistent with its strategic objectives and business needs.

⁴ "On Track: A Vision for the Bendigo Night Tram Experience, Business Development and Implementation Strategy for the Bendigo Night Tram Experience, 28 February 2002.

⁵ Informal councillors' meetings are closed to the public.

Recommendations

- 4.1 Prior to commencing a project, the Council should:
- identify and assess other project options to meet its identified business needs
 - prepare a business case specifying the proposed project and supporting its selection
 - confirm that the proposed project proposal is consistent with its strategic objectives and meets identified need
 - identify community stakeholders and consult with them.

RESPONSE provided by the Acting Chief Executive Officer, Greater Bendigo City Council

Since the Discovering Bendigo Project, the City of Greater Bendigo has made some substantial improvements in project selection. Of particular importance was the Community Search Conference conducted in early 2005 following the election of a new council in November 2004. The Community Search Conference led to the development of the Bendigo +25 Greater Bendigo Community Plan. The Community Plan also informs the Council Plan that sets the framework for more comprehensive strategies. Details of the strategic planning framework for the City of Greater Bendigo are outlined below.

The strategic approach to project initiation requires every project to be accompanied by supporting documentation that is referenced to the Council Plan and comprehensive strategies. As a result, the City of Greater Bendigo now:

- *puts forward to funding agencies a more limited number of projects;*
 - *ensures projects align with the Council Plan;*
 - *undertakes a great deal more pre-planning;*
 - *ensures that there is public consultation;*
 - *has a properly constituted formal Council meeting to make decisions to apply for grants where there is to be a significant financial contribution from Council.*
-

5 Project planning

At a glance

Background

The success of any project depends on how well it is planned. Project planning and design involve determining how the project objectives will be achieved. The extent of planning should be commensurate with the size and complexity of the project and the degree of associated risk.

Key findings

- No specific governance arrangements or approvals were established for the Discovering Bendigo project.
- The project plan was prepared two years after the Council decision to commence the project and, when it was prepared, it did not outline the scope of the project, project timelines or identify the resources required to manage the project.
- A risk assessment for the project was not completed.
- The Council did not consult with, and gain the support of, the community.
- The project was not well-documented.
- The Council's decision to proceed with the project was made in a closed meeting on 10 July 2000. The Council did not record its decision, or make a formal resolution in open Council at a later time, to proceed with the project.

Key recommendations

- 5.1 That in planning future projects, the Council:
- when discussing and making project decisions in closed council meetings, minute its reasons for so doing, in compliance with Section 89 of the *Local Government Act 1989*
 - prepare project plans, scope statements, budgets and risk assessments
 - establish mechanisms to manage project risk and quality and changes to the project scope, cost and timelines
 - consult with the community and key stakeholders when initiating and planning new projects, and establish appropriate communications management processes.

5.1 Background to project planning and design

The success of any project depends on project planning. Project planning and design involve determining how the project objectives will be achieved. The extent of planning should be commensurate with the size and complexity of the project and the degree of associated risk. The key elements in project planning and design are shown in Figure 5A.

Figure 5A
Key elements of project planning and design

Topic	Discussion
Establishing a governance and approval process	A critical factor in the success of the project is having effective governance arrangements and approval processes. This would include: • developing policies and procedures to control and approve all project activities • establishing an organisational structure for managing the project, which defines roles and responsibilities and delegates authority for project activities • developing monitoring and reporting mechanisms.
Preparing a project plan	A scope statement should be prepared for the project, which would: • clearly define the scope of the project • divide the project deliverables into smaller, more manageable components • formalise acceptance of the project scope • establish processes to control changes to scope The plan should identify the human and other resources needed to undertake the project and outline how these resources will be acquired. The plan should establish processes to ensure timely delivery of the project. This would involve: • identifying the specific activities required to provide the project deliverables • determining the time required to complete various activities • developing a project schedule and project milestones • establishing processes to manage changes to the project schedule.
Assessing project risk	A risk assessment for the project should be completed. This would include: • identifying and documenting project risks • analysing and rating each risk identified • identifying strategies to mitigate risks • assigning responsibilities for risk mitigation strategies.

Figure 5A
Key elements of project planning and design - continued

Topic	Discussion
Costing the project	A budget should be prepared for the project, which would: • estimate the costs of the resources needed to complete the project activities identified • determine the overall budget for the project • establish processes to manage cost overruns.
Processes to manage stakeholders	Meeting stakeholder needs is critical to the success of any project. Therefore, it is important for the project team to identify key stakeholders and their information needs and develop strategies for managing stakeholder communications.
Documenting the project	To strengthen project accountability, it is important to establish processes to collect, store and maintain an adequate level of project documentation.

Note: Further details are provided in Appendix B.

Source: Victorian Auditor-General's Office.

5.2 Planning and designing the Discovering Bendigo project

5.2.1 Project governance and project approvals

All Victorian Councils have governing bodies, that consist of not fewer than five and not more than twelve publicly elected councillors. In the case of the City of Greater Bendigo, councillors meet every week. The first and third Mondays were ordinary Council meetings, open to the public. The second and fourth Mondays were councillor forums, which are briefings that are closed to the public.

Closed council meetings are permitted under Section 89 of the *Local Government Act 1989*, in certain circumstances. For example:

- a Council can only make decisions when it sits formally as Council at a formally constituted public Council meeting, or through formal delegations
- despite the fact that an issue may have been extensively explored at a Council briefing – even to the point where a consensus has been reached – a full discussion must take place at a public Council meeting prior to a decision being made
- councillors cannot commit to formal decisions at closed meetings
- in order to promote the transparency and accountability required for good governance, closed meetings should be used as infrequently as possible¹.

¹ Municipal Association of Victoria, *The Good Governance Guide: The Principles of Good Governance within Local Government*, February 2004. p.13. (Available from <http://www.mav.asn.au>).

Audit was advised by past and present Council staff and councillors that Councillors' briefings were held to:

- allow councillors to express their differences and to reach consensus on contentious or sensitive issues so that they could present as a unified Council in open Council meetings
- avoid raising public expectations of projects, such as Discovering Bendigo, that required, but had not secured, funding from either the State or Commonwealth Governments
- allow councillors to examine and question in detail any briefings or reports made to them by Council staff or consultants.

Between July 2000 and January 2005, the Discovering Bendigo project was discussed at 21 councillor briefings and six ordinary Council meetings open to the public.

The Council's decision to proceed with the project was made in councillors' briefing on 10 July 2000. The Council did not record its decision, or make a formal resolution in open Council at a later time, to proceed with the project.

Although the Council had established monitoring and reporting processes to oversee its business, no specific arrangements to monitor and report to Council were established when the Discovering Bendigo project was initiated.

In December 2001, the Council prepared a proposal on the project "to gain the agreement of the Council on the route of the tram line through Lake Weeroona parkland". This report was presented to several closed meetings of councillors between 10 December 2001 and 29 April 2002. There is no evidence of Council decisions made in these meetings to approve the continuation of the project or to modify the scope of the project.

5.2.2 Project plan

While the Council did not prepare a project plan or a scope statement for the project, a report prepared by the Council's Executive Director, Planning and Development in 2002, included most of the elements of a project plan². The report:

- indicated that the project, which included an integrated ticketing system, interpretive signage and the extension of the tram route around Lake Weeroona, was designed to develop new tourism products for Bendigo
- provided a general description of the scope of the works proposed and a broad outline of the capital costs.

Over a period of 12 months from May 2002, the report was discussed at a number of closed Council meetings to gain agreement from councillors on different project issues. These discussions resulted in a number of changes to the project scope, including removing a proposed ticket kiosk at Lake Weeroona and adding capital works for different sections of tram track.

² City of Greater Bendigo, *Discovering Bendigo – Integrated Tourism project*, report prepared for a confidential councillors' meeting on 29 April 2002.



The Lake Weeroona boardwalk.

Project scoping

While a broad scope for the project was developed in March 2002, a detailed scope statement was not prepared for the project.

Project timelines

On 24 February 2003, a project timeline was created for the project. This was more than two and a half years after the project was approved in principle by the Council and four months after the Council had received advice that its application for a grant from the Regional Infrastructure Development Fund had been approved.

5.2.3 Risk assessment

No risk assessment was prepared for the project.

5.2.4 Project costing

In March 2002, the first stage of the project was estimated to cost \$4.6 million, with \$3.7 million to be provided by the RIDF and \$900 000 by the Council.

The Council had not identified the internal or external resources required to manage the project. It is the Council's normal practice not to separately identify and allocate resources to capital projects until project funding had been secured.

The Council did not maintain a complete record of the time and costs associated with the project's planning and development.

From a review of the Council's limited records and interviews with its staff, Audit estimated that up to April 2002 the Council had incurred approximately \$45 000 on developing and planning the project. These costs included:

- \$30 000 to design tram extension works
- an \$8 000 contribution towards the cost of consultants hired by The Bendigo Trust to develop the night theatre tram concept³
- \$6 000 to engage a consultant to determine the cost of the project's integrated ticketing system.

The Council had also incurred internal costs associated with various staff assisting with the initial planning for the project. Staff involved in the project included the Director, Planning and Economic Development; Executive Manager, Tourism and Events; Manager, Strategic Planning, capital works engineers, the Recreation Manager, Heritage Advisor and Arborist. The cost of these resources was not calculated by the Council for attribution to the project.

By January 2005, the Council had incurred \$1.66 million expenditure in relation to upgrading the tramway infrastructure.

Most of this expenditure (\$1.25 million) was for tram infrastructure maintenance. The balance of \$410 000 related to works on the design of the tram track extension, traffic analysis, an environmental audit of the Gas Works site and the d.c. power substation.

Some of the design works for the project, such as designing the upgrade of the d.c. power substation (\$12 200) and tram track upgrade in Bridge Street (\$19 640) were required to ensure the continued, safe operation of the tourist tram, regardless of whether the project proceeded.

Of the \$1.66 million spent, \$103 900 was spent on design works for the tram track extension around Lake Weeroona that became superfluous when the Council abandoned the Discovering Bendigo project in January 2005.

5.2.5 Project communications and stakeholder management

The first public consultation on the project, which consisted of two community consultation meetings in Bendigo and a focus group at Tourism Victoria's headquarters in Melbourne, was conducted in September 2001 by an external consultant engaged by the Council.

Following receipt of the Council's application for funding in May 2002, Regional Development Victoria (RDV) advised the Council that its application for funding would not be considered further until the Council had "sounded out" the community's reaction to the proposed development.

³ The concept, business case and business feasibility studies for the Night Theatre Tram Experience were also funded by two grants to the total value of \$18 000 from Tourism Victoria.

In response to the RDV advice, the Council developed a public relations strategy for the project in May 2002. However, it was not until April 2003, following the public announcement by the State Government that a RIDF grant had been provided for the project and a planning permit was advertised, that the Council implemented its public relations strategy.

The strategy recognised that “community sentiment will play a role in progressing the project” and included a consultation process with the broader local community. The community was to be informed of the project via advertising in *The BEAT*⁴ newsletter and on notice boards located at each end of Lake Weeroona and through the issue of a media kit.

The delayed release of the strategy meant that the Council had not informed the broader community⁵ of its proposed project until almost 12 months after the Council had submitted its RIDF funding application and almost six months after it was notified by the Minister for State and Regional Development that its grant application had been successful. The Council’s explanation for the initial 12-month delay was that it did not wish to raise public expectations for a project that was yet to be funded. Its explanation for the following six month delay was that it did not wish to pre-empt the Minister’s announcement of the grant for the project⁶.

The public relations strategy was successful in broadcasting news of the project to the Bendigo community. However, as this was the first communication regarding the project to much of the local community, it generated community opposition to the project.

On 25 June 2003, the Council formally met with representatives of the local community to discuss their objections to the project. Subsequent to this date, numerous letters objecting to the extension of the tram track around Lake Weeroona were received by the Council.

The Council next consulted the local community in October 2004, when it formed a working party comprised of a group of people opposed to the project, the Council’s Chief Executive Officer and planning officers, VicRoads representatives and the Mayor. The working party developed alternative plans for the proposed tram route, later rejected by the Council.

The Council did not notify or consult with the Dja Dja Warrung Koori people, the traditional landowners of the land around Lake Weeroona, regarding the plans to extend the tram route around the lake.

⁴ The Bendigo Events and Tourism (The BEAT) newsletter is a monthly publication produced by the Bendigo Tourism Board on behalf of the City of Greater Bendigo.

⁵ Although there was no formal announcement, the *Bendigo Advertiser* reported on the State’s funding of the project on 14 December 2002, p. 6.

⁶ A letter from the Minister to the City of Greater Bendigo dated 1 November 2002 stated “Details of this grant are to remain confidential until formally announced”.

5.2.6 Documenting the project

The Council's information on the project was not complete or easily accessible.

Specifically:

- the Council did not maintain a single repository of documents for the project. Some Council staff retained project documents in personal filing systems. Many of the records were lost when staff members left the Council
- the Council advised that the electronic records produced during the initiation and planning phases, including an extensive email record of the project's management, were lost following an upgrade of the Council's computer systems.
- minutes were not kept for the project meetings
- many project documents were undated and the creators of the documents were not identified.

Conclusions

The Council development of the Discovering Bendigo project was inadequate, particularly in the areas of:

- project planning
- project scope management
- managing project risk
- managing stakeholders
- project cost management
- project documentation.

The management of the project would have been more effective had the Council:

- developed a project plan and project scope statement for the project
- developed timelines and milestones for the project
- authorised changes to the project scope in open Council meetings
- established an appropriate communication and consultation strategy through determining the needs of project stakeholders
- made information available to project stakeholders in a more timely manner
- engaged community stakeholders in a more timely manner and identified or resolved issues to satisfy their information requirements
- developed a budget for the project
- had collected, filed and stored project documentation to enable easy access.

The Council spent \$737 000 in excess of its planned allocation of \$920 000 for the project on track and line upgrades and a further \$103 900 on design works that did not proceed following its decision to abandon the project.

The project was not viable without external ongoing financial support and was not supported by the local community.

Had the project been better planned and subject to a formal and transparent Council approval process, the Council would have been in a better position to decide whether to proceed with the project. This would have limited the cost and risk faced by ratepayers.

Recommendations

5.1 That in planning future projects, the Council:

- when discussing and making project decisions in closed council meetings, minute its reasons for so doing, in compliance with Section 89 of the *Local Government Act 1989*
- prepare project plans, scope statements, budgets and risk assessments
- establish mechanisms to manage project risk and quality and changes to the project scope, cost and timelines
- consult with the community and key stakeholders when initiating and planning new projects, and establish appropriate communications management processes
- require all project documentation to be captured in a records management system and for it to be easily accessible for subsequent scrutiny and capturing of lessons learnt.

RESPONSE provided by the Acting Chief Executive Officer, Greater Bendigo City Council

Project management has been the subject of ongoing discussions within the organisation, with the view to provide for continuous improvement. A project management manual has been prepared to guide staff involved with project management through all stages.

There are four stages in the project management manual, as follows:

- *Project initiation*
 - *Project planning*
 - *Project execution*
 - *Project evaluation.*
-

6 Grant application and assessment

At a glance

Background

In May 2002, the Council applied to the Regional Infrastructure Development Fund (RIDF) for a grant of \$3.7 million to help fund the first stage of the Discovering Bendigo project.

The application was assessed by Regional Development Victoria (RDV) and the grant was approved by the State in October 2002. The RIDF grant was announced by the Council and the State Government in November 2002.

Key findings

- The Council's RIDF grant application contained several material inaccuracies. A robust review by the Council of the information provided by The Bendigo Trust would have identified a number of inaccuracies in the application.
- Based on the information provided in the Council's application, audit considers that the project met a significant number of the RDV criteria and, therefore, was eligible for funding.

Key recommendation

- 6.1 Where information provided by external parties is included in the Council's grant applications and project business cases, the Council should independently verify the accuracy of this information.

6.1 Council application for funding from the RIDF

The Regional Infrastructure Development Fund (RIDF) was established in 1999 to facilitate investment, employment and export opportunities in regional Victoria. The RIDF is managed by Regional Development Victoria (RDV) and provides support for capital works in regional communities that:

- support new industry development
- link transport infrastructure
- improve tourism facilities
- better link regional Victoria to new opportunities in education and information and communication technologies infrastructure.

In May 2002, the Council lodged an application for a grant of \$3.7 million with the RIDF. The preparation of the application involved:

- the development of a business case for the project. This responsibility was delegated to The Bendigo Trust, which independently prepared a business case for the project titled 'On Track: Discovering Bendigo, Strategic Business Plan' (May 2002)
- estimating the cost of upgrading and extending the tram route around Lake Weeroona. The cost estimation was prepared by a consultant engineering firm engaged by the Trust
- consultation with government departments and authorities, including Heritage Victoria, the Department of Natural Resources and Environment, Public Transport Corporation (VicTrack), VicRoads, the Department of Infrastructure (Public Safety Directorate), the Department of State and Regional Development, North Central Catchment Management Authority and the Environment Protection Authority
- consultation within the City of Greater Bendigo, including the Heritage Advisor, Planning and Development Unit, Economic Development Unit, Bendigo Tourism, Recreation Manager, Arborist and the Community Environment Officer.

The grant was approved by the Minister for State and Regional Development in October 2002.

In September 2003, the acting Chief Executive Officer of the Trust and the Council representatives on the Trust Board expressed concerns that the estimated revenue in the Trust's business plan ('On Track Discovering Bendigo, Strategic Business Plan' (May 2002) was overstated. These concerns were substantiated in November 2003 by a report ('Bendigo Night Tram Experience, Feasibility Study and Business Plan,' Preliminary Stage 1 Report, City of Greater Bendigo, Better Places Consortium, November 2003) commissioned by the Council in association with the Trust, Bendigo Tourism and Tourism Victoria.

In June 2004, a revised business plan ('Projected Income and Expenditure for Central Deborah Gold Mine', 27 January 2004 internal report, City of Greater Bendigo) for the tram extension around Lake Weeroona was prepared by the Council. The revised plan now estimated that only half the original income projections for the project would be achievable. A further review of The Bendigo Trust in March 2004 ('Bendigo Trust review: Performance Analysis and Directions', prepared for Bendigo Trust and the City of Greater Bendigo, 30 March 2004) found that "*Proposals to extend the tram route around Lake Weeroona are inadequately substantiated financially ... and require further evaluation.*"

The Council's application indicated that:

- by the second year of the project, the number of tram trips would have increased by 99 000 and would increase by a further 17 000 in year 3.
A survey prepared for the Council in 2004 determined that 432 000 people visit and use the lake each year and 354 000 of these people represent the potential market for the tram around the lake. The survey report estimated that the extended tram service was likely to attract 35 000 to 71 000 additional tram journeys. Further analysis undertaken by the Council in January 2004 indicated that the project was likely to result in an additional 30 000 tram journeys and increase journeys on the existing service by 6 000.
- the project would increase the Trust's annual revenue by \$1.49 million. This forecast was revised down by the Council to \$333 000 in January 2004 and to between \$182 000 and \$364 000 in October 2004.
A further review of the business plan by the Council's Economic Development Unit estimated a net increase in Trust revenue of about \$100 000 per annum
- the project would generate the equivalent of 30 ongoing jobs. This figure was revised down to three jobs in October 2004.

The application also failed to fully explain the Council's relationship with the Trust and the fact that Bendigo's tramways' infrastructure was owned and managed by the Trust.

A robust review by the Council of the information provided by the Trust would have identified a number of inaccuracies in the application.

The Council advised audit that:

- Council had not intended to deliberately mislead RDV and, at the time the application was submitted, it believed that the content of its application was factually correct and accurate
- Council did not know that the Trust was in serious financial difficulties until well after it had lodged its application
- The Bendigo Trust had been assigned responsibility for preparing the project business case, based on its superior knowledge of the Bendigo tram business
- the level of visitation to Lake Weeroona of 1.8 million per year was based on a recreation needs study undertaken by the Council in 1995. The study was believed to be a valid and accurate estimate that was suitable for use to forecast potential tram patronage for the proposed lake route

- Council had queried the former CEO of the Trust about the patronage/revenue forecasts used in the business case for the project and believed that they were reasonable given the estimated level of visitation indicated by the Council's 1995 recreational study.

While Council reviews of the project in 2003 and 2004 disclosed errors in the business case, the Council did not notify RDV of these errors. By the time RDV was notified, the Council had signed a funding agreement with the State for a grant of \$3.7 million and had commenced capital works upgrading the tram track valued at over \$1.5 million.

Conclusion

The Council lodged an application with RDV for a grant of \$3.7 million from the RIDF.

Although subsequent reviews by the Council identified material inaccuracies in its RIDF application, the grant had already been approved.

6.2 Regional Infrastructure Development Fund assessment

Audit established the following criteria to determine whether the assessment of grant applications were conducted efficiently and effectively. The funding agency should:

- establish criteria for funding, that aligns with its program objectives
- establish a suitably qualified selection panel to assess applications for grant funding against the established selection criteria, using an appropriate rating scale
- assess and verify information supporting the application
- ensure the application identifies and assess project risks
- ensure the application demonstrates that stakeholders were consulted and provides confirmation that they support the project
- document in its evaluation and selection report the rationale for the decision to approve or reject the grant
- have established processes to review selection panel evaluations and to approve/reject panel recommendations
- properly store and maintain all information obtained or generated as part of the assessment process.

The RIDF grant assessment process is designed to ensure that:

- only applications meeting the RIDF criteria receive funding
- applications that meet a significant number of specific eligibility criteria are allocated higher or lower priorities, followed by a detailed evaluation and assessment
- only project proposals that can show demonstrable project benefits, are a State or regional priority, maximise funding support from a range of sources and are ready to be implemented, are classified as high priority for funding.

The process requires RDV to consult with a range of government departments, prior to approving grant applications. In accordance with this process, the Council's application was distributed to five government departments for assessment. RDV provided the departments with a protocol to act as a guide for their respective assessments.

Each of the departments provided a positive assessment of the project and the RDV files contained a summary of the assessments conducted by these agencies. RDV advised audit that it relied on its own and the interdepartmental assessments in deciding to recommend to the Minister for State and Regional Development that the Council's application be approved.

RDV has established 17 criteria to assess applications for funding under the following headings.

- Financial
- Socio-economic
- State and regional priority
- Project feasibility and delivery
- Victorian Industry Participation policy.

The assessment process requires applicants to demonstrate a project's ability to meet a significant number of these criteria.

Conclusion

Based on the information provided in the Council's application, audit considers that the project met a significant number of the RDV criteria and, therefore, was eligible for funding.

Recommendation

- 6.1 Where information provided by external parties is included in the Council's grant applications and project business cases, the Council should independently verify the accuracy of this information.

RESPONSE provided by the Acting Chief Executive Officer, Greater Bendigo City Council

External parties often support the applications for grant funding submitted by the Council for projects. The Council acknowledges the need to verify the accuracy of information provided so that documentary evidence supports the information and that the source of the data is provided.

The City of Greater Bendigo finance staff regularly assess business plans and other financial information provided by external parties before undertaking projects with other organisations.

Appendix A

Key elements of project selection

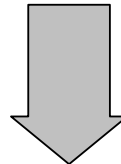
1. Project initiation

Undertaking an economic assessment of the various alternatives available to meet the need identified (Project selection).

Providing an outline of the proposed course of action.

Devising a high level proposal outlining how the proposed course of action is to be delivered.

Obtaining appropriate approvals to progress to the project planning and design phase.



2. During this phase the following documents are produced:

Feasibility studies

Business case

Project proposal.

Source: Victorian Auditor-General's Office.

Appendix B

Key elements of project planning and design

1. Commence project planning and design

Establish controls and procedures, including:

- refining project objectives and their relationships with higher level organisational objectives and strategies, government policies and legislation
- establishing governance arrangements, delineating the roles of governing bodies and lead agencies.

2. Prepare a project risk assessment

Identify a comprehensive list of risks to the organisation, State, community and environment
assign a rating to each risk based on likelihood and impact

develop mitigation strategies

establish a risk management plan that includes monitoring and reporting processes, a risk register and reporting on risk management activities.

3. Undertake detailed planning

Define the product or service to be acquired and outline the procurement strategy.

Prepare a scope statement for the project that:

- clearly defines the scope
- subdivides project deliverables into manageable components
- formalises acceptance of the project scope
- establishes processes to control changes to scope.

Identify human and other resources and review processes for ongoing management.

Establish project timelines and milestones and process to manage timeline variations.

4. Cost the project

Estimate the lifecycle and contingency costs.

Outline the key assumptions and risk adjustments.

Establish processes to identify and manage cost variations.

5. Obtain appropriate approvals

Obtain approvals to progress to the procurement phase

Identify and secure funding for the project

Document the planning function.

6. Develop progress reporting for management

Establish processes to report against the project plan, scope changes, emerging risks and their management, communication issues, timelines and actual costs against budget

7. Identify and communicate with stakeholders

Identify the communication needs of stakeholders

Ensure stakeholders are involved and can contribute to the project

Establish a communications plan or strategy to manage specific communication needs

Source: Victorian Auditor-General's Office, based on the Project Management Body of Knowledge Guidelines (PMBOK).

Appendix C

Chronology of project development and approval

May 2000	The Trust and Council jointly plan an extension of the tram track around Lake Weeroona.
June 2000	The Trust submits a proposal to the Council to extend the tram track, refurbish the Gas Works site and develop a night tram theatre experience.
July 2000	Presentation by the Trust to the Council to extend the tram track around Lake Weeroona. The Council supports the proposal in principle and authorises planning for the project.
April 2001	Bendigo Tourism, the Trust and Tourism Victoria discuss tourism opportunities for Bendigo's heritage tramways.
June 2001	The Council includes \$1 million in its 2001-02 capital works budget for tram track maintenance. Bendigo Tourism issues a project tender brief for <i>Bendigo Night Theatre Tram Experience -Business - Development and Implementation Strategy</i> .
July 2001	Council resolves to apply to Regional Development Victoria (RDV) to fund the tram track extension. The project is included in the Council's Corporate Plan 2001-2004.
August 2001	The Council develops the project brief and commences detailed planning, including design works and negotiations with government authorities. Bendigo Tourism and the Trust prepare a business plan and develop a creative brief for a night theatre tram experience.
September 2001	The Council and the Trust consider options for the proposed tram route.
October 2001	The Council conducts market research to determine the potential tourism yield of the project.
November 2001	The project is included in the Council's list of priority projects.
February 2002	The Trust receives a Commonwealth Government grant to develop a business plan and feasibility study for a night tram theatre experience. Council agrees on the route of the tramline around Lake Weeroona.
March 2002	Council agrees to lodge a planning application for the tram track to run through the northern car park at the Lake Weeroona reservation.
April 2002	New councillors are briefed on the project. The Council agrees to proceed with an application to the State Government for a grant to support the project.
May 2002	The Council applies to RDV for a grant of \$3.7 million. The Trust's business plan for the project is included in the grant application.

May 2002	The Council develops a public relations strategy for the project. The strategy is not executed.
October 2002	The State approves a grant of \$3.7 million for the project that is conditional on planning permits and the establishment of an asset maintenance strategy for Bendigo tramways.
November 2002	The Minister for State and Regional Development announced the project.
March 2003	A planning permit is issued by the Council for the tram track extension
May 2003	The RDV funding agreement is signed by the State and the Council.
June 2003	Objectors to the tram extension complain about the loss of recreational amenity at the Lake Weeroona Reserve. The Council meets with objectors to the project.
September 2003	The Council requests an extension to receiving funding. RDV approves an extension of time for the project to receive the approved grant funds.
January 2004	The Council reviews the business plan for the project and finds that the income projection of \$1.49 million should be \$333 000 per year.
March 2004	Council approves the tram extension around Lake Weeroona.
June 2004	Victorian Civil and Administrative Tribunal (VCAT) hearings of objections to the planning permit. VCAT grants a planning permit to the Council to allow the tram track extension.
July 2004	Dates for the Council to receive funding are extended for the second time by RDV.
August 2004	Council organises a public rally at Lake Weeroona to explain the benefits of the project.
September 2004	Bendigo Tourism surveys visitors to Lake Weeroona. Half support the project.
October 2004	A working party including Council, VicRoads and community representatives is established to consider alternative proposals for the tram route.
November 2004	A market research report on the project is delivered to Bendigo Tourism.
January 2005	The Council resolves to abandon the project and forfeit the State grant of \$3.7 million.
March 2005	The legal agreement to fund the project is terminated by RDV.

Source: Victorian Auditor-General's Office

Auditor-General's reports

Reports tabled during 2007-08

Report title	Date tabled
Program for Students with Disabilities: Program Accountability (2007-08:1)	September 2007
Improving our Schools: Monitoring and Support (2007-08:2)	October 2007
Management of Specific Purpose Funds by Public Health Services (2007-08:3)	October 2007
New Ticketing System Tender (2007-08:4)	October 2007
Public Sector Procurement: Turning Principles into Practice (2007-08:5)	October 2007

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