

6 SEP 2012

The Hon N Maclaren-Jones MLC
Committee Chair
General Purpose Standing Committee No.3
Parliament House
Sydney NSW 2000

Dear Ms Maclaren-Jones

Natasha,

I refer to the inquiry into Rail Infrastructure Project Costing in New South Wales conducted by General Purpose Standing Committee No.3. The Committee requires that the Government respond to the Inquiry Report within six months of the hearing date.

I am pleased to provide the Committee with the attached NSW Government response. The Government will be accepting all of the Committee's recommendations.

Since representatives from Transport for NSW last met with the Committee in November 2011, the Department has undergone a number of significant changes. On 31 March this year the former Transport Construction Authority was officially abolished and all of its functions and expertise were integrated with Transport for NSW.

As part of reforming RailCorp we have taken steps to make it easier for the private sector to work with the NSW Government to deliver rail projects. Notably, establishment of the Asset Standards Authority will streamline monitoring of technical standards, asset management strategies and asset records. Not only will this make it easier for industry to do business with the Government, it will also provide better value for taxpayers' money.

In parallel with these broad-ranging initiatives, the NSW Government has also taken a number of steps to improve its approach to estimating the costs of rail infrastructure projects.

In particular, Transport for NSW has improved standardisation of cost estimating across its projects. The Department has also developed an in-house benchmarking cost database and is working to develop an inter-jurisdictional

infrastructure cost benchmarking program. These and other initiatives are detailed in the enclosed response.

I would like to take this opportunity to commend the Committee on its inquiry. It was important for Parliament to hear from a range of stakeholders in order to better understand the complexities involved in estimating the cost of transport infrastructure projects. It was also valuable to confirm what the Government is currently doing well and what steps can be implemented to improve our approach in the future.

Yours sincerely

A handwritten signature in black ink, appearing to read "Barry O'Farrell". The signature is written in a cursive, slightly slanted style.

Barry O'Farrell MP
Premier

NSW GOVERNMENT RESPONSE TO RAIL INFRASTRUCTURE PROJECT COSTING RECOMMENDATIONS

INQUIRY RECOMMENDATION 1:

That Transport for NSW undertake further research on the performance of actual versus budgeted outcomes under both probabilistic and deterministic contingency estimation approaches for major road and rail infrastructure, with a view to standardising approaches and producing more accurate cost estimates.

Response:

Recommendation Accepted.

Transport for NSW will continue to undertake research and develop processes to monitor the performance of cost estimates against project costs. This will assist in refining best practice in cost estimating and provide standardisation across future infrastructure projects.

As submitted to the Inquiry, Transport for NSW currently uses the Federal Government's Best Practice Cost Estimation Standard (Federal Standard) in its cost estimating. The Federal Standard provides an overview of both probabilistic and deterministic estimation and is intended to improve and build consistency of approach between jurisdictions.

Further detail and specific guidance on the application of the Federal Standard is provided in the Transport for NSW internal Project Cost Estimating Standard (QMS 4TP-ST-173).

These procedures and methodologies enable transparency and comparison of project estimates from initial strategic estimates through to cost at completion. This provides opportunities to identify any improvements required in the estimating process, including contingency assessment and allocation.

A benchmarking cost database has been developed by Transport for NSW to, amongst other things, provide a comparison between the Strategic Estimate (where deterministic contingency assessment is typically involved), Business Case Estimate and Pre-Tender Estimate (where probabilistic contingency assessment is typically undertaken). The database also allows comparisons against Tender/Contract Costs, Forecast Cost to Complete at a number of milestones during the construction progress and the Cost at Completion. The database thus allows analysis of the appropriateness of contingency estimates over the project lifecycle.

INQUIRY RECOMMENDATION 2:

That during the lifecycle of a transport infrastructure project, Transport for NSW publish the reasons for any significant changes in the project budget.

Response:

Recommendation Accepted.

Transport for NSW reviews and monitors the final forecast costs of its projects in delivery biannually. This is a comprehensive review and re-forecast of all project elements including contingency.

Furthermore, Transport for NSW continues to improve capture and recording of variances in cost elements through the implementation of its cost estimating database.

Changes to capital funding requirements for projects, along with explanations for significant variations, are currently provided as final forecast costs through the NSW Government's annual Budget Papers and Auditor General's reports; and Transport for NSW Annual Reports. This practice will continue.

It should also be noted that as part of our 'Fixing the Trains' initiative, the NSW Government is introducing the Asset Standards Authority (ASA) to streamline processes currently undertaken by RailCorp. The new body will take responsibility for confirming that technical standards, asset management strategy and asset records are appropriate for a modern rail network.

This approach will make it easier for industry to do business with Government and allow better value for taxpayers' money on projects. It is also expected that the establishment of the ASA will assist with minimising changes to project scope and design, and consequently project cost, through the project delivery lifecycle.

As noted in the Inquiry, it is important that the disclosure of any financial information does not commercially disadvantage the NSW Government.

INQUIRY RECOMMENDATION 3:

That Transport for NSW promote the use of a consistent Work Breakdown Structure, both within NSW and in other jurisdictions, for the purposes of comparison, review and benchmarking of transport infrastructure costs.

Response:

Recommendation Accepted.

The Transport for NSW approach to Project Cost Estimating Standard uses a Work Breakdown Structure (WBS) consistent with that of the Federal Standard. This approach has now been adopted in all estimates undertaken by Transport for NSW from project development through to delivery and commissioning.

Additionally, RailCorp currently has in place a number of initiatives to improve comparison, review and benchmarking of its project costs.

Transport for NSW is involved in a number of working groups and committees with other infrastructure agencies and industry organisations. For example, the department is

involved in the Railway Industry Safety and Standards Board (RISSB), which is responsible for developing National Standards and Codes of Practice for Infrastructure and Rolling Stock, among other endeavours. This initiative is likely to be the main driver of consistency in specification.

Transport for NSW will continue to work with other jurisdictions through joint benchmarking exercises (see response to Recommendations 5 & 6 below) to encourage consistency across infrastructure projects.

Transport for NSW senior staff maintain good networks with relevant bodies in all states. For example, there has been interaction between the Transport Project Division's Engineering team and representatives in Queensland to consider the design review, acceptance and assurance process used on Queensland Rail projects. Further, Transport for NSW staff were recently involved in an independent review of a Perth rail project, providing advice on construction proposals, cost estimates and programming.

The Division is also a member of the Australasian Railways Association (ARA) Rail Contractors Group, which works in partnership with infrastructure authorities across Australia to provide input to the policy environment within which rail contractors operate.

Informal exchange of information also takes place through Transport for NSW's active involvement in various rail conferences, such as Ausrail, CORE (the biannual Conference on Railway Engineering, sponsored by Engineers Australia) and the Permanent Way Institution. Transport for NSW sends delegates to all such conferences, and frequently submits papers and presents to conference attendees.

INQUIRY RECOMMENDATION 4:

That Transport for NSW promote greater consistency in the capture and allocation of corporate overhead costs to projects, both within New South Wales and in other jurisdictions, for the purposes of comparison, review and benchmarking of transport infrastructure costs.

Response:

Recommendation Accepted.

Transport for NSW is preparing to undertake a benchmarking exercise across other Australian transport agencies.

Together with benchmarking databases, it is anticipated that this exercise will improve consistency in the identification, capture and allocation of corporate overheads to facilitate improved benchmarking metrics (refer responses to Recommendation 5 & 6 below).

This work will be supported by initiatives currently being undertaken by RailCorp to improve consistency in the way it captures and allocates project overheads.

INQUIRY RECOMMENDATION 5:

That Transport for NSW investigate the higher corporate costs, rail client administrative costs and 'other costs' incurred for rail projects in New South Wales, as defined in the Ernst & Young report. Further, that Transport for NSW make public any findings and recommendations from this investigation.

Response:

Recommendation Accepted.

Transport for NSW is working to develop an inter-jurisdictional infrastructure cost benchmarking program. At present, Transport for NSW is finalising selection of a research partner and terms of reference. These costs, as well as requirements of other recommendations will be addressed as part of this research program.

INQUIRY RECOMMENDATION 6:

That Transport for NSW commission and publish another transport infrastructure project benchmark report in four years time.

Response:

Recommendation Accepted.

Transport for NSW notes the recommendation and this will be built into the program of benchmarking being developed.

INQUIRY RECOMMENDATION 7:

That Transport for NSW examine increasing its in-house expertise to reduce it's over reliance on consultants.

Response:

Recommendation Accepted.

A number of steps have already been undertaken to increase in-house expertise within the NSW Transport portfolio.

The creation of the integrated Transport for NSW in November 2011 brought together previously separated expertise in project planning, delivery and operation. The Government's recently announced 'Fixing the Trains' initiative will involve further transfer of more functions currently with RailCorp to Transport for NSW.

Finally, the recently announced Asset Standards Authority will also be established within Transport for NSW and have responsibility for overseeing technical standards, asset management strategies and asset records.

With regards to use of consultants for cost estimating, the Transport Projects Division of Transport for NSW has established a Cost Estimating Centre (CEC) to ensure best practice estimating methodologies and benchmarking systems are in place. The CEC also undertakes review of the estimates developed for Transport for NSW projects and close scrutiny of commercial bids of tenders. The CEC is continuing to build its own cost estimating database to reduce reliance on the benchmarking intellectual property and expertise of private consultants.

Transport for NSW will continue to supplement in-house resources where appropriate in order to provide independent advice; address fluctuating peaks and troughs of multiple project demands in their various phases of planning, design and construction; and address the limited availability of specialist skills in both the public and private sector.

INQUIRY RECOMMENDATION 8:

That Transport for NSW establish guidelines for effective risk allocation and procurement models, that support the allocation of risk where it is most effectively managed.

Response:

Recommendation Accepted.

Transport for NSW undertakes risk and procurement strategy workshops to ascertain risks associated with each project and which procurement methodology is best suited to manage the type of risks involved.

Certain risks are almost always retained by Transport for NSW, such as property acquisition and divestment, and planning approvals.

Where the majority of the design risks are taken by Transport for NSW, a construct only or similar procurement methodology can be adopted and a limited amount of risk transferred to the contractor. For high risk projects such as brown field projects or projects where time does not permit designs to be developed by Transport for NSW to an extent to minimise the risks to the contractor, an Alliance procurement methodology may be used. This way, the majority of risks are shared between the contractor and Transport for NSW.

Furthermore, all Transport for NSW operating agencies and Roads and Maritime Services have policies and procedures similar and consistent to these.

INQUIRY RECOMMENDATION 9:

That Transport for NSW review its tendering strategies to ensure that infrastructure projects are broken down into appropriate sized packages to increase competition between tenderers and lower barriers to provide opportunities for local businesses.

Response:

Recommendation Accepted.

Transport for NSW assesses each project in order to optimise the contract packaging for each project, and the form of contract for each package.

There are two main components of delivery strategies:

- **the packaging strategy** – how the project will be broken up into separate contract “packages” for delivery, and
- **the contracting strategy** – how each contract package will be structured, in terms of the form of contract and the risk allocation between government and the private sector.

The **packaging strategy** is determined by factors such as:

- the availability of design and technical resources
- the need for an early start on critical parts of the project
- the state of the contracting market
- the extent of interface risks between packages and the ability to manage those risks, and
- benefits in cost and time by grouping works by location and/or type of work.

The **contracting strategy** is determined by factors such as:

- the ability to clearly and confidently define the scope of work to be carried out under the contract
- certainty of access to the site
- extent of interfacing works
- availability of key RailCorp personnel
- the likely exposure of Transport for NSW claims for extensions of time and associated costs, resulting from the inability to control the above risks.

Large projects are likely to use a number of contract packages, with a number of different contract types.

Transport for NSW tendering processes also include a number of steps to maximise competition. For example, as a result of the concentrated ownership structure in the domestic construction market, in addition to the department's procurement policy limiting the number of related party tenderers, Transport for NSW promotes projects and tendering opportunities to non-aligned local and overseas contractors.

Transport for NSW has also taken a number of other steps to broaden the field of potential contractors, such as conducting periodic industry briefings on current and forthcoming projects and by publicly advertising for registrations of interest before establishing shortlists of tenderers for each major project.

Typically for major infrastructure contracts, including rail projects, assessment of a tenderer's capability will consider factors such as its proposed key project team members, the tenderer's demonstrated performance on safety, environmental and community relations management, its tender design, its understanding of the requirements of the proposed contract and its proposed methodology to carry out the works. Another key criteria is consideration of tenderers' financial viability and the financial integrity of any consortium arrangements that may be entered into. Overseas firms which have been successful in tendering have generally been those which have

formed a consortium with a local company which can demonstrate the ability to manage a project under local industrial, environmental and safety standards.