

NSW Legislative Council Public Accountability Committee inquiry into the impact of the CBD and South East Light Rail Project

Public hearing held on 20 August 2018

Response to Question on Notice 1

Mr DAVID SHOEBRIDGE: What is the transferred and retained risk adjustments that—just that little line—cost the people of New South Wales \$126.6 million?

Response from the Auditor-General of NSW

Exhibit 5 on page 16 of the performance audit report, outlines the increase in the capital cost estimate of various items that had changed between the approved business case for the CSELR project (November 2013) and the decision to recommend the preferred proponent (October 2014).

The increase of \$126.6 million related to the estimated value of project risks that were either transferred to the proponent or retained by the Government. There were 14 risk components included in this adjustment, such as:

- utilities
- contamination
- delays
- testing.

Response to Question on Notice 2

The Hon. MATTHEW MASON-COX: Are you aware of any best practice in other States or internationally in relation to how government delivers these sorts of projects, be it by way of mitigating these sorts of impacts?

Ms CRAWFORD: I am not specifically aware of that.

The Hon. MATTHEW MASON-COX: Would you like to take that on notice?

Ms CRAWFORD: I will take that on notice, and perhaps I will just reference back to the time of this audit and three audits that preceded it. My office did look at the arrangements around the management of major projects and did make some quite significant recommendations into the role of Infrastructure NSW and the assurance framework. I think that was very significant at the time, and going forward we can certainly, as you suggest, consider scoping audits to pick up that element.

Response from the Auditor-General of NSW

I am aware of myriad examples of studies examining best practice in how governments deliver infrastructure projects. Our starting point is whether the relevant agency/s followed the applicable NSW Government policies for developing business cases and undertaking robust procurement activities.

As I stated in my evidence to the inquiry on 20 August 2018:

My office did look at the arrangements around the management of major projects and did make some quite significant recommendations into the role of Infrastructure NSW and the assurance framework. I think that was very significant at the time, and going forward we can certainly, as you suggest, consider scoping audits to pick up that element.

When we assess major capital projects, such as the CSELR project, WestConnex, NorthConnex, Tibby Cotter Bridge, we use relevant NSW policies and guidelines for economic appraisal that require detailed analysis of costs and benefits, including wider economic impacts and benefits.

For transport specific projects, we also refer to Transport for NSW's *Principles and Guidelines for Economic Appraisal of Transport Investment and Initiatives*. This guide includes the following instructions:

Construction dis-benefits and secondary costs

It should be noted that the market prices of construction may not reflect the externalities that occur in construction, such as traffic disruptions and neighbourhood disturbances. These effects are sometimes significant and should not be overlooked. For example, where disruption to adjacent landowners or to traffic as a result of road construction is likely to be significant, an appropriate cost should be included in the analysis when it occurs.

It is also important to include secondary costs that may be imposed on the community. The secondary costs may include, but not limited to, the, increased noise or severance, traffic delays due to construction activity, impacts on access to services industry productivity etc. Attempts should be made to identify and where possible value these costs.

In relation to the CSELR project, our report comments on many deficiencies we found with the project's business case and economic appraisal. In particular, Exhibit 3 (page 11) presents a summary of the issues we reported about the CSELR project economic appraisal, including that the economic appraisal did not quantify the disruption impacts of construction.