

**Submission
No 4**

INQUIRY INTO SCRUTINY OF PUBLIC WORKS IN NEW SOUTH WALES

Organisation: NSW Government Premier and Cabinet

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**Premier
& Cabinet**

Ref: A2594816

The Hon Robert Brown MLC
Chair
Public Works Committee
Legislative Council
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Mr Brown

Thank you for the opportunity to make a submission to the Parliamentary Inquiry into the scrutiny of public works in New South Wales.

Please find enclosed the NSW Government submission. The submission outlines the approach taken by the NSW Government to scrutinise infrastructure planning, delivery and management. It also contains a number of attachments which provide further background information. I trust that the information provided will assist in the Committee's deliberations.

If you require clarification please do not hesitate to contact me.

Yours sincerely

Tim Reardon
Secretary

1 August 2018

NSW Government Submission to the inquiry into the scrutiny of public works in New South Wales

July 2018



**Premier
& Cabinet**

1. Introduction

The NSW Government welcomes the opportunity to provide a submission to the inquiry. This submission describes the NSW Government's:

- infrastructure program in 2018-19 and over the next four years;
- approach to strategic infrastructure planning;
- approach to specific project planning and delivery; and
- processes and systems in place to scrutise its infrastructure, planning, delivery, and ongoing management of assets.

It should be noted that this submission describes approaches, processes and systems at a whole of government level, and do not describe the various project planning and assurance functions each delivery agency has within their organisation.

In particular, the Government notes the following processes already in place:

- Infrastructure NSW assurance framework;
- Independent performance by the Auditor General; and
- Ad-hoc inquiries as established by existing Legislative Council committees.

The NSW Government infrastructure program totals \$87.2 billion over the next four years. The NSW Government is delivering the infrastructure required by the people of NSW, including long promised rail lines, roads, hospitals and schools.

2. NSW Government's infrastructure program

The NSW Government is delivering the biggest infrastructure program in Australian history, with total capital expenditure to be \$87.2 billion over the four years from 2018-19. As a result of strong financial management, the NSW Government is able to deliver a significant program of major projects across the state.

Key highlights from the 2018-19 NSW Budget include:

- **Delivering world-class health:** A record \$8 billion investment in health infrastructure over four years to continue to provide new facilities, upgrades and redevelopments. New investment includes: Liverpool Hospital, Griffith Base Hospital, Dubbo Cancer Centre, Bankstown-Lidcombe Hospital emergency department, birthing suites and theatres at St George Hospital and the next stage of a new health service at Rouse Hill.
- **More schools and learning opportunities:** A \$6.8 billion investment in capital spending for education and skills infrastructure over four years, including funding to support the planning or delivery of more than 170 new or upgraded schools. This includes: commencing work on more than 40 new and upgraded school projects and beginning planning on more than 20 new schools and upgrades, installation of reverse cycle air conditioning, planned maintenance and school playgrounds.
- **Supporting the best start in life:** \$179.5 million for TAFE NSW's capital expenditure program, including the development of TAFE Connected Learning Centres and Mobile Training Units.
- **Building a better-connected NSW:** Continuing record investments such as \$3 billion reservation for the Sydney Metro West, \$4.3 billion in 2018-19 towards the delivery of Sydney Metro, \$1.8 billion in 2018-19 to support the development and delivery of WestConnex – connecting Western Sydney to the airport and port precincts, while bypassing Sydney's CBD, \$1.2 billion in 2018-19 for the Pacific Highway upgrade program, and \$3 billion over four years for new major roads including the planning or delivery of the F6 Extension Stage 1, NorthConnex, Sydney Gateway and the Western Harbour Tunnel and Beaches Link.
- **Investing in our regional communities:** Including \$1.9 billion in regional capacity enhancements to the Pacific and Princes Highways, a replacement bridge at Batemans Bay and upgrades to the Central Coast and Hunter Roads, and \$685 million over four years for the Regional Road Freight Corridor program.
- **Providing sports, arts and culture for all:** Developing and supporting arts and culture, increasing attendance at cultural events and improving participation in sport and active recreation. Investments include \$645 million to build a new Powerhouse museum, \$729 million over four years for the construction of a new stadium at Moore Park to replace the Sydney Football Stadium, \$183.7 million in 2018-19 for the construction of the Western Sydney Stadium at Parramatta, and \$100 million over five years for the Regional Sport Infrastructure Fund.
- **Preserving our environment:** Improving liveability by allocating \$1.9 billion in 2018-19 towards valued and protected environment initiatives, including \$59.5 million to move the National Herbarium and construct the Western Sydney Centre of Innovation in Plant Sciences in Mount Annan.

3. NSW Government's long-term infrastructure vision

The NSW Government's infrastructure pipeline is underpinned by detailed strategic planning. NSW's population is expected to grow by more than one million over the next 10 years. The NSW Government is committed to ensuring smart, connected and resilient infrastructure to meet current and future needs.

In 2018, the NSW Government released a series of documents which updated the strategic vision for years to come.

NSW State Infrastructure Strategy 2018-2038

The NSW State Infrastructure Strategy 2018–2038 builds on the NSW Government's current long-term infrastructure plans and sets out the Government's infrastructure vision and priorities for the next 20 years. The Strategy sets out a series of actions that government will implement to improve infrastructure planning, delivery and management. The actions relate to the following themes:

- better integrating land use and infrastructure;
- delivering infrastructure to maximise value for money;
- optimising asset management;
- making our infrastructure more resilient;
- improving digital connectivity; and
- using innovative service delivery models.

The Government is committed to improving its strategic approach and as part of implementing the State Infrastructure Strategy, the Government has committed to develop a number of sectoral infrastructure strategies including a NSW Water Statement, Regional Water Strategies, a 20-year Capital Plan for Sydney Water, a Health Infrastructure Strategy, a TAFE NSW Infrastructure Strategy, a Justice Infrastructure Strategy, a Sport Infrastructure Strategy and a Tourism Infrastructure Strategy.

The State Infrastructure Strategy was underpinned by advice provided by Infrastructure NSW in their report, *State Infrastructure Strategy 2018-2038. Building Momentum*.

Supporting plans

The State Infrastructure Strategy is underpinned and aligned with a number of other key strategic plans which guide infrastructure investment and land-use planning for our cities and regions.

These include:

- *Greater Sydney Region Plan*: A vision for a metropolis of three cities that will rebalance growth and deliver benefits more equitably to residents across Greater Sydney.
- *Regional Development Framework*: A vision to grow regional business confidence, create jobs and encourage investment. The framework is also supported by *Our Regions*, a statement on how the NSW Government is delivering services to fit each region's needs.
- *Future Transport 2056*: A vision for how transport and land-use planning can support growth and the NSW economy. A number of further plans are being developed under the auspices of Future Transport 2056 such as a new Freight and Ports Plan.

NSW Government Action Plan – A ten point commitment to the construction sector

The Government's recently released ten point commitment to the construction sector is a further example of how the Government is constantly improving and responding to industry feedback and market conditions to ensure planning, procurement and delivery is efficient and effective.

Released in June 2018, the Action Plan covers all Government-procured construction and is designed to:

- encourage an increase in the “supply side” capacity of the sector to meet future demand;
- reduce industry’s costs and “down-time” by making Government procurement processes more efficient;
- develop the skills, capability and capacity of the construction industry’s workforce;
- encourage culture change and greater diversity in the construction sector and its suppliers; and
- foster partnership and collaboration between the public and private sectors to drive innovation.

The NSW Government Construction Leadership Group (CLG), led by Infrastructure NSW, has been established to drive reform across government in the development, procurement and delivery of infrastructure and building projects. The CLG has committed to a range of steps to improve the capability and capacity of the construction sector:

- procure and manage projects in a more collaborative way;
- adopt partnership-based approaches to risk allocation;
- standardise contracts and procurement methods;
- develop and promote a transparent pipeline of projects;
- reduce the cost of bidding;
- establish a consistent NSW Government policy on bid cost contributions;
- monitor and reward high performance;
- improve security and timeliness of contract payments;
- improve skills and training; and
- increase industry diversity

The CLG and its member agencies have developed an implementation plan to turn the 10 commitments into a program of specific measures to be rolled out progressively over this coming year. Engagement with industry stakeholders on this roll out will be coordinated through Infrastructure NSW.

4. Approving, assuring, planning and monitoring infrastructure

The NSW Government follows clearly documented processes for making decisions on infrastructure priorities. The first step in this process is to develop the strategic frameworks outlined above. Planning for individual projects then commences based on demonstrated service needs and alignment to strategic plans. Investment and procurement decisions are made following business case development. Business cases follow guidelines established by NSW Treasury. These guidelines are currently being reviewed, consistent with the State Infrastructure Strategy, to ensure infrastructure resilience is appropriately considered in project planning and development. Assurance processes are also in place, under the NSW Government Gateway Policy, to apply independent scrutiny at key stages of the creation of a new capital or ICT asset, or a significant new recurrent investment.

NSW Government Gateway Policy

Gateway is a project assurance process providing independent assurance using peer reviews in a project or program's lifecycle at key decision points called Gates. Gateway was introduced to:

- provide the NSW Government as investor, with a level of confidence that State programs and projects are effectively developed and delivered on time, on budget and in accordance with the Government's objectives; and
- assist delivery agencies by providing confidence that a project or program will be successful and deliver defined outcomes.

The NSW Gateway Policy (TPP 17-01), which was reviewed and reissued in February 2017, makes the Gateway process mandatory for all significant investments - both capital and recurrent. The Gateway policy applies to all general government agencies and government businesses; and to state owned corporations to the extent required under the Commercial Policy Framework.

Building on over ten years' experience with Gateway reviews in NSW, the policy adopts a risk based approach to determine when, and at what decision points, Gateway reviews should be undertaken. Moving to a risk based approach allows better targeting of Gateway resources and improves overall assurance to delivery agencies and Government

The Policy establishes Gateway Coordination Agencies (GCAs) and requires each GCA to design and administer a Gateway Coordination Framework which outlines specified minimum requirements and the practical application of the policy to each of the respective investment types, as well as risk based reporting and monitoring arrangements:

Investment	Gateway Coordination Agency	Framework
<i>Capital</i>	Infrastructure NSW	Infrastructure Investor Assurance Framework
<i>Recurrent</i>	NSW Treasury	Recurrent Investor Assurance Framework
<i>ICT</i>	Finances, Services & Innovation	ICT Assurance Framework

Each GCA framework sets out the thresholds at which the framework applies for the relevant investment type and the arrangements and processes to be followed for external assurance. Projects must then be risk assessed and classified into tiers to determine when, and at what decision points, Gateway Reviews must be undertaken.

ICT Project Assurance – Department of Finance, Services and Innovation (DFSI)

DFSI is responsible for ICT project assurance. ICT refers to the entire spectrum of technologies for information processing, including software, hardware, communications technologies and related services. In general, ICT does not include embedded technologies that do not generate data for enterprise use.

NSW ICT Assurance Framework (IAF)

The NSW Government's ICT Assurance Unit was established within DFSI in 2016 and the IAF was approved by the Government in the same year.

The IAF is an independent risk-based assurance process for the State's capital and recurrent ICT Projects. The IAF was developed by the Department of Finance, Services and Innovation in collaboration with the ICT & Digital Leadership Group, Treasury and Infrastructure NSW.

The IAF is designed to improve strategic alignment and assurance for ICT projects across the project lifecycle, and ensure NSW Government ICT projects are delivered on time and on budget. It sets out the Gateway Review process and other assurance requirements for ICT projects including mandatory due diligence reviews, health checks, deep dive reviews and project status reporting.

Major Recurrent Project Assurance – NSW Treasury

NSW Treasury is responsible for assuring major new recurrent investments. Recurrent investments can include a new policy or programs, the creation of a new public entity, a new government service, or significant non-routine maintenance.

Recurrent Investment Assurance Framework (RIAF)

The RIAF provides for independent advice and assurance to an agency's internal project delivery processes and is complemented, post implementation, by the NSW Government Program Evaluation process.

The RIAF was established in 2017 and requires recurrent projects with a recurrent investment of \$100 million over the first four years or \$50 million in any one year to be risk assessed. In addition ERC, the agency or Treasury may nominate recurrent projects to be risk assessed. Risk assessment will lead to the project being classified into tiers. The tier will determine the number and timing of Gateway Reviews that the project must undergo.

Capital Investment Assurance – Infrastructure NSW

Infrastructure NSW's Infrastructure Investor Assurance Framework (IIAF) is a Gateway Coordination Agency (GCA) framework for capital projects under the NSW Gateway Policy.

Capital investments include: infrastructure, equipment, property developments, operational technology that forms a component of a capital project, or other projects or programs as directed by Cabinet.

Infrastructure Investor Assurance Framework (IIAF)

The IIAF, which was established in 2016, is a tiered, risk-based approach to investor assurance for capital projects valued at an estimated total cost (ETC) of \$10 million and above. Projects are grouped into four tiers, with Tier 1 subject to the highest level of scrutiny at specified gates and, if required, additional health checks. The IIAF is overseen by the Infrastructure Investor Assurance Committee, which is chaired by the CEO of Infrastructure NSW. Further detail on the IIAF is provided below in the section on Infrastructure NSW's role in project scrutiny.

Asset Management Assurance – Infrastructure NSW

A key initiative under the 2018 State Infrastructure Strategy is for Infrastructure NSW and NSW Treasury to develop a new asset management framework, aligned with leading industry practice. This framework will include an Infrastructure NSW-led assurance model and updated supporting policy and guidance materials. Under the framework, NSW Government agencies will be guided to:

- make the most of their installed asset capacity;
- use clear and consistent definitions and methodologies to report to the Government each year on the size of any maintenance backlog in their sector and identify measures to address it, such that it becomes an input into the Budget process;

- broaden assessments of asset performance to take into consideration economic, social and environmental benefits;
- develop a 'system-of-systems' approach across interconnected infrastructure networks to drive an integrated vision of infrastructure provision and management, and create value, reduce costs, manage risks and improve the resilience of assets;
- adopt innovative, contemporary technologies to improve the operations and maintenance of infrastructure; and
- use quality data for decision-making to balance cost, risk and asset performance.

This reform is expected to become operational over 2019. This is part of the NSW Government taking a strategic view of the life cycle of its assets.

Auditor General

The Auditor General and the NSW Audit Office conducts financial and performance audits of NSW Government agencies, local councils and council entities, principally under the *Public Finance and Audit Act 1983*, the *Corporations Act 2001* and the *Local Government Act 1993*. The Audit Office also examines allegations of serious and substantial waste of public money under the *Public Interest Disclosures Act 1994*.

Since the 2011/12 financial year the Auditor General has conducted over 20 performance audits relating to public works. A list of the reviews into public works is provided as an attachment to this submission.

Parliamentary Committees

Parliamentary committees increase public awareness and debate on issues under consideration by Parliament. They benefit the community by reviewing proposed laws, facilitating more informed policy-making and ensuring greater government accountability.

Committees can call for written submissions, conduct hearings where witnesses give evidence and seek advice from experts. They provide a forum for the public to have their say on issues before the Parliament. Committees report their findings and recommendations for government action to the Parliament. Recent Legislative Council inquiries have included the procurement of government infrastructure projects and regional planning processes.

Infrastructure NSW

In July 2011, the NSW Government established Infrastructure NSW. Infrastructure NSW (INSW) was established to assist the NSW Government in identifying and prioritising the delivery of critical public infrastructure for NSW. It is an independent statutory agency, established under the *Infrastructure NSW Act 2011*.

INSW is essential in providing expert advice, project assurance, overseeing the Restart NSW Fund, and managing and delivering nominated priority projects through Projects NSW.

Expert Advice

Infrastructure NSW is an expert advisor to the NSW Government on the State's infrastructure needs and priorities, providing rigorous and independent advice to prioritise infrastructure investment and ensure infrastructure investment decisions are informed by robust assessment, independent assurance, and long-term planning.

As expert advisors, key functions include:

1. preparing the State Infrastructure Strategy every five years, which is a 20-year infrastructure investment plan for the NSW Government;

2. compiling the annual Five-Year Infrastructure Plan, which identifies major infrastructure projects to be undertaken as a priority;
3. providing specialist advice to the NSW Government on specific infrastructure initiatives by government agencies or the private sector; and
4. facilitating the State's engagement with the Federal Government to ensure coordination of infrastructure priorities.

Infrastructure Project Assurance

Infrastructure Investor Assurance Framework (IIAF)

The IIAF incorporates a risk-based approach to infrastructure investment assurance. The IIAF is designed to support both the delivery agencies' own decision-making and assurance processes and to support Budget processes throughout the project lifecycle.

There are three main components to the independent investor assurance process:

- project monitoring;
- regular project reporting; and
- expert and independent Gateway Reviews, Health Checks and Deep Dive Reviews.

• Regular Project Reporting

INSW prepares regular project reports which record and assess project implementation against time, cost, quality, risks and impediments to project development/delivery.

While all projects over \$10 million need to be registered with INSW, both INSW and agencies are involved in regular reporting to senior NSW Government stakeholders (including Cabinet) for projects of varying size and complexity.

• Gateway Reviews, Health Checks and Deep Dive Reviews

The IIAF provides for a series of short, focused, independent expert reviews, held at key decision points in a project's lifecycle. Gateway Reviews are managed by INSW and are appraisals of infrastructure projects to highlight risks and issues, which if not addressed may threaten successful delivery.

Gateway Reviews are supported by periodic Health Checks which assist in identifying issues which may emerge between decision points or Gateway Reviews. Health Checks are also compulsory for Tier 1 – High Profile / High Risk projects every six months during the delivery stage. Health Checks will be carried out, when required, by an independent team of experienced practitioners (industry experts including from the private sector), appointed by Infrastructure NSW.

Deep Dive Reviews are like Health Checks but focus on a specific issue or limited terms of reference rather than the full range of issues normally considered at a Health Check

Gateway Reviews are conducted by independent expert practitioners, appointed by Infrastructure NSW. Practitioners appointed to a Review Team are selected according to each project/program's needs, and to provide a mix of skills, knowledge and experience. The independence of the Review Team from the project together with the independence of Infrastructure NSW is the key to delivering objective, high quality reviews and review Reports.

During a Gateway Review, the Review Team interviews key stakeholders and reviews relevant documents. This enables the independent review team to identify project risks and provide recommendations on how these should be addressed, as well as identify opportunities to complement delivery of a project or program. Agencies then respond and address identified issues.

Gateway Review requirements for projects under the IIAF are proportionate to their Tier level:

- Tier 1 - High Profile / High Risk projects must pass through all Gates;

- Tier 2 projects must pass Gate 0 (Project Justification), Gate 1 (Strategic Assessment, and Gate 2 (Business Case);
- Tier 3 projects must pass Gate 0 (Project Justification); and
- Tier 4 projects (lowest risk) do not require Gateway Reviews.

As noted above, these reviews are additional to, and do not replace, NSW Government agencies' own internal processes to monitor project development and delivery.

Health Checks are independent reviews conducted as required to identify/resolve issues which arise at a point in time between Gateway Reviews, and are also compulsory for Tier 1 – High Profile / High Risk projects every six months during the delivery stage.

- **Monitoring**

Infrastructure NSW continuously monitors project status and findings of Gateway Reviews and Health Checks, including Close-out Plans. This includes:

- undertaking necessary steps to verify information provided by delivery agencies or prepared by Review Teams;
- seeking direct input from Expert Reviewers; and
- undertaking independent analysis and developing advice on key risks, recommended corrective actions and mitigation strategies.

Projects NSW

Projects NSW is a specialist unit within Infrastructure NSW that was established in late 2015 to manage the procurement and delivery of nominated priority infrastructure projects.

Projects NSW has the commercial acumen needed to engage with the private sector and negotiate value for money outcomes for the community and works in partnership with nominated NSW Government agencies.

The first projects that are being managed by Projects NSW are a new correctional centre at Grafton (being delivered as a public private partnership), the redevelopment of the Walsh Bay Arts Precinct, the new Western Sydney Stadium, the upgrade of the Anzac Memorial at Hyde Park (on behalf of the Anzac Memorial Trustees) and the completion of Darling Harbour's transformation.

Restart NSW

In 2011 the NSW Government established the Restart NSW fund to enable infrastructure projects to be funded and delivered throughout NSW. As at June 2018, funds deposited into Restart NSW, since 2011, have totalled \$32.9 billion.

Restart NSW is the vehicle for the delivery of the Rebuilding NSW Plan, which is the Government's 10-year plan to invest in new infrastructure funded by the electricity network transactions, Commonwealth Government Asset Recycling Initiative payments, and investment earnings. These proceeds are first deposited into the Restart NSW fund before being invested into infrastructure projects.

Infrastructure NSW is responsible for assessing and recommending Restart NSW projects which improve the productivity and competitiveness of NSW across all sectors. They include a mixture of NSW Government agency-led infrastructure projects, as well as local and community infrastructure projects led by local government, non-government organisations and other agencies, the majority of which are recommended following a submission-based competitive process.

Projects in regional NSW (locations outside Newcastle, Sydney and Wollongong) make up 30 per cent of all Restart NSW funding reservations, with allocations to be made over the lifetime of the fund.

5. Attachments

1. *The NSW State Infrastructure Strategy 2018-2038*
2. *Guidelines for Capital Business Cases*, TPP 08-5, NSW Treasury
3. *NSW Gateway Policy*, TPP 17-01, NSW Treasury
4. *ICT Assurance Framework*, Department of Finance Services and Innovation
5. *Recurrent Investor Assurance Framework*, TPP 17-02, NSW Treasury
6. *Infrastructure Investor Assurance Framework*, Infrastructure NSW
7. *NSW Government Action Plan – A ten point commitment to the construction sector NSW Government Action Plan*
8. Auditor General reviews into public works 2011-2018