



PERFORMANCE AUDIT

11 JUNE 2020

CBD South East Sydney Light Rail: follow-up performance audit

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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Image - CBD South East Sydney Light Rail vehicle outside of Circular Quay Light Rail station. © 2020 rights reserved, used with permission of Transport for NSW.



GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled '**CBD South East Sydney Light Rail: follow-up performance audit**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford
Auditor-General
11 June 2020

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CBD South East Sydney Light Rail: follow-up performance audit

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Section one

CBD South East Sydney
Light Rail: follow-up
performance audit

Executive summary

The CBD and South East Light Rail is a 12 km light rail network for Sydney. It extends from Circular Quay along George Street to Central Station, through Surry Hills to Moore Park, then to Kensington and Kingsford via Anzac Parade and Randwick via Alison Road and High Street.

Transport for NSW (TfNSW) is responsible for planning, procuring and delivering the Central Business District and South East Light Rail (CSELR) project. In December 2014, TfNSW entered into a public private partnership with ALTRAC Light Rail as the operating company (OpCo) responsible for delivering, operating and maintaining the CSELR. OpCo engaged Alstom and Acciona, who together form its Design and Construct Contractor (D&C).

On 14 December 2019, passenger services started on the line between Circular Quay and Randwick. Passenger services on the line between Circular Quay and Kingsford commenced on 3 April 2020.

In November 2016, the Auditor-General published a performance audit report on the CSELR project. The audit found that TfNSW would deliver the CSELR at a higher cost with lower benefits than in the approved business case, and recommended that TfNSW update and consolidate information about project costs and benefits and ensure the information is readily accessible to the public.

In November 2018, the Public Accounts Committee (PAC) examined TfNSW's actions taken in response to our 2016 performance audit report on the CSELR project. The PAC recommended that the Auditor-General consider undertaking a follow-up audit on the CSELR project. The purpose of this follow-up performance audit is to assess whether TfNSW has effectively updated and consolidated information about project costs and benefits for the CSELR project.

Conclusion

Transport for NSW has not consistently and accurately updated CSELR project costs, limiting the transparency of reporting to the public. In line with the NSW Government Benefits Realisation Management Framework, TfNSW intends to measure benefits after the project is completed and has not updated the expected project benefits since April 2015.

Between February 2015 and December 2019, Transport for NSW (TfNSW) regularly updated capital expenditure costs for the CSELR in internal monthly financial performance and risk reports. These reports did not include all the costs incurred by TfNSW to manage and commission the CSELR project.

Omitted costs of \$153.84 million for early enabling works, the small business assistance package and financing costs attributable to project delays will bring the current estimated total cost of the CSELR project to \$3.147 billion.

From February 2015, TfNSW did not regularly provide the financial performance and risk reports to key CSELR project governance bodies. TfNSW publishes information on project costs and benefits on the Sydney Light Rail website. However, the information on project costs has not always been accurate or current.

TfNSW is working with OpCo partners to deliver the expected journey time benefits. A key benefit defined in the business plan was that bus services would be reduced owing to transfer of demand to the light rail - entailing a saving. However, TfNSW reports that the full expected benefit of changes to bus services will not be realised due to bus patronage increasing above forecasted levels.

1. Key findings

The total cost of the CSELR project will exceed \$3.1 billion

In February 2015, the estimated total cost and capital funding approved for the project was \$2.104 billion.

In November 2019, the Minister for Transport announced that the revised construction costs for the project were \$2.9 billion, based on a briefing prepared by TfNSW staff. The briefing stated the updated estimated total cost of the project was \$2.993 billion (excluding financing costs).

Our audit found the total cost of the CSELR project will exceed \$3.1 billion as the briefing did not include:

- \$36.07 million for pre-contract award costs
- \$60.0 million for the small business assistance package
- \$57.77 million in additional financing costs (as at 30 June 2019) directly attributable to delays in the project.

The cost of the CSELR project will exceed the cost reported by TfNSW.

A lack of provision of financial performance and risk information limited the effectiveness of the CSELR's main governance bodies

The project delivery office prepared monthly Financial Performance and Risk (FPR) reports throughout the delivery of the light rail. The reports contained accurate capital expenditure information, but the information was not complete as it did not include other known project costs.

Between February 2015 and mid-2018, the CSELR Advisory Board was responsible for overseeing costs against budget. TfNSW regularly provided the Board with FPR reports until May 2017. After this time, TfNSW provided one report (August 2017) to the Advisory Board.

Subsequently, the CSELR Project Control Group (established mid 2018) had responsibility for monitoring spend against project funding allocation and revised forecasts. TfNSW did not regularly provide this group with FPR reports. TfNSW advises that some members of the Project Control Group had access to these reports, but was unable to provide evidence that the reports were regularly considered by the Project Control Group.

TfNSW publishes information on project costs and benefits on the Sydney Light Rail website. However, the information on project costs has not always been accurate

In our first report on the CSELR (2016), we recommended that TfNSW update and consolidate information about project costs and benefits and ensure that it is readily accessible to the public. In 2016, in response to our recommendation, TfNSW published current information on the 2015 project cost and benefits to the Sydney light rail website. Since then, TfNSW updated the information on the website on two occasions. However, TfNSW's updates have not always been accurate:

- On the June 2019 Light Rail Benefits factsheet (published on the Sydney Light Rail website), TfNSW described the project cost as \$2.1 billion and noted that it had entered into a revised agreement with ALTRAC Light Rail operating company (OpCo) which included an additional sum of \$576 million. This information did not align with the approved revised budget of \$2.734 billion used internally as it did not include \$57.77 million in additional financing costs.
- On the November 2019 Light Rail Benefits factsheet (published on the Sydney Light Rail website), TfNSW used an updated construction cost figure of \$2.9 billion. The source figure for this reported project cost was actually \$2.993 billion. This cost figure also did not include other associated project costs.

TfNSW is working with OpCo to deliver the expected journey time benefits

The 2015 CSELR project benefits realisation plan noted that 'Journey times and service capacity are central to realising customer benefits.' The June 2019 amended project deed includes required journey times of 37.5 to 38.5 minutes for 97 per cent of services from Circular Quay to Randwick and Kingsford branches respectively.

From 1 March to 7 March, 97 per cent of journeys from Circular Quay to Randwick were 51 minutes and 25 seconds or less, with an average journey time of 42 minutes and 5 seconds.

TfNSW has established a committee with OpCo to bring the average journey time down to meet the contracted journey time included in the project deed.

TfNSW will not be able to realise the full expected benefit of changes to bus services

In the 2013 detailed economic appraisal of the CSELR (developed as part of the business case for the CSELR), TfNSW estimated that the net present value of transport operating benefits at \$707 million, of which \$442 million (or \$47.0 million per annum) would be savings due to avoided bus service costs.

In November 2014, in response to changes to the project scope, TfNSW revised the transport operating benefits (which included savings due to avoided bus service costs) to \$686 million.

In June 2019, TfNSW estimated that it achieved savings of \$8.2 million per annum as a result of the October 2015 changes to Sydney CBD bus services. TfNSW expects to achieve an additional cost savings of \$8–10 million per annum following implementation of its 2020 integrated bus service plan for South Eastern Sydney. The final integrated bus service plan is yet to be finalised and endorsed.

These latest estimated savings resulting from changes to bus services are significantly lower than the figure TfNSW used to calculate the project benefits in 2013.

TfNSW advised us that there have been changes in customer demand for travel in South Eastern Sydney since the CSELR project business case was prepared in 2012, which it attributes to significant growth of residential development in the eastern suburbs of Sydney.

2. Recommendations

By June 2020, Transport for NSW should:

1. publicly report average weekly journey times
2. publicly report the final project cost

By December 2020, Transport for NSW should:

3. publicly report the updated expected project benefits

By April 2021, Transport for NSW should:

4. publicly report on benefits achieved during the first year of operations.

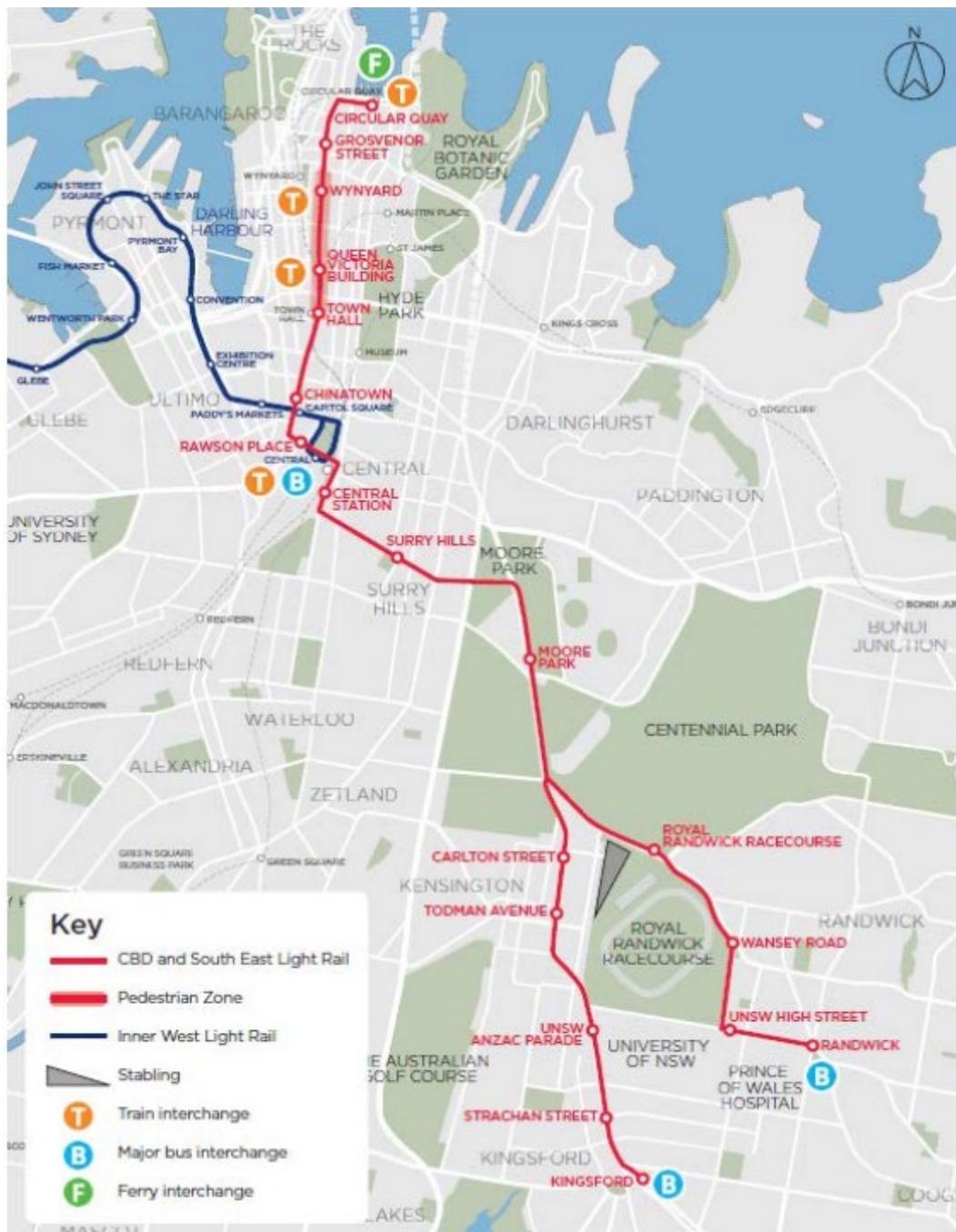
1. Introduction

1.1 CSELR project at a glance

The CSELR project involves constructing a new light rail service that runs from Circular Quay along George Street to Central Station, through Surry Hills to Moore Park, then to:

- Kingsford via Anzac Parade
- Randwick via Alison Road and High Street.

Exhibit 1: Shows the route for the light rail



Source: Transport for NSW 2015.

1.2 2016 Performance Audit on the CBD and South East Light Rail project

In 2016, the Auditor-General published a performance audit report on the CSELR project. The audit assessed how well Transport for NSW (TfNSW) ensured that planning and procurement for the CSELR project achieved value for money within the parameters set by the NSW Government. It covered the period from the development of the Sydney Light Rail Strategic Plan beginning in August 2011 to the major construction contract completion in February 2015. The audit found that TfNSW would deliver the CSELR at a higher cost with lower benefits than in the approved business case and recommended that TfNSW update and consolidate information about project costs and benefits and ensure that this information is readily accessible to the public.

Specifically, the Auditor-General made the following recommendations:

1. TfNSW should, by December 2016:
 - a) finalise outstanding design and scope issues
 - b) ask the project Advisory Board to confirm that controls over the budget and use of contingency funds are consistent with NSW Government decisions and NSW Treasury guidelines
 - c) update and consolidate information about project costs and benefits and ensure that it is readily accessible to the public
 - d) ensure the Sydney Light Rail Project Director provides six-monthly briefings to the TfNSW Audit and Risk Committee.
2. For all capital projects, Transport for NSW should comply with the Infrastructure Investor Assurance Framework.

1.3 Parliamentary Reviews

In November 2018, the Public Accounts Committee (PAC) examined TfNSW's actions taken in response to our 2016 performance audit report on the CSELR project. The PAC recommended that the Auditor-General consider undertaking a follow-up audit on the CSELR project. The PAC noted 'the paucity of detailed information provided in additional responses to questions taken on notice by TfNSW witnesses about a range of financial and project management information raises significant concerns about the current state of the project'. The PAC concluded that there is merit in increasing the transparency and accountability of information.

Between May 2018 and the January 2019, the Legislative Council Public Accountability Committee conducted an inquiry into the 'Impact of the CBD and South East Light Rail Project'. Its January 2019 report similarly 'questions whether the costs of the project are being managed effectively.

1.4 Timeline and progress

In October 2014, TfNSW selected Connecting Sydney (which subsequently changed its name to ALTRAC Light rail) as the preferred proponent for the light rail public private partnership (PPP). ALTRAC Light Rail is the operating company (OpCo) responsible for delivering, operating and maintaining the CSELR. OpCo engaged Alstom Transport Australia Pty Limited and Acciona Infrastructure Australia Pty Ltd, who together form its Design and Construct Contractor (D&C).

The project's business case summary was published in November 2013, estimating a cost of \$1.6 billion. However, the budget had increased by \$549 million to \$2.1 billion when Transport signed the main works PPP contract in December 2014.

Major construction of the CSELR started in October 2015. The project experienced significant delays, and by March 2018, financial performance reporting prepared by TfNSW showed that expenditure on construction of the light rail was \$213 million behind schedule, and that the project would likely cost \$135 million more than budget.

In April 2018, D&C filed a lawsuit in the NSW Supreme Court, alleging that the NSW Government had engaged in misleading or deceptive conduct when providing information on how to manage electricity cables on George Street.

Between April 2018 and June 2019, TfNSW engaged in a facilitation process with OpCo and D&C. The Minister for Transport established a Steer Co to coordinate the response to the litigation and negotiate new commercial positions on behalf of government.

On 3 June 2019, the Minister for Transport announced that the NSW Government had reached a settlement agreement with OpCo. The settlement agreement resolved existing disputes on modifications to the scope of the project and introduced new construction and delivery milestone incentives for the OpCo. As part of the settlement, D&C also agreed to permanently withdraw its claim of misleading or deceptive conduct. The cost to government for the settlement is \$576 million, which includes incentive payments (\$44.0 million) and a two year extension to OpCo's licence to operate the light rail (worth \$221 million).

From 3 June 2019, OpCo and D&C increased their efforts to construct and deliver the light rail, in line with the new timetable agreed as part of the settlement. First passenger service for Circular Quay to Randwick started on 14 December 2019. Passenger services on the line between Circular Quay and Kingsford commenced on 3 April 2020.

1.5 Changes to governance arrangements

After the NSW Government approved the final business case, TfNSW consulted the Department of Premier and Cabinet, NSW Treasury and Infrastructure NSW on an appropriate governance model. In November 2013, the Minister for Transport appointed the Sydney Light Rail (SLR) Advisory Board to provide project oversight and independent assurance; advice to the Minister and Premier; advice to the Secretary and the Project Director on critical decisions and endorsement of recommendations to government.

In April 2015, TfNSW established a stand-alone project delivery office to deliver the CSELR project and oversee the operation of the existing Inner West Light Rail service. The delivery office originally reported to the Secretary for TfNSW but TfNSW advises that in later years the delivery office reported to the Deputy Secretary Infrastructure and Place. TfNSW advises that this structure has subsequently changed, and the delivery office currently reports to the Head of the Sydney Project Delivery office. TfNSW also advises that the project delivery office also provides information to the TfNSW Program Management Office.

We also note that in July 2015, Infrastructure NSW strengthened its assurance role of the CSELR project to:

- conduct regular health checks
- administer gateway reviews at key stages in line with the Infrastructure Investor Assurance Framework
- report monthly to the NSW Government.

In July 2018, the Minister for Transport approved further changes to the governance arrangements by establishing the SLR Steering Committee (referred to as the Steer Co) and Project Control Group. The role of the CSELR Advisory Board changed to an advisory only role.

The objective of the Steer Co is to:

- develop and govern strategy and execution in relation to the Sydney Light Rail project's financial, commercial and project performance issues
- recommend solutions and negotiate commercial positions
- provide advice to the Secretary of Transport on critical/major decisions and endorsement of recommendations to government
- co-ordinate litigation, progress, performance, disputes, communications (media) and major risks in relation to the Sydney Light Rail project.

2. Project costs

2.1 Did Transport for NSW regularly and accurately update all project costs during construction?

The total cost of the CSELR project will exceed \$3.1 billion

In February 2015, the estimated total cost and capital funding approved for the CSELR project was \$2.104 billion, excluding financing costs.

In June 2019, following the execution of the deed of settlement and release on 31 May 2019, the NSW Government approved an increase of \$576 million in capital funding for the project, increasing the total budgeted cost of the project to \$2.680 billion.

In November 2019, based on a briefing prepared by TfNSW, the Minister for Transport announced that the revised construction costs for the project were \$2.9 billion. The briefing stated the updated estimated total cost of the project was \$2.993 billion excluding financing costs, and noted that TfNSW was exploring funding options for the increase of \$313 million.

The \$2.993 billion total project cost contained in the briefing included:

- \$2.104 billion (approved budget at February 2015)
- \$576 million deed of settlement (announced May 2019)
- \$87.0 million remaining funds from an advance payment made by TfNSW to OpCo
- \$73.0 million for additional direct project management and delivery costs
- \$72.0 million for additional costs relating to the Sydney co-ordination office, including safety measures and campaigns, and corporate overheads
- \$81.0 million project contingency provision
- an assumption that all milestone and incentive payments included as part of the facilitation settlement are payable.

At March 2020, we identified \$153.84 million in additional costs incurred by TfNSW that should be attributed to managing and commissioning the CSELR project, bringing its estimated total cost to \$3.147 billion. Namely:

- \$36.07 million for pre-contract award costs.
- \$60.0 million for the small business assistance package - TfNSW advises that it did not include this in the estimated total cost as TfNSW are funding the package as an operating, not a capital, expense. However, the package is a related cost, and as such we have included it in our estimate. As at February 2020, TfNSW has spent \$52.0 million of the \$60.0 million allocated.
- \$57.77 million in financing costs (at 30 June 2019) - TfNSW advises, in line with TPP15-02 Budgeting for Availability based on Public Private Partnerships, it does not include financing costs in the published budget figures. However, TfNSW has incurred additional financing costs for the project as a result of entering into a \$500 million Supported Bank Liquidity Facility in July 2018. These additional financing costs are directly attributable to delays in the project, as such, we have included them as part of the estimated total cost.

We also note that the figure does not include any funding for the Light Rail Nuisance Class Action. TfNSW advises that its insurer is currently underwriting this potential expense, and is unlikely to result in additional cost to government for the project.

Transport for NSW regularly updated project costs during construction

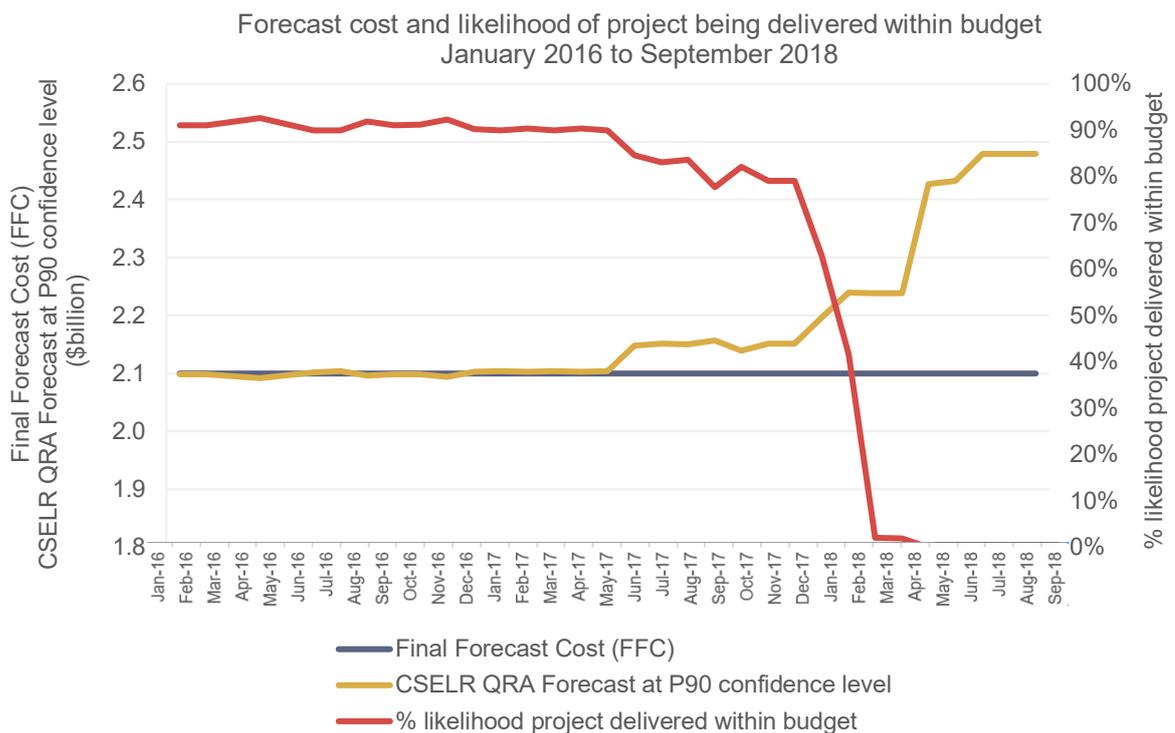
The project delivery office prepared monthly Financial Performance and Risk (FPR) reports throughout the delivery of the light rail project. The reports contain capital expenditure information and are accurate, and were prepared for management and governance use. However, the reports are not complete as they do not include the additional costs to the CSELR project that we identified above.

In June 2017, TfNSW identified that projected costs were likely to exceed budget but did not revise the final forecast cost until June 2019

TfNSW included risk information associated with costs in the monthly FPR reports. Between June 2017 and September 2018, each of the FPR reports we examined showed a decreasing likelihood that TfNSW could deliver the CSELR project within its approved \$2.1 billion budget. However, TfNSW did not revise the Final Forecast Cost to \$2.734 billion until June 2019, when a settlement outcome was achieved as part of the facilitation process. TfNSW has advised that the uncertainty of the facilitation process between mid-2018 and May 2019 made it difficult to revise the Final Forecast Cost.

Exhibit 2 shows reporting on the Final Forecast Cost and the likelihood of the project being delivered on budget. In May 2018, TfNSW's risk analysis identified a zero per cent chance of the project being delivered within budget. By July 2018, the risk model produced a final forecast cost \$379 million greater than the \$2.104 billion forecast cost.

Exhibit 2: Internal Financial Performance and Risk Reporting on final forecast cost and likelihood of project being delivered within budget



Source: Transport for NSW.

2.2 Were the project costs against budget regularly reported to the relevant governance bodies and INSW as required?

The CSELR's main governance bodies met as required but did not regularly receive financial performance information

From February 2015, the main governance bodies for the CSELR project were the Sydney Light Rail Advisory Board (Advisory Board), the Sydney Light Rail Project Control Group (Project Control Group) and the Sydney Light Rail Steer Co (Steer Co). The responsibilities of the governance bodies are shown in Exhibit 3.

In May 2016, the Advisory Board asked TfNSW to provide it with quarterly Final Forecast Cost estimates. TfNSW did not regularly report project costs against budget to the Advisory Board. In July 2017, the Advisory Board identified that the level of confidence in delivering the project on budget was decreasing and recommended that TfNSW monitor this closely. Between June 2017 and May 2018, TfNSW provided the August 2017 FPR report in October 2017. No other FPR reports were provided during this period. TfNSW did not regularly provide the Project Control Group with FPR reports. TfNSW advised that some members of the Project Control Group had access to the FPR reports but was unable to provide evidence that the Project Control Group regularly considered these reports.

Exhibit 3: Financial Performance Information received by CSELR Governance bodies

Governance bodies and responsibilities	Dates of operation	Did TfNSW provide Financial Performance and Risk reports to the governance bodies?
Sydney Light Rail Advisory Board		
Responsible for overseeing costs against budget.	February 2015 - Mid 2018	One FPR report provided between June 2017 and May 2018.
Sydney Light Rail Project Control Group		
Responsible for tracking delivery as planned to meet the agreed objectives, business requirements and documented benefits. This included monitoring of spend against project funding allocation and revised forecasts.	Mid 2018 - present	Not regularly
Sydney Light Rail Steer Co		
Responsible for developing and governing strategy and execution in relation to the CSELR project's financial, commercial and project performance issues.	Mid 2018 - present	Not required

Source: Audit Office analysis.

TfNSW's Audit and Risk Committee received regular reports from the Project Director

Our 2016 performance audit on the CSELR project recommended that TfNSW ensure that the CSELR Project Director provide six-monthly briefings to TfNSW's Audit and Risk Committee. We found that, with one exception, the project director provided these briefings and that TfNSW has met the intent of our recommendation.

TfNSW provided regular reports to Infrastructure NSW, in line with the requirements of the Infrastructure Investor Assurance Framework

Since 2015, the CSELR has been subject to Infrastructure NSW's 'Infrastructure Investor Assurance Framework' (IIAF). TfNSW has participated in INSW reviews in line with the IIAF. These reviews include:

- monthly high profile/high risk reports - which provide a snapshot of the project during delivery
- independent gateway reviews
- health checks
- deep dive reviews.

2.3 Have project benefits been updated to reflect changes in project scope, issues and additional benefits identified during construction and testing?

TfNSW reports that it intends to measure benefits after full completion of construction

TfNSW intends to undertake benefits realisation activities as part of the IIAF. Under the IIAF, at the final gateway review, NSW Government agencies assess benefits realisation when a project is fully delivered.

TfNSW is working with OpCo to deliver the expected journey time benefits

The 2015 BRP noted that 'Journey times and service capacity are central to realising customer benefits.' The 2015 BRP uses an average journey time of 35 -38 minutes (for travel from CBD to Randwick and Kingsford branches respectively). The June 2019 amended project deed includes required journey times of 37.5 to 38.5 minutes for 97 per cent of services from Circular Quay to Randwick and Kingsford branches respectively.

From March 1 to March 7, 97 per cent of journeys from Circular Quay to Randwick were 51 minutes and 25 seconds or less, with an average journey time of 42 minutes and 5 seconds. 60 per cent of journeys made during this week were 42 minutes and 37 seconds or less. The scheduled journey time during this period was 40 minutes. TfNSW has established a committee with OpCo which aims to meet the contracted journey time included in the project deed.¹ Exhibit 4 shows CSELR journey time data for three separate weeks in February, March and April 2020.

Exhibit 4: CSELR Circular Quay to Randwick journey time data - February to April 2020

	February 5 to February 11	March 1 to March 7	April 2 to April 8
Contracted journey time (for 97% of services)	0:37:30 minutes	0:37:30 minutes	0:37:30 minutes
Timetabled journey time	0:40:00 minutes	0:40:00 minutes	0:40:00 minutes
Actual journey time (97% of services)	0:51:26 minutes	0:51:25 minutes	0:47:53 minutes
Average journey time	0:43:35 minutes	0:42:05 minutes	0:40:24 minutes
Actual journey time (60% of services)	0:43:46 minutes	0:42:37 minutes	0:40:10 minutes

Source: Transport for NSW.

¹ COVID-19 has had an impact on TfNSW and OpCo's ability to optimise journey times within normal traffic and operating conditions. As a result, this audit was unable to comment on whether the light rail is likely to achieve its intended journey times.

Under the terms of the Project Deed, TfNSW can, in some circumstances, reduce the monthly service payment it pays to OpCo if the journey time for a service exceeds the maximum service time by four minutes. The Project Deed also includes an interim 'bedding in' period, to allow OpCo time to optimise journey time, where this penalty does not apply.

TfNSW engaged consultants to model likely journey times to inform adjustment of traffic light controls and to consider impacts on the broader road network. This work has been ongoing since 2016, and updates on the achievability of journey times have been a regular feature of Advisory Board and Project Control Group meetings. The audit team has sighted evidence regarding TfNSW's work in developing traffic signalling control plans for intersections as well as repeated modelling to ascertain the impact of signalling changes on light rail journey time and the surrounding road network. TfNSW advised that this work is iterative.

TfNSW will not be able to realise the full expected benefit of changes to bus services

In the 2013 detailed economic appraisal of the CSELR, TfNSW estimated that the net present value of transport operating benefits at \$707 million, of which \$442 million (or \$47.0 million per annum) would be savings due to avoided bus costs.

In November 2014, in response to changes to the project scope, TfNSW revised the transport operating benefits (which included savings due to avoided bus costs) to \$686 million.

In June 2019, TfNSW estimated that it achieved savings of \$8.2 million per annum as a result of the October 2015 changes to Sydney CBD bus services. TfNSW expects to achieve an additional cost savings of \$8–10 million per annum following implementation of its 2020 integrated bus service plan for South Eastern Sydney. The final integrated bus service plan is yet to be finalised and endorsed. The savings resulting from changes to bus services are significantly lower than the figure TfNSW used to calculate the project benefits in 2013.

TfNSW notes that there have been changes in customer demand for travel in South Eastern Sydney since the CSELR project business case was prepared in 2012, which it attributes to significant growth of residential development in the eastern suburbs of Sydney.

2.4 Have changes to project finance arrangements been assessed and approved by appropriate governance and oversight bodies?

TfNSW made changes to project finance arrangements which were assessed by the appropriate governance and oversight bodies

Since 2016, TfNSW made several changes to project finance arrangements. These changes are shown in Exhibit 5. Approved changes to the project budget are shown in Exhibit 6.

Exhibit 5: Changes to project finance arrangements

Date	Project finance arrangement	Change to project budget?	Detail
2 July 2018	\$500 million Supported Bank Liquidity Facility (SBLF)	No	On 2 July 2018, TfNSW entered into project finance arrangements, a \$500 million Supported Bank Liquidity Facility. TfNSW made the facility available to OpCo and D&C to progress the Project, pending resolution of certain disputed modifications and claims between OpCo, D&C and TfNSW.
June 2019	\$576 million change to project budget post settlement	Yes	On 3 June 2019, TfNSW announced that it had agreed a restructure and settlement package with OpCo, resulting in an additional payment of up to \$576 million. The settlement also resolved issues with outstanding modifications and claims, and provided additional incentive payments to encourage the consortium to hasten delivery of the light rail. It also resolved a claim of misleading and deceptive conduct by the consortium delivering the project and its D&C. TfNSW has included this amount in the current cost estimate for the project.
November 2019	\$313 million budget increase	Yes	In November 2019, detailed reforecast of the remaining construction period to end March 2020 highlighted estimated additional costs of \$313 million bringing the cost of the project to \$2.993 billion.

Source: Audit Office analysis.

We found that all the appropriate governance and oversight bodies assessed and reviewed these changes to project finance arrangements.

2.5 Is up to date and accurate information on project costs and benefits publicly available?

TfNSW publishes information on project costs and benefits on the Sydney Light Rail website. However, the information on project costs has not always been accurate

Our 2016 performance audit on the CSELR project recommended that TfNSW update and consolidate information about project costs and benefits and ensure that it is readily accessible to the public. In response to our recommendation, TfNSW published current information on the 2015 project cost and benefits to the Sydney light rail website. Since then, TfNSW updated the information on the website with project costs twice. On 3 June 2019, the website was updated to reflect the outcome of the settlement and stated that the final cost and an updated benefit-cost analysis will be determined following project completion and a final completion review by Infrastructure NSW. TfNSW updated the information again on 27 November 2019 to reflect the updated \$2.9 billion project cost.

Public information on project costs has not always been accurate. In June 2019, TfNSW approved a revised project budget of \$2.734 billion. Following this, TfNSW updated information on the website stating that the project cost was \$2.1 billion and that there was an addition sum of up to \$576 million post settlement, this would bring the total project budget to \$2.676 billion. This means that the project costs published on the website were not accurate as it did not include \$57.77 million in additional financing costs. TfNSW advises that, in line with TPP15-02 Budgeting for Availability based on Public Private Partnerships, it does not include financing costs in the published budget figures. However, TfNSW has incurred additional financing costs for the project as a result of entering into a \$500 million Supported Bank Liquidity Facility in July 2018. These additional financing costs are directly attributable to delays in the project, as such, we have included them as part of the estimated total cost. Exhibit 6 shows project cost revisions and public reporting on project costs.

In November 2019, the Minister for Transport announced the revised project cost of \$2.9 billion. A briefing note prepared by Transport for NSW that supports this announcement details that the total cost of the project is \$2.993 billion. The \$2.9 billion is incorrectly rounded down from the \$2.993 billion source figure in the briefing note.

Additionally, the \$2.9 billion figure does not include other known costs, such as the early works and small business assistance package. TfNSW advises that it did not include these costs in its public statements about the cost of delivering the light rail as they are not capital expenditure relating to the main project. We consider these costs to be directly related to the cost of delivering the light rail regardless of how TfNSW funds them.

Exhibit 6: CESLR project cost revisions and public reporting on project costs

Date	Approved revised project cost	Publicly reported project cost	Was a revised cost publicly reported?	Was the publicly reported cost accurate?	Audit comment
December 2014	\$2.1 billion	\$2.1 billion			Prior to 27 November 2019, the website reported the December 2014 revised cost amount of \$2.1 billion.
June 2019	\$2.734 billion	\$2.1 billion + additional \$576 million			On 3 June 2019, TfNSW updated the website with the outcome of the settlement. The project cost on the website did not align with the approved revised project cost of \$2.734 billion.
November 2019	\$2.993 billion	\$2.9 billion			On 27 November 2019, TfNSW published a fact sheet on the CESLR project benefits on the website which included a revised construction cost of \$2.9 billion. This update reflected the public announcement made by Minister for Transport on 22 November 2019. The \$2.9 billion figure is incorrectly rounded down from \$2.993 billion and does not include other known costs.

Key:  Yes  No

Source: Audit Office analysis.

Section two

Appendices

Appendix one – Response from agency



Your ref: D2004366/PA2311
Our ref: 6458156v2

Ms Margaret Crawford
Auditor-General for New South Wales
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2000

Dear Ms Crawford

I refer to your letter of 29 April 2020 and thank you for the opportunity to respond to the final report for the follow-up performance audit on the CBD and South East Light Rail.

Transport for NSW notes the findings and recommendations in the report.

Further, a summary of Transport for NSW's response to the audit and its recommendations, as well as details of actions taken to date are enclosed.

If you have any further questions, Kamal Cheema, Executive Director Strategy & Implementation, Infrastructure and Place, would be pleased to take your call on (02) 8202 3415. I hope this has been of assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Staples', is written over a light blue horizontal line.

Rodd Staples
Secretary

9/06/2020

Transport for NSW

18 Lee Street, Chippendale NSW 2008 | PO Box K659, Haymarket NSW 1240
T 02 8202 2200 | F 02 8202 2209 | W transport.nsw.gov.au | ABN 18 804 239 602

Transport for NSW Response

Recommendations

By June 2020, Transport for NSW should:

2. publicly report the final project cost

As previously discussed, publicly reporting the final project cost would be possible by December 2020, as the project needs to reach Completion and finalise outstanding commercial issues.

By April 2021, Transport for NSW should:

4. publicly report on benefits achieved during the first year of operations.

As previously discussed, performance could be reported by this date, however it is unlikely to reflect performance under mature operations and without an annual comparison (e.g. October 2020 vs October 2021) is subject to seasonality impacts. Performance during this time (particularly the first six months, and given the patronage impacts of COVID-19) will not be a reflection of the long term benefits the project will deliver. If first year benefits are to be reported publicly, adequate context to support performance should be included. Tracking of benefits prior to October 2020 will be inaccurate, given the patronage impacts of COVID-19 and as operational maturity will not have been reached and some contractual mechanisms will not yet be in full force to encourage optimal operations.

Construction costs

Transport for NSW has previously stated that revised construction costs for the CBD and South East Light Rail project equate to \$2.993 billion, excluding financing costs. Additionally, the stated funding includes Contingency, which may or may not be expended.

Were the project costs against budget regularly reported to the relevant governance bodies

As highlighted to the NSW Audit Office during its investigations, the Advisory Board asked Transport for NSW to provide it with quarterly Final Forecast Cost estimates. The NSW Audit Office has not accounted for the Forecast Final Cost (FFC) Quarterly Report - June 2017 provided by Transport for NSW during the July 2017 Advisory Board meeting and the Forecast Final Cost (FFC) Quarterly Report - September 2017 provided during the November 2017 Advisory Board meeting. These reports contained pertinent FFC, contingency and other financial information requested by the Advisory Board.

Expected benefit of changes to bus services

Transport for NSW reiterates that the significant patronage growth in South Eastern Sydney experienced between 2012, when the original business case was drafted, and 2020 means that the Integrated Bus Service Plan has had to be reviewed and adjusted. This is in line with Transport for NSW's usual approach, where we continually review and adjust our public transport services in order to meet demand.

Performance Audit Recommendations: CSELR - follow up

Ref #	Recommendations	Action plan	Timeframe to complete actions	Accountable Deputy Secretary / Executive Director
1	Publicly report average weekly journey times	Average weekly end-to-end journey times for the L2 and L3 Lines will be reported weekly on the CBD and South East Light Rail project page on transport.nsw.gov.au , commencing in June 2020. This will be for a 6 month period, as services are bedded in.	June 2020	Deputy Secretary and Executive Director, Infrastructure and Place
2	Publicly report the final project cost	<p>It is not possible to complete this recommendation in this timeframe, as previously discussed. Transport for NSW suggests this would be possible by December 2020. See below:</p> <p>Publicly reporting the final project cost would be possible by December 2020, as the project needs to reach Completion and finalise outstanding commercial issues.</p>	June 2020-December 2020	Deputy Secretary and Executive Director, Infrastructure and Place
3	Publicly report the updated expected project benefits	<p>Updated expected project benefits will be reported on the CBD and South East Light Rail project page on transport.nsw.gov.au in December 2020.</p> <p>It is not possible to complete this recommendation in this timeframe, as previously discussed. Transport for NSW suggests this would be possible by October 2021. See below:</p>	December 2020	Deputy Secretary and Executive Director, Infrastructure and Place
4	Publicly report on benefits achieved during the first year of operations	<p>Performance could be reported by this date, however it is unlikely to reflect performance under mature operations and without an annual comparison (e.g. October 2020 vs October 2021) is subject to seasonality impacts. Performance during this time (particularly the first six months, and given the patronage impacts of COVID-19) will not be a reflection of the long term benefits the project will deliver. If first year benefits are to be reported publicly, adequate context to support performance should be included. Tracking of benefits prior to October 2020 will be inaccurate, given the patronage impacts of COVID-19 and as operational maturity will not have been reached and some contractual mechanisms will not yet be in full force to encourage optimal operations.</p>	April 2021 October 2021	Deputy Secretary and Executive Director, Infrastructure and Place

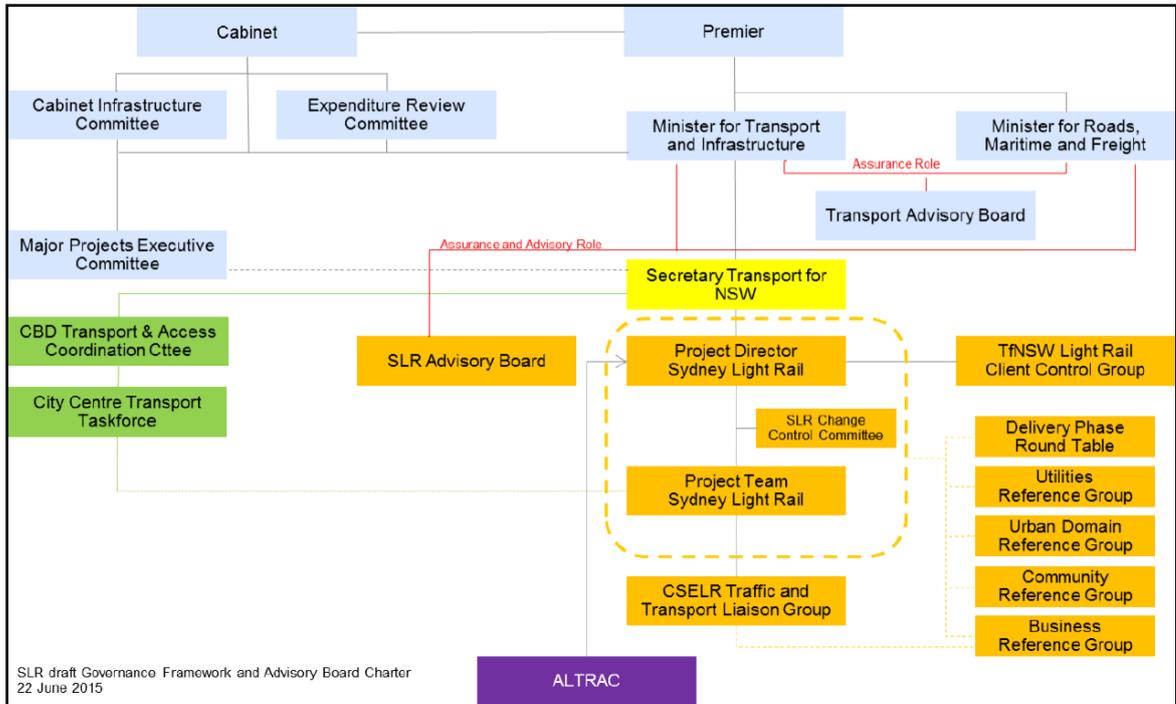
Appendix two – Governance and reporting arrangements for the CSELR

Date	Governance Body	Event	Key obligations in relation to audit scope
January 2014	SLR Advisory Board	The SLR Advisory Board was appointed and met in January 2014. The Advisory Board reports directly to the Minister for Transport. Three members are external to the NSW Government including the chair. Board members include representatives from Infrastructure NSW, Roads and Maritime Services, Treasury and three external members appointed by the Minister for Transport.	One of its key objectives to provide oversight and independent assurance and advice to the Minister for Transport, the Minister for Roads and Ports and the Premier As per the SLR Advisory Board Charter dated 24 August 2015, 4. Role and Responsibilities, 'Endorse project and business objectives', 'Review and endorse material project variations', 'Provide strategic oversight of project scope, budget and program management'. 8. Administrative Arrangements 8.1 Meetings 'The Advisory Board will meet at least on a bi-monthly basis or more frequently if required'.
April 2015		TfNSW established a stand alone major project delivery office to deliver the CSELR and oversee the operation of the existing IWLR with direct reporting to the Secretary of TfNSW. TfNSW advises that this structure has subsequently changed, the delivery office currently reports to the Head of the Sydney Project Delivery office.	
July 2016	Infrastructure NSW	NSW Treasury Circular (TC16-09), requirement for agencies to adhere to Independent Investment Assurance Framework (IIAF).	Against the IIAF the project is 'Tier 1-HPHR', Gateway Reviews are mandatory at all gates, Health Checks and Deep Dive Reviews as required by INSW.
June 2018		The CSELR project team provides information to the Program Management Office.	

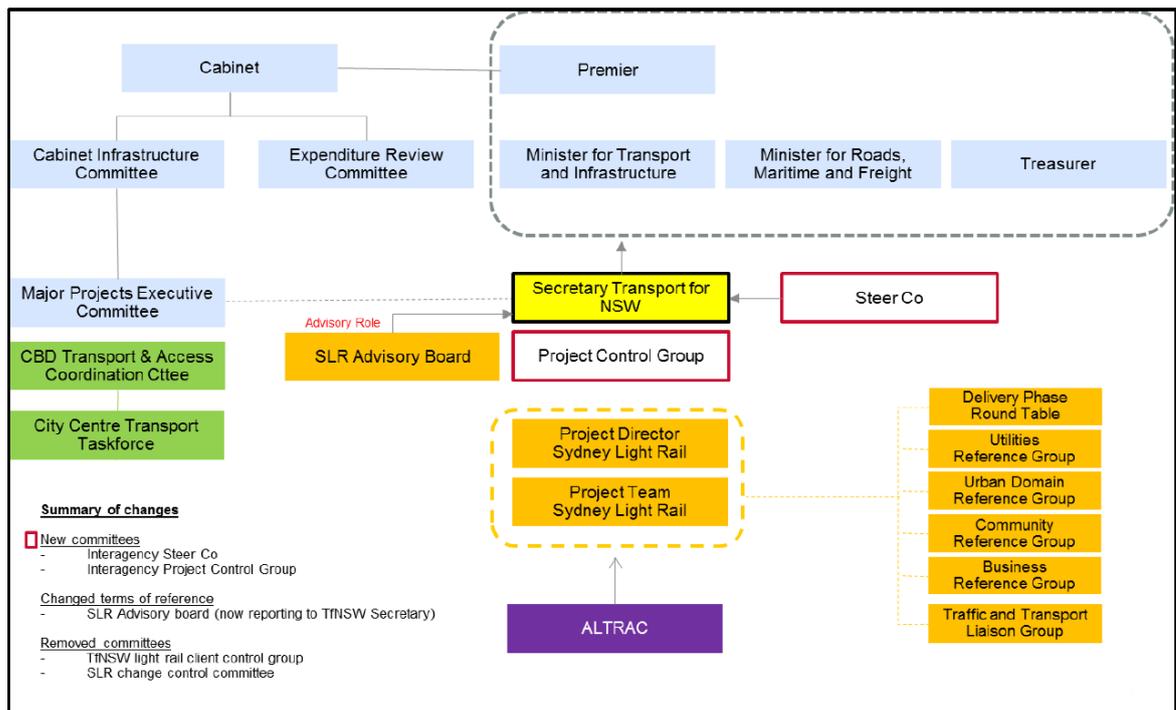
Date	Governance Body	Event	Key obligations in relation to audit scope
November 2016	TfNSW Audit & Risk Committee	AONSW 2016 Light Rail Report included a recommendation 'ensure the Sydney Light Rail Project Director provides six-monthly briefings to the TfNSW Audit & Risk Committee'.	
Mid 2018	Steer Co, Project Controls Group SLR Advisory Board (Advisory only)	Changes to governance arrangements for the CSELR (SLR Advisory Board role changed), commencement of Steer Co and Project Controls Group.	SLR Advisory Board role changed to Advisory only, PCG doesn't have responsibilities relating to costs or benefits. As per clause 2 of the terms of reference the Steerco does have roles and functions relevant to changes in project scope and financial management including escalation of issues to Government/Cabinet. As per 3.3 meetings are monthly.

Appendix three – 2018 CSELR governance changes

Previous SLR Governance Structure (June 2015)



Proposed SLR Governance Structure (May 2018)



Appendix four – About the audit

Audit objective

This audit assessed whether TfNSW has effectively updated and consolidated information about project costs and benefits for the CBD and South East Light Rail (CSELR).

Audit criteria

We addressed the audit objective with the following audit criteria:

1. All project costs and benefits have been regularly, and accurately, updated during construction (nb includes costs associated with funding guarantee, additional legal and other consultancies).
2. The project costs against budget were regularly reported to the relevant governance bodies and INSW as required.
3. Project benefits have been updated to reflect changes in project scope, issues and additional benefits identified during construction and testing.
4. Changes to project finance arrangements were assessed and approved by appropriate governance and oversight bodies.
5. Up to date information on the project costs and benefits is publicly available.

This audit reviewed how effectively TfNSW updated and consolidated information about project costs and benefits for the CSELR. However, questions of economy, efficiency and compliance with the law were considered as they arose but were not the primary focus of this audit.

Audit scope and focus

This audit focused on:

- recommendations from the Auditor-General's 2016 report on the CSELR
- benefit cost ratio – which includes costs, budgets, benefits and traffic modelling
- traffic modelling and signalling at intersections (past, present and planned)
- project costs incurred and expected from February 2015 to give a reasonable estimation of full project costs.

Audit exclusions

The audit did not:

- examine unresolved compensation claims against TfNSW, including the class action
- examine other operational activities relating to project readiness
- question the merits of government policy objectives.

Audit approach

Our procedures included:

1. Interviewing TfNSW staff with understanding and involvement in processes relating to the update and reporting of consolidated information about project costs and benefits for the CSELR.
2. Consultation with other stakeholders including:
 - Chair of the TfNSW Audit and Risk Committee
 - Governance and oversight bodies associated with changes to project finance arrangements
 - Chair of the Sydney Light Rail Advisory Board
 - Infrastructure NSW
3. Examining documentation such as:
 - a) detailed working papers and documents relating to calculations of costs/benefits/traffic modelling
 - b) internal policy and procedures related to project costs, benefits and reporting
 - c) documentation related to financing arrangements for the project
 - d) regular project briefings and management reports used for project monitoring
 - e) reports, documentation, meeting papers and minutes relating to project governance and oversight requirements
 - f) internal or external reviews
 - g) information publicly available on project costs and benefits
4. Analysis data on:
 - a) total project costs and use of contingencies against budgets
 - b) total project benefits compared to the original business case
 - c) benefit cost ratio
 - d) compliance of project monitoring and reporting with governance and oversight requirements
 - e) implementation of the recommendations from the Auditor-General's 2016 report on the CSELR.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by Transport for NSW.

Audit cost

The total cost of the audit is approximately \$395,000.

Appendix five – Performance auditing

What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively, and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Public Finance and Audit Act 1983* for State government entities, and in section 421D of the *Local Government Act 1993* for local government entities.

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 02 9275 7100.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose
Curious and open-minded
Valuing people
Contagious integrity
Courage (even when it's uncomfortable)

Level 19, Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000 Australia

PHONE +61 2 9275 7100

FAX +61 2 9275 7200

mail@audit.nsw.gov.au

Office hours: 8.30am-5.00pm