

THE AUDIT OFFICE
NEW SOUTH WALES



THE AUDIT OFFICE
OF NEW SOUTH WALES

New South Wales
Auditor-General's Report

Performance Audit

Government expenditure and
transport planning
in relation to implementing
Barangaroo

Barangaroo Delivery Authority
Department of Transport
NSW Treasury

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*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' 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 agencies to ensure sound financial management.

Following a financial audit the Office issues a variety of reports to agencies and reports periodically to Parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency 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 agency 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 agency's operations, or consider particular issues across a number of agencies.

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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Parliament House
Sydney NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Government expenditure and transport planning in relation to implementing Barangaroo: Barangaroo Delivery Authority, Department of Transport, NSW Treasury.**

A handwritten signature in black ink, reading 'Peter Achterstraat'.

Peter Achterstraat
Auditor-General
June 2011

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Executive summary

2

NSW Auditor-General's Report
Government Expenditure and
Transport Planning in relation to
implementing Barangaroo

EXECUTIVE SUMMARY

Background

The audit's scope

Barangaroo is a high profile project attracting considerable public debate about the scale of development, its approval by government and proposed remediation of the site. This audit does not enter into that debate. The Auditor-General has a limited mandate and is not authorised to question the merits of government policy objectives, such as the scale and design of the development.

The audit examined two key issues that will contribute to Barangaroo's success: expenditure on the precinct's public domain being at no cost to government, and transport planning solutions for moving the significant number of additional CBD commuters. The audit was finalised early in the term of a new government. Their policies relating to Barangaroo are still being developed. The audit and its recommendations provide timely input to this process.

A brief history of Barangaroo

Barangaroo is a major urban renewal project on 22 hectares of government owned prime harbour foreshore in Sydney CBD's western corridor. Construction is expected to span 12 years to 2023. The granting of 99 year development leasehold rights by government will provide a new commercial, retail and residential precinct in the CBD (Barangaroo South). Developer contributions are expected to provide for public domain and other government development costs. Half the site is public domain, including the six hectare Headland Park. The precinct, when completed, will service an anticipated 26,000 workers and residents and up to 33,000 visitors a day.

Following a 20 month competitive tender process, the Barangaroo Delivery Authority (the Authority) entered into a Project Development Agreement with Lend Lease in March 2010 to develop Barangaroo South. The Authority is responsible for managing this agreement and delivery of the public domain and infrastructure including transport connections adjoining Barangaroo.

The Concept Plan when first approved on 9 February 2007 represented the base case for gross floor area and public spaces within designated envelopes. It was then modified to allow more floor space in February 2009 and a new northern cove and enhanced naturalistic headland in November 2009. Larger floor area is likely to increase premises land value resulting in higher developer contributions.

On 16 December 2010, a fourth modification to the Concept Plan was approved by the Minister for Planning. This modification allowed construction of Lend Lease's preferred proposal for Barangaroo South including a hotel on a pier in Darling Harbour, more floor space (residential and commercial) and some increased building heights. Construction of the commercial area and the Headland Park is to commence in mid 2011.

Government expenditure and transport planning

The Authority developed a 15 year financial forecast in December 2009 consistent with the base case proposal submitted by the successful proponent, Lend Lease. The forecast comprises estimated project revenues, including nominal dollar value contributions over 15 years from Lend Lease, and government expenditure of approximately \$1 billion each.

Significant additional pressure will be placed on the capacity and accessibility of the CBD's transport services by the Barangaroo precinct. This will especially be the case for the estimated 26,000 additional workers and residents requiring access to the precinct. It is anticipated that there will be 13,800 workers by September 2015, 20,900 by December 2020 and 22,700 by September 2023. The target is for 63 per cent of Barangaroo commuters to travel by train during the morning peak hour when demand is most concentrated.

The audit's objective

The audit examined the effectiveness of budgeting for the public domain and infrastructure, and planning for transport infrastructure. In particular, it examined whether:

- the budget for government spending on the precinct was based on complete and well founded estimates of revenue and expenditure, and
- the planned transport infrastructure is adequate to move the significant numbers of people in and out of the precinct.

Conclusion

The audit concluded that there has been extensive planning in support of the government financial forecast and transport solutions for Barangaroo.

The audit also concluded that there are three key risks that could limit Barangaroo's success:

- developer contributions to government being different to those forecast
- the cost of public domain constructed by government being greater than estimated
- planned, and necessary, transport solutions not started and completed on time by government.

If these risks can be managed effectively, Barangaroo's success is more readily assured.

Supporting findings

Is the budget for government spending on the precinct based on complete and well founded estimates of revenue and expenditure?

The December 2009 government budget forecast for the Barangaroo precinct included estimates of key revenue and expenditure items over the life of the project and was well documented. This provided a sound framework for the financial forecast.

However, there are inherent difficulties with forecasting 15 years ahead. These include complexities with estimation of revenue flows from the developer, variations to the Agreement and to the cost of constructing the public domain and Barangaroo Central. More recently, underlying the increases in developer contributions and enhancement of the public domain and infrastructure has been the increased scale of the project. This emphasises government's dependency on the commercial development being a success and providing the necessary funds to government for public facilities across half the precinct. There is also a risk that any delays or changes in one part of the project can cause delays elsewhere and result in variations to the financial forecast.

There is potential for significant variation in revenue as value sharing payments, a large portion of revenue, are based on the market value of the developer's commercial and residential buildings in eight to ten years time. Fixed payments will increase to the extent that the increase in gross floor area, approved in Modification 4, is taken up by Lend Lease.

Certain public domain and infrastructure estimates in the initial financial forecast have increased some \$38 million since December 2009. In addition, any variations to the Agreement may require compensating payments to or from Lend Lease.

The Authority took a conservative approach to compiling the 15 year financial forecast in December 2009. A midpoint in a range of revenue forecasts was taken. An unallocated contingency reserve was included in the financial forecast for cost overruns or, if underutilised, possible application to cultural facilities. We found that varying methods were applied to the calculation of contingencies for the individual projects making up the public domain. These allocated contingencies currently total \$78 million.

This approach produced a balanced budget of approximately \$1 billion over 15 years. This is in line with government policy that there should be no net cost to government. However, the forecast does not include all government costs relating to public domain and infrastructure. The Department of Transport is funding the balance of the Barangaroo Pedestrian Link (estimated \$186 million). Also, the forecast does not include the cost of proposed ferry wharves (estimated \$45 million) and the cost of fitting out the cultural space within the headland (amount yet to be finalised).

If contributions from Lend Lease are less than expected, or expenditure on public domain greater than estimated, construction of uncommitted works may need to be reduced and the public domain curtailed. If a surplus arises from increased revenue, government may decide to return it to consolidated revenue or invest it further in the Barangaroo precinct.

The Authority needs to revise its December 2009 financial forecast to incorporate updated cost plans and revenue modelling. An important time in the ongoing revision of the 15 year financial forecast is during 2014 and 2015 when construction across the precinct will be well advanced.

Some expenditure figures in this report are aggregated because their disclosure may provide potential tenderers with knowledge of the Authority's proposed budgets. Developer contributions to the Authority have not been disclosed as they could expose commercially sensitive information to the potential disadvantage of Lend Lease. As construction progresses, financial information will become less sensitive and can be released. The Audit Office however, had access to all relevant revenue and expenditure estimates underlying the 2009 financial forecast.

Is the planned transport infrastructure adequate to move the significant numbers of people in and out of the precinct?

The planning for transport and pedestrian initiatives for Barangaroo identified solutions to move the increasing number of commuters working in the precinct. To be adequate the planned solutions must be implemented on time to meet the needs of the increasing number of commuters working at Barangaroo.

Paramount amongst the initiatives for Barangaroo is increased capacity of, and access to, CBD rail services. They will need to move a predicted 3,900 Barangaroo commuters daily from December 2013, growing to 8,700 in September 2015, 13,100 in December 2020 and 14,300 in December 2023. The initiatives are part of larger CBD and metropolitan transport solutions and are outside the control of the Authority. The proposed City Relief/Western Express line was part of the forward funding program in the 10 year Metropolitan Transport Plan announced in February 2010 and was expected to be completed by 2018. The project includes two new platforms at Wynyard station. The pedestrian link between Barangaroo and Wynyard, also included in the 10 year funding program, will be used by the vast majority of rail and bus commuters. It is to be completed by early 2014 in time for the opening of Barangaroo's first office block.

Planning for Barangaroo included ambitious transport mode targets reliant on significantly lower car usage. The rail target for commuter trips to Barangaroo during the AM peak is 63 per cent. Currently, 50 per cent of commuters travel by rail to the CBD in the AM peak.

Many of the solutions for Barangaroo's transport needs have been part of transport planning for some time. However, changing transport priorities have sometimes meant that major transport initiatives have not gone ahead. An example of this was the abandonment of the Sydney Metro in early 2010. Any change in transport planning that affects Barangaroo will likely have an impact on its success.

Recommendations

1. Enhance monitoring and reporting of the financial forecast and actively manage costs

As the project enters its construction stage, the Authority should improve its systems to enhance the rigour and monitoring of the project's financial forecast to ensure value for money and a potential surplus for government. This should include a rolling update of the financial forecast and more regular reporting to Treasury (page 18).

2. Disclosure of financial forecast figures

The Authority should continue to ensure ongoing disclosure of financial information currently withheld for commercial reasons. This will enable the Authority to continue to comply with the provisions of the *Government Information (Public Access) Act 2009* (page 13).

3. Greater consistency of project costing for major and high risk projects

NSW Treasury should consider the wider application across the public sector of the P90 approach to calculating the cost of major and high risk construction projects. The P90 allowance is included in the project base cost and provides a 90 per cent chance that the forecast project cost will not be exceeded. In the case of these projects, a contingency can be added for uncertainties in the design, planning and delivery stages, which is revised during the procurement process (page 19).

4. Focus on implementing planned transport initiatives

Co-ordinated action is required to ensure that transport plans are put in place in time to meet the needs of Barangaroo commuters. The Department of Transport needs to provide full and frank advice to Government on the implications of any delay or change of plan (page 23).

5. Full advice on the impact of changing transport priorities

The Department of Transport's advice on how changing transport priorities may affect Barangaroo should include an assessment of options in terms of risks and consequences, including potential financial and economic impacts of decisions (page 25).

See Appendix 1 for a timeline of key events in Barangaroo's development.

Response from Barangaroo Delivery Authority



3 June 2011

Mr. Peter Achterstraat
Auditor-General of NSW
GPO Box 12
SYDNEY NSW 2001

Dear Mr Achterstraat

Thank you for the opportunity to formally respond to your Performance Audit on government expenditure and transport planning in relation to Barangaroo by The Audit Office of New South Wales.

The Performance Audit covered an extensive review of the effectiveness of public domain and infrastructure budgeting and adequacy of the planned transport infrastructure for the development of Barangaroo.

We are pleased that your findings confirm the extensive planning carried out in support of:

1. The financial forecasting for future works; and
2. The transport solutions.

We support all your recommendations and believe that they will further assist the Authority and the State to achieve a very successful development of Barangaroo for Sydney and New South Wales.

We have reviewed the Performance Audit Report and provide our responses to the recommendations as follows:

1. Enhance monitoring and reporting of the financial forecast and actively manage costs.

As the project enters its construction stage, the Authority should improve its systems to enhance the rigour and monitoring of the project's financial forecast to ensure value for money and a potential surplus for government. This should include a rolling update of the financial forecast.

The Authority rigorously reviews and monitors all actual and forecast project revenue and expenditures on a monthly basis. The Authority will continue to work to improve its systems to enhance its existing monitoring and reporting of financial forecasts, including rolling updates of the financial forecasts as necessary.

2. Disclosure of financial forecast figures

The Authority should continue to ensure ongoing disclosure of financial information currently withheld for commercial reasons. This will enable the Authority to continue to comply with the provisions of the Government Information (Public Access) Act 2009.

The Authority is committed to and continues to provide the community with maximum disclosure whilst maintaining our obligations to protect the most commercial sensitive and confidential information. This is carried out in accordance with the Government Information (Public Access) Act 2009.

3. Greater consistency for project contingencies

NSW Treasury should consider the wider application across the public sector of the P90 approach to calculating project costs. The P90 allowance is included in the project base cost and provides a 90 per cent chance that the project's costs will not be exceeded. In the case of riskier projects, a contingency can be added for uncertainties in the design, planning and delivery stages, which is revised during the procurement process.

The Authority has and will continue to adopt the NSW Treasury methodology using a P90 contingency for major project business cases for NSW Treasury as carried out for Headland Park Cruise Passenger Terminal

4. Focus on implementing planned transport initiatives

Co-ordinated action is required to ensure that transport plans are put in place in time to meet the needs of Barangaroo commuters. The Department of Transport needs to provide full and frank advice to Government on the implications of any delay or change of plan.

Barangaroo has the opportunity to become the key multi modal public transport interchange (rail, ferry, pedestrian, light rail and bus) in the western CBD corridor. The Department of Transport and the Authority will need to work closely to ensure timely provision of these transport initiatives. The Authority has and must continue with the Department of Transport to have regular high level planning and implementation meetings.

5. Full advice on the impact of changing transport priorities

Department of Transport's advice on how changing transport priorities may affect Barangaroo should include an assessment of options in terms of the risks and consequences, including the potential financial and economic impacts of decisions.

The Barangaroo public transport requirements are essential to ensure safe and efficient access to Barangaroo and the western CBD financial precinct. It is critical that the successful implementation of these requirements is achieved on schedule and to the set standards to remove any risk of significant financial and economic impacts.

I would like to thank your staff for their diligent examination, analyses and extensive requirements of our team, in the performance and implementation of their audit.

Yours sincerely



John Tabart
Chief Executive Officer
Barangaroo Delivery Authority

Response from the Department of Transport



Mr Peter Achterstraat
Auditor General
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001

Dear Mr Achterstraat

Re: Performance Audit Report: Government expenditure and transport planning in relation to implementing Barangaroo

Thank you for the opportunity to respond to the Performance Audit Report on the above matter.

The Department of Transport accepts the Audit's recommendations and its findings regarding transport planning for Barangaroo. The Department is significantly involved in the planning of projects and initiatives to support the Barangaroo development and achieve the precinct's objectives of a very high level of public transport use for workers, residents and visitors.

As you would be aware, the Government is in the process of establishing an integrated transport authority. This will ensure that transport planning and delivery of services and infrastructure for major projects like Barangaroo are appropriately co-ordinated and integrated.

The Audit Report indicates that under certain scenarios Wynyard Station could reach capacity by 2017. It is important to note that capacity issues will not uniformly occur from a particular date across the whole of the station. Notwithstanding, the quality of customer service at Wynyard will certainly be impacted by 2017 if steps are not taken to identify and plan for station enhancement. This is the purpose of the Wynyard Precinct Masterplan which is currently under development.

As noted in the Audit Report, the Department of Transport is responsible for delivery of transport infrastructure and services outside the responsibility of the Barangaroo Delivery Authority including: the Barangaroo Pedestrian Link; CBD light rail; bus, ferry and rail services; and Wynyard Station and interchange improvements that will be identified through the Wynyard Precinct Masterplan. These initiatives and other measures will also be considered in the development of the Sydney City Centre Access Plan which is expected to be released later this year.

The Department will continue to work closely with the Barangaroo Delivery Authority to ensure that transport infrastructure and services are delivered in a timely and co-ordinated manner during the development process. The recommendations and findings of this Audit will be fully considered in future transport planning for Barangaroo.

Yours sincerely

Les Wielinga
Director General

03.06.11

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Response from NSW Treasury

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NSW Auditor-General's Report
Government Expenditure and
Transport Planning in relation to
implementing Barangaroo

EXECUTIVE SUMMARY



The
Treasury

Mr Peter Achterstraat
Auditor-General
The Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001

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Telephone: (02) 9228 5519
Our Reference: EA1649126
Your Reference: PA6492

6 JUN 2011

Dear Mr Achterstraat

Performance audit report – Government expenditure and transport planning in relation to implementing Barangaroo

Thank you for the opportunity to provide a formal response to the recommendations contained in your performance audit on government expenditure and transport planning in relation to implementing Barangaroo. Our response is outlined below:

Recommendation 1

NSW Treasury agrees that the Barangaroo Delivery Authority should enhance monitoring and reporting of the project's financial forecast to ensure value for money and to mitigate any financial risks. This includes a rolling update of the financial forecast and more regular reporting to Treasury.

Although the Barangaroo development is expected to be cash neutral in the longer term, the accelerated funding and delivery of public infrastructure has an impact on the State's Budget Result. It is therefore important that the Authority regularly update estimates to ensure that risks are mitigated before further development proceeds.

Recommendation 2

NSW Treasury is concerned that the availability of sensitive financial information under the provisions of the *Government Information (Public Access) Act 2009* could undermine Government's procurement process and affect commercial negotiations for Barangaroo. Treasury suggests that detailed financial information, particularly for specific projects, should not be made available publicly until the procurement process is completed.

Recommendation 3

NSW Treasury supports the wider application of a P90 approach across the public sector for major, high risk construction projects.

The P90 approach has been adopted at Barangaroo because of the complexity and risk profile of the whole development. In addition to this approach, the Authority should adopt a regular risk assessment of each project and significant risks should be priced into the financial model/business case.

The existing financial forecast includes projects that have funding provision but are yet to be formally approved by Government. This provision is currently treated by the Authority as a contingency reserve that could cover potential project cost increases, subject to approval by Government.

The Authority is required to comply with the NSW Government procurement guidelines for each project, which includes obtaining Cabinet approval for procurement strategies and tender evaluation. In particular, the Authority must seek Cabinet approval for significant variances in project budgets.

Recommendations 4 and 5

NSW Treasury agrees that coordination between Barangaroo Delivery Authority and NSW Transport is required to ensure transport initiatives are clearly identified and implemented. The provision of proposed transport infrastructure to support Barangaroo is subject to availability of funding against other transport priorities and assessment of economic benefits in accordance with the *NSW Government Guidelines for Economic Appraisal*.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Michael Lambert', is positioned above the printed name.

Michael Lambert
Acting Secretary

Financial forecast – Is the budget for government spending on the precinct based on complete and well founded estimates of revenue and expenditure?

Key findings

The December 2009 government budget forecast for the Barangaroo precinct included estimates of key revenue and expenditure items over the life of the project and was well documented. This provided a sound framework for the financial forecast.

However, there are inherent difficulties with forecasting 15 years ahead. These include complexities with estimation of revenue flows from the developer, variations to the Agreement and to the cost of constructing the public domain and Barangaroo Central. More recently, underlying the increases in developer contributions and enhancement of the public domain and infrastructure has been the increased scale of the project. This emphasises government's dependency on the commercial development being a success and providing the necessary funds to government for public facilities across half the precinct. There is also a risk that any delays or changes in one part of the project can cause delays elsewhere and result in variations to the financial forecast.

There is potential for significant variation in revenue as value sharing payments, a large portion of revenue, are based on the market value of the developer's commercial and residential buildings in eight to ten years time. Fixed payments will increase to the extent that the increase in gross floor area, approved in Modification 4, is taken up by Lend Lease.

Certain public domain and infrastructure estimates in the initial financial forecast have increased some \$38 million since December 2009. In addition, any variations to the Agreement may require compensating payments to or from Lend Lease.

The Authority took a conservative approach to compiling the 15 year financial forecast in December 2009. A midpoint in a range of revenue forecasts was taken. An unallocated contingency reserve was included in the financial forecast for cost overruns or, if underutilised, possible application to cultural facilities. We found that varying methods were applied to the calculation of contingencies for the individual projects making up the public domain. These allocated contingencies currently total \$78 million.

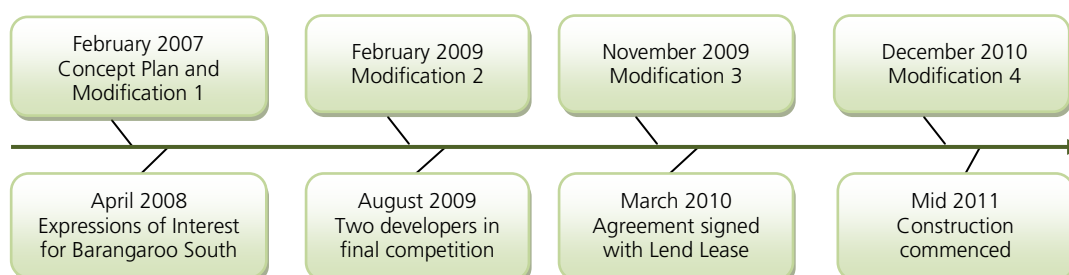
This approach produced a balanced budget of approximately \$1 billion over 15 years. This is in line with government policy that there should be no net cost to government.

If contributions from Lend Lease are less than expected, or expenditure on public domain greater than estimated, construction of uncommitted works may need to be reduced and the public domain curtailed. If a surplus arises from increased revenue, government may decide to return it to consolidated revenue or invest it further in the Barangaroo precinct.

An important time in the ongoing revision of the 15 year financial forecast is during 2014 and 2015 when construction across the precinct is well advanced.

Some expenditure figures in this report are aggregated because their disclosure may provide potential tenderers with knowledge of the Authority's proposed budgets.

Barangaroo Timeline



See Appendix 2 for a timeline of key events for Barangaroo estimates.

Since preparation
of initial forecast a
number of
significant events
have occurred

Introduction

Initial and revised estimates

In the following pages, we examine key items within the Authority’s 15 year financial forecast of December 2009. This initial forecast is balanced at the conclusion of the 15 years, consistent with government policy that construction of Barangaroo’s public domain and related infrastructure be covered by revenues received from the developer, Lend Lease.

Since preparation of the initial forecast in December 2009 a number of significant events have occurred:

- approval of plans for Barangaroo South and amendments to the Project Development Agreement making the estimates of revenue from Lend Lease more accurate
- major components of the public domain have been approved, and in some cases contracts negotiated and work commenced:
 - Barangaroo Pedestrian Link
 - Headland Park
 - Cruise Passenger Terminal
 - remediation trial.

The Authority did not provide a revised financial forecast reflecting changes in estimated revenue from Lend Lease and expenditure on public domain and infrastructure. The Audit Office examined the framework underlying the December 2009 financial forecast and, where possible, looked at revisions of individual estimates.

Financial forecast for 2010 – 2024

The table below is based on the Authority’s detailed 15 year financial forecast.

Barangaroo Delivery Authority Financial Forecast for 2010–2024 (summarised):

Expenditure	\$m	Revenue	\$m
Headland Park	177 ¹	Fixed payments ⁸	
Site acquisition	97 ²	Value sharing payments ⁹	
Barangaroo Pedestrian Link	100 ³	Other revenue ¹⁰	
Cruise Passenger Terminals	46 ⁴		
Site Remediation	112		
Operating & finance costs	228		
Other projected expenditure:			
Barangaroo Central ⁵ }	271		
Contingency/civic facilities ⁶ }			
Other ⁷ }			
	1,031		1,031

Source: Barangaroo Delivery Authority December 2009

Notes:

1. Estimate has since increased. Excludes the cost of fitting out the cultural space (amount to be finalised).
2. Represents refinancing of the loan from Sydney Ports Corporation for transfer of the Barangaroo land.
3. Contribution to Barangaroo Pedestrian Link, balance to be funded by the Department of Transport. The table does not include other transport costs such as the cost of three ferry wharves proposed for Barangaroo.
4. First estimate, since increased to \$62 million, see page 17.
5. Estimate based on broad preliminary concepts. These are to be further developed and submitted to the Department of Planning for approval and subsequently tendered.
6. Estimate not disclosed because of its long term nature, and likelihood that much of it may not be realised until conclusion of the development in 2024.
7. Includes other developer and art levies, recovery of earlier development costs, developer funding of road upgrades and promenade costs.
8. First and second of nine fixed payments totalling \$103 million have been received by the Authority.
9. For an explanation of these variable payments, see page 14.
10. Includes other developer levies and contributions.

The forecast does not include all government costs relating to public domain and infrastructure. The Department of Transport is funding the balance of the Barangaroo Pedestrian Link (estimated \$186 million). Also, the forecast does not include the cost of proposed ferry wharves (estimated \$45 million) and the cost of fitting out the cultural space within the headland (amount yet to be finalised).

Lend Lease is to provide certain public domain and infrastructure as an integral part of its Barangaroo South development. This public domain and infrastructure is estimated to cost \$200 million and is not included in the Authority's financial forecast. It is required by the Project Development Agreement with the Authority. Developer contributions in the Authority's forecast cover the cost of constructing the remaining public domain and infrastructure across Barangaroo.

Disclosure of financial forecast figures

Some expenditure figures in this report are aggregated because their disclosure may provide potential tenderers with knowledge of the Authority's proposed budgets. Developer contributions to the Authority have not been disclosed as they could expose commercially sensitive information to the potential disadvantage of Lend Lease. The Audit Office however, had access to all relevant revenue and expenditure estimates underlying the 2009 financial forecast.

This limited disclosure is consistent with the public interest principles of the *Government Information (Public Access) Act 2009*. As construction progresses, financial information will become less sensitive and can be released.

Recommendation

The Authority should continue to ensure ongoing disclosure of financial information currently withheld for commercial reasons. This will enable the Authority to continue to comply with the provisions of the *Government Information (Public Access) Act 2009*.

Increases in the Barangaroo budget

The estimated cost of developing the Barangaroo precinct in February 2007 was \$1.5 billion. This was based on the then master or Concept Plan approved by the then Minister for Planning. Following approval of Modification 4 to the Concept Plan in December 2010 the capital cost of the project had increased to an estimated \$4.7 billion. Underlying this was an increase in gross floor area for Barangaroo South from 322,300 square metres in February 2007 to 490,240 square metres and enhancement of the public domain in December 2009.

As illustrated in the table below, since the Concept Plan of February 2007 there has been a significant increase in gross floor area (GFA) for Barangaroo South, resulting in funding for an improved public domain. For stage one, Barangaroo South, GFA has increased 52 per cent from the initial Concept Plan. For the project as a whole, Modification 4 increased GFA by 46 per cent from the initial Concept Plan (i.e. from 399,800 square metres to 563,965 square metres).

Increase in gross floor area (GFA)

	Concept Plan	Modification 2	Modification 3	Modification 4
Approval Date	9 Feb 2007	6 Feb 2009	11 Nov 2009	16 Dec 2010
Barangaroo South	322,300	430,275	430,275	490,240
Barangaroo Central	60,200	78,025	59,225	59,225
Public Domain/Headland Park	17,300	11,500	11,500	14,500
Total	399,800	519,800	501,000	563,965

Source: Department of Planning approvals

There should be ongoing disclosure of financial information

There has been a significant increase in gross floor area since February 2007

The vast majority
of revenue is from
developers fixed
and value sharing
payments

Are estimates of developer contributions soundly based?

The vast majority of the Authority's revenue is from developer contributions, comprising fixed and value sharing payments. These developer contributions are modelled on the anticipated premises' land value of Barangaroo South.

Fixed payments

Finding: Fixed payments are detailed in the Project Development Agreement with Lend Lease. They are to be paid between 2010 and 2018 and will increase with the additional gross floor area approved in Modification 4 being taken up by Lend Lease.

There are to be nine fixed payments. To date, two payments totalling \$103 million have been made. The remaining instalments are to be paid on 31 March each year.

Fixed payments provide government with regular guaranteed revenue. They can be accelerated on the earlier completion of buildings and are not to exceed the agreed total amount. They will increase to the extent that the increase in gross floor area, approved in Modification 4, is taken up by Lend Lease.

Value sharing payments

Finding: As the value sharing payments are determined by market valuations of the last buildings to be constructed in eight to ten years time, they are less certain. Their calculation will become clearer as the development progresses. To offset this uncertainty, the Authority has included value sharing payments based on conservative estimates. This could potentially understate revenue.

The initial forecast for value sharing payments was based on KPMG's evaluation of the proponent's baseline proposal using GFA of 430,275 square metres (Modification 2). Based on existing assumptions, the increased gross floor area in Modification 4 may add significantly to value sharing payments.

The calculation of value sharing payments is detailed in the Agreement with Lend Lease. The Authority will share with the developer 50:50 the buildings' land value after all fixed payments have been deducted. The land value is a component of each building's market value determined by accredited valuers on or near its completion. Payments are forecast to commence after 31 March 2018 when the last fixed payment has been made.

The use of value sharing payments is a common industry practice for large construction projects. They provide an incentive for the developer to construct on time and maximise returns on the lease of buildings.



Barangaroo Aerial View circa 1990s - (Source: Sydney Harbour Foreshore Authority)

Are estimates of public domain and infrastructure costs soundly based?

Overall finding

The Authority's public domain and infrastructure costs are well documented and supported. However, there have been increases in the cost of several public domain items. As discussed below, ongoing risks include project specifications still being developed and projects being subject to variations caused by slow construction elsewhere on the precinct.

There have been increases in the cost of public domain items

Remediation costs

Finding: There is some uncertainty over the eventual funding of remediation costs as it is assumed some costs will be recovered from previous site owners. The final figure is also dependent on the success of new remediation technology currently being trialled. A funding shortfall has the potential to slow down construction of public domain on Barangaroo Central.

The Authority is responsible for remediation being undertaken

The Authority's overall estimate for remediation costs across the site is \$112 million. The eventual costs of remediation are dependent on the method used. The Authority is expected to recover remediation costs from the previous owners of the polluted site. Any shortfall will be funded from within the Authority's budget.

Finding: There is uncertainty regarding the eventual method of remediation to be used. If the preferred method is not used there could be delays to the project as well as potential increases in remediation costs.

The Authority is responsible for ensuring suitable remediation is undertaken across the site. It is directly responsible for the most contaminated area on the precinct, the Hickson Road area that includes the old Miller's Point Gasworks site. This area is located mainly in Barangaroo Central. It has been declared a contaminated area by the Department of Environment, Climate Change and Water (DECCW). The Authority is responsible for the Voluntary Management Proposal approved by DECCW for this site. It includes the preparation, approval and implementation of a remediation action plan and a human health and ecological risk assessment. An independent site auditor, accredited by DECCW, will review the critical remediation works. The site auditor will issue a Site Audit Statement certifying the suitability, or otherwise, of remediated land. The Authority has contracted Lend Lease to undertake the remediation works.

Initially, new remediation technology is being trialled on the former Gasworks site. It is called Surfactant-Enhanced In Situ Chemical Oxidation (SISCO). If successful it will allow remediation where the contamination lies. Until the trials have been completed, it is unknown whether SISCO will be used for any, or all, remediation.

If the SISCO method is unsuccessful, contaminated material will be taken off site for remediation. If this occurs, other clean excavated material from elsewhere on the site would be required for the Headland Park.

Lend Lease is responsible for undertaking, and funding, any necessary remediation in Barangaroo South.

Estimated cost of Headland Park has increased

Headland Park

Finding: The estimated cost of the Headland Park has increased, largely due to an increase in contingencies. The cost could increase further if landfill is not received on time from elsewhere on the precinct.

The Headland Park, on approximately six hectares of land in the north of the Barangaroo site, includes construction of:

- a naturalistic shore line with rock platforms and rock pools
- a void of approximately 75,000 cubic metres for a future cultural/community space
- a 300 space underground car park for visitors
- a new 2.64 hectares northern cove on the southern boundary that is open to the Harbour.

The 2009 financial forecast anticipated the Headland Park being developed over six years at a cost of \$177 million. This included construction of a carpark within the headland and a northern cove. The financial forecast did not include the cost of fitting out the cultural space within the headland.

Revision in late 2010 increased the estimate of both construction cost and the contingency reserve for the Headland Park's accelerated completion by 2014. This increase was included in the Barangaroo Headland Park business case (October 2010) that was approved through Treasury's gateway review. As the Headland Park is currently the subject of tendering we have not disclosed the increased figure.

The Headland Park will be created from materials excavated from basements in Barangaroo South and the northern and southern coves. Delayed arrival of excavated material from these sites could increase the cost of the Headland Park and delay its completion.

Barangaroo Pedestrian Link

Finding: The Authority is a partner to the construction of the Barangaroo Pedestrian Link (BPL) and is actively involved in its design. The Authority's contribution is fixed and it will enter into an agreement with the Department of Transport for delivery.

The Department of Transport has overall responsibility for the BPL project. The Authority is the project sponsor during the link's delivery. This is to be supported by an agreement between the Department of Transport and the Authority to ensure liaison during the design and construction of the link.

The Authority's forecast includes a contribution of \$100 million towards the BPL. The balance of \$186 million, of an estimated total of \$286 million, is to be funded by the Department of Transport. In addition, the BPL utilises some assets previously acquired at a cost of \$48 million for construction of a Sydney Metro station next to Wynyard station.

The BPL provides a direct means for pedestrians to travel between Barangaroo and Wynyard station. It includes a bridge over Sussex Street connecting to a nine metre wide tunnel from a reconfigured Westpac Plaza on Kent Street directly into the Wynyard station concourse.

The BPL is to be completed prior to the occupancy of the first building in Barangaroo South, scheduled for early 2014. This is required by the Concept Plan approved by the then Minister for Planning. Timing of the construction and its fit with the redevelopment of the Wynyard station precinct is discussed in the next section on transport planning.

The Department of Transport will fund balance of Barangaroo Pedestrian Link

Cruise Passenger Terminal

Finding: The estimated total cost for the temporary terminal at Barangaroo and the new terminal at White Bay is now \$62 million and is to be met by the Authority. The revised cost includes the multi-purpose use of the permanent facility and a new access road.

Estimated cost
of passenger
terminal
increases to
\$62 million

The Minister for Planning announced on 20 December 2008 that the Cruise Passenger Terminal would be temporarily moved to White Bay whilst a permanent location was sought. The Cruise Passenger Terminal Steering Committee reported in November 2009 on possible options. On 20 December 2009, the Minister for Ports announced that the Cruise Passenger Terminal would now move temporarily to Barangaroo followed by a permanent move to White Bay, after construction of a purpose built facility on that site.

The cost of relocating the Cruise Passenger Terminal has increased 35 per cent from the first estimate of \$46 million. This includes the cost of a temporary terminal further along the Barangaroo site, then relocating to a permanent location at White Bay in 2012. Any further increase would have to be funded from the contingency reserve or by curtailing expenditure on other public domain projects.

The temporary terminal has operated at Barangaroo since 2010 and the new terminal is to commence operation at White Bay in 2012. The Authority is managing delivery of the new permanent Cruise Passenger Terminal for Sydney Ports Corporation. The Corporation who owned and managed the previous permanent terminal at Barangaroo is to receive a 'like for like' replacement at White Bay.

Since announcing the relocation of the terminal to White Bay in December 2009 there has been public concern reported in the press about the new location. Issues raised include inaccessibility of the site and local traffic congestion.

Barangaroo Central

Finding: Planning for the public domain for Barangaroo Central is in its preliminary stages. As this is the last significant component of the project it runs a greater risk of funds being limited, causing it to be delivered later than intended.

Barangaroo Central sits between the Headland Park and Barangaroo South. The public domain at Barangaroo Central fronts the harbour and the northern cove and includes community and recreational facilities and walkways. In accordance with the Concept Plan, Barangaroo Central is likely to include low rise residential, educational and cultural buildings backing onto the city. Significant commercial office or retail development is not anticipated.

The Authority expects that Barangaroo Central public domain and infrastructure will be developed over five years from 2015. The forecast figure for Barangaroo Central is included in 'Other projected expenditure' in the financial forecast table on page 12. This is because the estimate is only broadly based and planning is in its early stages with community consultation currently being undertaken. Disclosure of the figure at this stage would misinform prospective tenderers.

It is possible that government could decide to apply any surplus from developer contributions to public buildings in Barangaroo Central.

Financial
forecasting
practices to be
revised

Will developer contributions cover public domain and infrastructure construction and other related government development costs?

Finding: The Authority's December 2009 financial forecast indicates that developer contributions are to cover the cost of constructing the government's public domain and infrastructure across Barangaroo. However, this is not without risk. Estimated revenue from value sharing payments could easily vary as they are based on the predicted market value of the buildings in Barangaroo South in eight to ten years time. There is also some upward pressure on the cost of constructing the public domain. In addition, as the majority of public domain and infrastructure is to be built by 2015, the Authority is exposed to significant borrowings and interest payments. The Authority needs to revise its financial forecasting practices to ensure that monthly revisions presently undertaken for internal purposes can be incorporated into a rolling update for external parties such as Treasury.

These complexities highlight the importance of ongoing revision of the estimates and associated risks to ensure accuracy of revenue and costs as the development proceeds. This should include full annual reviews of the forecast.

The Authority undertakes monthly reviews of all project and operational expenditures and revenues. These reviews relate to the current year and the 15 year forecast. However, the Authority is yet to formally and comprehensively update the December 2009 forecast. The Authority advised that this is to be done in support of their submissions for the September 2011 State Budget.

The Authority also advised that monthly updates indicate minimal net effect on the 15 year financial forecast. They acknowledge, however, variations to the forecast due to increased fixed payments, potential increases and changes in the timing of value sharing payments; and, also changes in value and timing of expenditure including the Headland Park, Pedestrian Link and Cruise Passenger Terminal.

Recommendation

As the project enters its construction stage, the Authority should improve its systems to enhance the rigour and regularity of its monitoring of the project's financial forecast to ensure value for money and a potential surplus for government. This should include a rolling update of the financial forecast and more regular reporting to Treasury.

Are estimates of BDA operating and financing costs soundly based?

Finding: The estimate of the Authority's operating costs appears soundly based at this point in time. However, the Authority is exposed to higher borrowing costs if it borrows more funds than anticipated.

Estimates
soundly
based but
borrowing
risks remain

The Authority's operating and financing costs are estimated to be \$228 million over 14 years. It is anticipated that the Authority will cease operations in 2020; however interest payments are predicted to continue for several more years.

The Authority's operating and financing expenditure for 2009-10 was consistent with the estimate for that year. However, additional cost of \$4.5 million was incurred in 2008-09 as the Authority commenced operations in March 2009. This cost was not included in the initial financial forecast. We were advised that the previous period's operating costs can be recovered from the contingency reserve.

Prior to receiving sufficient developer contributions, the Authority is funding its operating and development costs via a loan facility with NSW Treasury Corporation. The interest rate is currently 4.5 per cent per annum. Acceleration of construction expenditure by the Authority will likely increase interest payments. Accelerated fixed payments by Lend Lease may reduce interest expenditure.

Does the budget include contingencies that are clearly identified and estimated?

Finding: The forecast includes an unallocated contingency reserve to absorb future variations such as increased public domain costs and compensating payments for adjustments to the Project Development Agreement. Government may apply any surplus funds from the contingency reserve to cultural facilities within Barangaroo.

The unallocated contingency reserve is a balancing item in the 15 year financial forecast. It is to absorb unexpected increases in cost and also allows the financial forecast to fulfil the government's policy objective that Barangaroo be delivered at no cost to government. If a surplus arises from the contingency not being fully utilised, government may decide to return the balance to consolidated revenue or apply it to civic facilities within Barangaroo.

This figure is not disclosed because of its long term nature, and the likelihood that much of it may not be realised until the conclusion of the development in 2024.

Recent increases in public domain costs, together with any adjustments caused by amendments to the Project Development Agreement, are to be funded by anticipated increased developer contributions and are not to be absorbed by the contingency reserve.

In addition to the unallocated contingency reserve, most public domain items in the financial forecast include a contingency amount specific to that item. We found that the contingency reserves for the individual public domain projects currently total \$78 million. Future expenditure increases beyond these amounts will be met from the unallocated contingency reserve.

Finding: Varying methods were applied to the calculation of project costs in business cases. Cost estimates in recent business cases for the public domain were higher, including a provision on a P90 basis. This provides an allowance within the base estimate sufficient to ensure a 90 per cent chance that the project's estimated cost will not be exceeded. In such projects, where there are higher risks with design, planning and delivery, a contingency is added and revised as the procurement progresses.

Recommendation

NSW Treasury should consider the wider application across the public sector of the P90 approach to calculating the cost of major and high risk construction projects. The P90 allowance is included in the project base cost and provides a 90 per cent chance that the forecast project cost will not be exceeded. In the case of these projects, a contingency can be added for uncertainties in the design, planning and delivery stages, which is revised during the procurement process.

Contingency reserves to fund increased costs

Method for calculating project costs improves

Maintenance
levy to be
imposed

Are future precinct maintenance costs clearly identified and included in the budget?

Finding: Ongoing precinct maintenance costs are not included in the Authority's forecast. They are to be funded through a future levy on lease holders in Barangaroo South.

The Project Development Agreement includes a maintenance levy on building owners. It is estimated to collect approximately \$12 million per year.

The levy is to be collected by the Barangaroo Management Company, who will also oversee the maintenance of the precinct. The company is to be set up as referenced under the Agreement, with the Authority having a 51 per cent interest and future building investors having the balance. In addition to the levy, the company will oversee the common infrastructure servicing the buildings in Barangaroo South.



Barangaroo Aerial Plan 2011 (Source: Barangaroo Delivery Authority)

Transport planning – Is the planned transport infrastructure adequate to move the significant numbers of people in and out of the precinct?

Key findings

The planning for transport and pedestrian initiatives for Barangaroo identified solutions to move the increasing number of commuters working in the precinct. To be adequate the planned solutions must be implemented on time to meet the needs of the increasing number of commuters working at Barangaroo.

Paramount amongst the initiatives for Barangaroo is increased capacity of, and access to, CBD rail services. They will need to move a predicted 3,900 Barangaroo commuters daily from December 2013, growing to 8,700 in September 2015, 13,100 in December 2020 and 14,300 in December 2023. The initiatives are part of larger CBD and metropolitan transport solutions and are outside the control of the Authority. The proposed City Relief/Western Express line was part of the forward funding program in the 10 year Metropolitan Transport Plan announced in February 2010 and was expected to be completed by 2018. The project includes two new platforms at Wynyard station. The pedestrian link between Barangaroo and Wynyard, also included in the ten year funding program, will be used by the vast majority of rail and bus commuters. It is to be completed by early 2014 in time for the opening of Barangaroo's first office block.

Planning for Barangaroo included ambitious transport mode targets reliant on significantly lower car usage. The rail target for commuter trips to Barangaroo during the AM peak is 63 per cent. Currently, 50 per cent of commuters travel by rail to the CBD in the AM peak.

Many of the solutions for Barangaroo's transport needs have been part of transport planning for some time. However, changing transport priorities have sometimes meant that major transport initiatives have not gone ahead. An example of this was the abandonment of the Sydney Metro in early 2010. Any change in transport planning that affects Barangaroo will likely have an impact on its success.

See Appendix 3 for a transport planning timeline.

Is there a comprehensive plan for getting people in and out of the precinct?

Finding: The Barangaroo Transport Management and Accessibility Plan (TMAP) of 2008, and its supplementary report of 2010, are comprehensive and identify both Barangaroo specific solutions and how Barangaroo must dovetail with planned CBD and metropolitan transport initiatives. The effectiveness of solutions is reliant on initiatives being implemented in time to meet the increasing number of commuters working at Barangaroo.

Planned Barangaroo transport initiatives

Transport and accessibility planning for Barangaroo was initiated early in the project's history. A TMAP was included as a requirement of the Concept Plan approval in February 2007 and was prepared in September 2008 during the tender period for Stage 1 (Barangaroo South). A supplementary TMAP was produced in 2010 for Modification 4 of the Concept Plan.

Broader transport initiatives pre-date Barangaroo and have implications beyond Barangaroo. Many relate to longer term issues for rail especially, and address rail network issues and longer term CBD and metropolitan needs. These initiatives were mostly included in the Metropolitan Transport Plan's ten year funding program of \$50.2 billion commencing 2010-11.

Barangaroo plans are comprehensive but depend on other transport initiatives

Barangaroo relies
on increased
capacity of
Wynyard station

The capacity and accessibility of Wynyard station is dependent on two vital projects: construction of a new line and platforms at Wynyard station as part of the proposed City Relief/Western Express line; and the Barangaroo Pedestrian Link, linking Barangaroo to Wynyard via a bridge over Sussex Street and a tunnel into the existing station concourse.

The Department of Transport advised that under certain scenarios, even without Barangaroo, Wynyard station is nearing capacity for commuters and could reach this in 2017. The Department of Transport is preparing a Wynyard Precinct Masterplan to identify enhancements to Wynyard station. This includes earlier work undertaken by then Transport NSW on integrating the Barangaroo Pedestrian Link and City Relief line/Western Express line initiatives. The Masterplan is also to consider additional commuters arriving via the North West and South West rail links and other increases across the network feeding into Wynyard. In addition, the Masterplan will take into account adjacent commercial developments including the Thakral office towers proposed to be built above Wynyard station. The Masterplan is also to identify the scope of a major station upgrade of Wynyard.

The timing of transport initiatives and construction of Barangaroo’s proposed 12 commercial and retail buildings is crucial for Barangaroo’s success. In recognition of this, the Concept Plan requires that the Barangaroo Pedestrian Link is completed in time for the opening of the first commercial building early in 2014. This building is estimated to house nearly 6,000 workers.

Three ferry wharves are also planned for Barangaroo South at a cost of approximately \$45 million to government. This cost is not included in the Authority’s financial forecast. The extent to which the Barangaroo wharves become a new ferry hub will depend on growth in ferry passengers and how services connect with Circular Quay, Darling Harbour and King Street wharf.

Provision of a CBD light rail extension is a government commitment. The exact route of the light rail to run from Central to Circular Quay and Barangaroo is currently under consideration and is to be included in the Sydney City Centre Access Plan due to be released later this year. Based on current usage, only two per cent of Barangaroo workers are expected to use the light rail during AM peak hours.



Barangaroo Artists Impression

History of failure
to deliver on
transport projects

Finding: The timeline in Appendix 3 indicates that many solutions for Barangaroo’s transport needs have been part of transport planning for some time. Also illustrated in the timeline is the risk of major transport initiatives not going ahead due to change in government transport priorities.

An example of a change in government policy was the abandonment of the Sydney Metro in early 2010. Future changes by government to transport priorities need to weigh up the extent to which they impact Barangaroo and its role in the broader economy.

As discussed above, it is crucial that transport capacity enhancements at Barangaroo and Wynyard, including concourse upgrades and the Barangaroo Pedestrian Link, are planned, funded and delivered to meet the projected demand of the Barangaroo development.

Any change in transport planning that affects Barangaroo will likely have an impact on its success.

Recommendation

Co-ordinated action is required to ensure that transport plans are put in place in time to meet the needs of Barangaroo commuters. The Department of Transport needs to provide full and frank advice to government on the implications of any delay or change of plan.

Does planning provide effective solutions for the movement of an increasing number of people over the life of the project?

Finding: Transport planning for Barangaroo has to provide for an increasing number of commuters, the majority of whom will use trains. This adds to the reliance on Wynyard station and the importance of increasing the station's capacity in a short timeframe. If adequate transport infrastructure is not in place to align with development, Barangaroo's success could be limited.

Increasing number of commuters

The table below illustrates the steady increase in workers as buildings in Barangaroo South are completed.

Increasing Barangaroo workers

	Cumulative Total
2013	6,200
2015	13,800
2017	14,300
2020	20,900
2023	22,700

Source: Barangaroo Delivery Authority

The increase in floor area for Barangaroo South, between 2007 and 2010, has increased the estimate of employees from 15,000 to 22,700. There will be a corresponding rise in demand for transport.

The target is for 63 per cent of Barangaroo commuters to come by rail in the AM peak. Accordingly, the rail network at Wynyard station will need to handle a predicted 3,900 Barangaroo commuters daily from December 2013, growing to 8,700 in September 2015, 13,100 in December 2020 and 14,300 in December 2023.

We were advised by the Department of Transport that measures planned for Wynyard should significantly improve capacity. These include the City Relief/Western Express line (proposed completion 2018), the Barangaroo Pedestrian Link (proposed completion 2014) and station capacity enhancements being considered in the Wynyard Masterplan. The City Relief/Western Express line is to provide two new platforms for Wynyard and additional services into Wynyard, Town Hall and Central stations for a further 30,000 passengers during the AM peak. They also advised that, prior to this, new rolling stock and timetable adjustments would enable additional services to be provided to the CBD including Wynyard.

It should be noted that in the early years, it is likely that some workers at Barangaroo will have relocated from other CBD sites near Wynyard. These sites may be refurbished and lessen the overall increase in commuters in the short term.

63 per cent of
Barangaroo
commuters to
use trains

Transport
mode targets
are ambitious

Challenging transport mode targets for Barangaroo

Finding: Transport mode targets set for the Barangaroo precinct are ambitious. The risk is these will not be achieved if necessary transport infrastructure is not in place to align with development and increased demand. This will make Barangaroo building leases less attractive and could limit the commercial and economic success of Barangaroo. The challenge is to increase the already high level of public transport use to Sydney’s CBD by encouraging Barangaroo commuters to use trains rather than cars.

We were advised by the Authority that transport mode targets for commuter travel to Barangaroo represent world’s best practice for new urban precincts with the intention that only four per cent of workers will arrive by private vehicle during the AM peak. This proposition has been reflected in stringent parking provisions on site. Achieving world’s best practice targets for very low car use will only be likely if facilities at Wynyard, in terms of capacity and comfort, are also world class. The targets are reinforced by the requirements of the ecologically sustainable development provisions that are part of Barangaroo’s development consent.

The following table illustrates the public transport target by mode for commuter trips to Barangaroo during the AM peak. This will require a significant shift away from cars onto rail.

CBD commuter mode shares – AM peak

Mode	Barangaroo target %	2008-09 Household Travel Survey %
Rail	63	50
Bus	18	23
Ferry	1	3
Car (including passenger)	4	18
Other*	14	6
	100	100

Source: TMAP and Bureau of Transport Statistics TNSW 2010
*‘Other’ includes pedestrians, cyclists, motorcyclists, taxis and light rail

Significant
reduction in
use of cars

The target for car travel of four per cent for commuter trips to the Barangaroo precinct during the AM peak is significantly lower than current usage across the CBD of 18 per cent. The rail target is correspondingly higher at 63 per cent.

The use of buses by Barangaroo workers is not expected to increase above current usage levels across the CBD during the AM peak. The Department of Transport advised that rail will be more attractive due to the wider catchment served from Wynyard. Also, an increasing number of commuters will use the proposed light rail. The Sydney City Centre Access Plan currently being developed is considering a bus servicing strategy for the CBD. This includes upgrades and improvements to the Wynyard bus interchange.

Is there effective co-ordination between the relevant agencies and relevant stakeholders to plan and implement transport initiatives?

Finding: Co-ordination of transport planning for Barangaroo is in place and has identified solutions. However, the Authority has only limited ability to implement transport initiatives.

Under its legislation, the Authority is responsible for procuring, organising, managing and securing transport facilities to service the Barangaroo precinct.

The Authority is exercising this responsibility by participating in transport and access committees and advisory channels. This has occurred from early in the planning process and has been effective in bringing transport stakeholders together.

Delivery of transport and accessibility projects is, however, dependent on agencies and plans outside the control of the Authority. The Department of Transport is the pre-eminent agency co-ordinating planning and implementation of major transport initiatives. Under the *Transport Administration Act 1988*, the Department of Transport has legislative authority to undertake transport planning, co-ordination, budget allocation and oversight of major project delivery across transport modes.

Recommendation

The Department of Transport's advice on how changing transport priorities may affect Barangaroo should include an assessment of options in terms of risks and consequences, including the potential financial and economic impacts of decisions.

Authority has only
limited influence
over transport
planning

Appendix 1: Timeline of key events in Barangaroo's development

The timeline illustrates the overlapping of the tender process with three significant modifications to the Concept Plan and how this influenced the financial forecast and transport planning.

- February 2007 – The Concept Plan for the 22 hectare site was approved by the Minister for Planning. The site was to be 50:50 commercial development and public domain.
- October 2007 – A report to the Minister for Planning on the staging and delivery of Barangaroo. It included a preferred option for government to sell development rights for the commercial precinct (Barangaroo South) to fund the public domain including the Headland Park.
- November 2007 – NSW Treasury Gateway Review – Report reviewed and supported the business case for the project, and was also noted by Cabinet.
- April 2008 – Expressions of interest from developers for Barangaroo South were called. Following this process, three proponents were invited to submit detailed proposals in April 2009. Two development consortia were then shortlisted and invited, in August 2009, to submit final proposals by November 2009.
- September 2008 – Barangaroo Transport Management and Accessibility Plan (TMAP) prepared at the Request for Detailed Proposals stage. The plan includes the transport mode targets set out in the Barangaroo Concept Plan of February 2007.
- February 2009 – Concept Plan Modification 2 approved allowing additional commercial floor space of 120,000 square metres.
- November 2009 – Concept Plan Modification 3 approved to include an enlarged northern cove and naturalistic headland. It was lodged in January 2009 and was subject to public consultation before approval.
- December 2009 – Cabinet gave approval for the Authority to enter into a binding contract with Lend Lease who was appointed as the successful proponent and developer of Barangaroo South. A financial forecast was presented to Cabinet based on the Agreement being negotiated with Lend Lease. Transport requirements for Barangaroo were also noted.
- March 2010 – A Project Development Agreement was signed by Lend Lease and the Authority for the development of Barangaroo South and associated public domain and infrastructure. It became a binding agreement in June 2010.
- December 2010 – Concept Plan Modification 4 allowed a further 59,965 square metres of floor space together with a hotel development on a public pier into Darling Harbour, relocation of the Cruise Passenger Terminal, provision of a cultural centre and increased building heights in Barangaroo South.
- March 2011 – Minister for Planning inserted a new clause in SEPP 55 exempting two approvals for Barangaroo from remediation requirements. Minister also issued planning approvals for Lend Leases' first office tower, the Headland Park development and the trial of remediation technology.
- May 2011 – Minister for Planning and Infrastructure announced a review of Barangaroo planning processes.
- Mid 2012 – Cruise Passenger Terminal to commence operation at White Bay
- Late 2013 – First building in Barangaroo and site remediation to be completed.
- Early 2014 – Barangaroo Pedestrian Tunnel to be completed
- Late 2014 – Headland Park to be completed
- Late 2017 – Barangaroo Central and southern cove to be completed.
- Mid 2020 – Barangaroo Delivery Authority to cease operations
- Late 2023 – Last building at Barangaroo South to be completed.

Appendix 2: Timeline of key events to date for Barangaroo financial estimates

The timeline illustrates how the estimates for Barangaroo have increased as the dimensions of the precinct have increased.

- February 2005 – Premier Carr announced an international urban design competition for East Darling Harbour (now Barangaroo) to be developed at no cost to government. (On 24 October 2008, Cabinet confirmed that Barangaroo was to proceed at no cost to government.)
- October 2007 – A report was prepared for the Minister for Planning on delivery of Barangaroo with a preferred option for staged development by selling 99 year leases within the commercial precinct to fund the Headland Park and other elements of infrastructure to support Barangaroo. The total project expenses were estimated to be \$694 million, total project revenue \$951 million with a profit of \$236 million to the developer and a surplus of \$21 million to be returned to government. The report assisted preparation of the business case provided to Treasury for the mandatory gateway review.
- November 2007 – NSW Treasury Gateway Review – Recommended approval of the business case which was later referred to Cabinet. The review found that the preferred option produced benefits in excess of those of other options, but that further work should be undertaken on the conservative approach to costing and financial analysis, especially in relation to the contingency provision. The review also noted that remediation may affect the timing of delivery.
- March 2008 – A report to the Barangaroo Steering Committee identified various capital cost items including a dedicated pedestrian link to George Street at a cost of \$100 million plus or minus 50 per cent, Headland Park \$160 million, ferry wharves \$35 million, three pedestrian bridges over Hickson Road \$10.5 million and a contingency of \$10 million. The broad order capital cost identified in the report was \$488 million with funding from the developer.
- December 2009 – The financial forecast presented to Cabinet was based on the Agreement being negotiated with Lend Lease and supported by evaluation conducted by KPMG. Barangaroo public domain and infrastructure will be funded from developer contributions over the life of the project but will require Treasury Corporation loan facilities to meet expenditures in advance of receiving fixed and value sharing payments from the developer. The financial forecast is for revenue and expenditure over 15 years from 2010 to 2024. Total spend/revenue is approximately \$1 billion and forecast is balanced with no surplus to government. Sensitivity analysis was undertaken to confirm that Barangaroo could meet its obligations by slowing and reducing the scope and cost of future public works.
- March 2010 – A Project Development Agreement was signed by Lend Lease and the Barangaroo Delivery Authority for the commercial stage, Barangaroo South.
- Mid 2011 – 15 year financial forecast revised by the Authority.

Barangaroo financial estimates of government expenditure and revenue: 2007, 2009 and 2011

	Expenditure \$m	Revenue \$m	Surplus \$m	Gross floor area ² '000 square metres
2007 ¹	334	355	21	322
2009 ³	1031	1031	-	430
2011 ³	1031 ⁴	1031 ⁵	-	490

Notes:

- From report to Minister on 9 October 2007, based on Modification 3 of the Concept Plan with the sale of the commercial precinct funding the Headland Park, site purchase and other minor upfront costs. At this time a preferred design had not been decided. This estimate excluded costs for relocating the Cruise Passenger Terminal, additional remediation, operating and finance costs, Barangaroo Central infrastructure and contingencies totalling approximately \$800 million.
- Department of Planning approvals for 2007 initial Concept Plan; 2009 Modification 3; 2010 Modification 4.
- From the Authority's financial forecast of December 2009 that is yet to be fully revised.
- Some public domain costs are increasing and are not included here –for example, Headland Park and Cruise Passenger Terminal forecast additional costs of \$38 million. Transport infrastructure costs being funded by the Department of Transport are not included here – for example, the balance of Barangaroo pedestrian link (\$186 million). Also, the forecast does not include the cost of the Barangaroo wharves (\$45 million) and the cost of fitting out the cultural space within the headland (amount to be finalised).
- Developer contributions are likely to increase because of the take up of additional floor space by Lend Lease and market returns above the conservative estimates made by the Authority. Alternatively, revenue could reduce if there is a fall in the property market or delays with the project.

Appendix 3: Barangaroo transport planning timeline

The timeline illustrates an ongoing emphasis on a rail solution for Barangaroo commuters and changing plans for Sydney CBD rail solutions.

- December 2005 – Metropolitan Strategy for Sydney for 2005-2031 –It included a new North West/CBD/South West railway line to support new growth centres and a Harbour Rail Link from Central railway station to St Leonards (with a stop near Wynyard or Martin Place).
- September 2006 – East Darling Harbour Transport Concept Plan introduced transport mode targets for AM peak commuter travel of 63 per cent rail, 20 per cent bus, 4 per cent car, 1 per cent ferry, 12 per cent other.
- February 2007 – Concept Plan for Barangaroo precinct approved. Included in the Statement of Commitments was the requirement for a Transport Accessibility and Management Plan. It also included transport mode targets for the site consistent with those of September 2006.
- March 2008 – Report to the Barangaroo Steering Committee identified various capital items – a dedicated pedestrian link to George Street including a tunnel and pedestrian bridges over Hickson Road, and ferry wharves at the precinct.
- September 2008 – Barangaroo Transport Management and Accessibility Plan (TMAP) prepared mid way through the tender process at the request for final development proposals stage. It included initiatives to meet mode split targets: dedicated pedestrian tunnel link to Wynyard, integration of existing rail services with the proposed North West Metro and new bus services.
- February 2010 – Sydney Metro cancelled. The Sydney Metro was to run from a new station near Wynyard and Barangaroo to Central station and Rozelle. (In November 2008, the North West Metro, to run from Rouse Hill to the CBD, had been cancelled.)
- February 2010 – Metropolitan Transport Plan – Connecting the City of Cities. A 10 year transport package of \$50.2 billion. New rail links including City Relief/Western Express line (\$4.53 billion) and a \$500 million commitment to a CBD and Inner West light rail extension. Planning for the City Relief/Western Express line commenced and a draft CBD light rail extension study was being finalised.
- August 2010 – TMAP Supplementary Report – stated that timing and delivery of transport infrastructure is critical. This includes the Barangaroo Pedestrian Link and City Relief/Western Express line to run from Wynyard station.
- August 2010 – Building Barangaroo (Centre for International Economics Report for Lend Lease) – Barangaroo transport access to be supplemented for more commuters (notably integrating with Wynyard transport links). It supported Barangaroo as a worthwhile investment due to economic benefits and tax revenue.
- December 2010 – NSW Government released the Metropolitan Plan for Sydney 2036. This document revised the Metropolitan Strategy for Sydney to 2031, which had been released in December 2005. It embraced the Metropolitan Transport Plan of February 2010.
- Third quarter 2011 – The Department of Transport to present to Government the Sydney City Centre Access Plan that identifies options for improving transport to and within the city for all transport modes up to 2036. The servicing of Barangaroo as a key trip generator will also be considered.
- Late 2011 – the Department of Transport to present Wynyard precinct Masterplan that will identify a program of enhancements and integrate the Barangaroo Pedestrian Link and Western Express initiatives. The Masterplan will also consider the implications of the proposal by the Thakral Holdings Group for office towers above Wynyard station.

Appendix 4: About the Audit

Audit objective

The audit examined the effectiveness of budgeting for the public domain and infrastructure, and planning for transport infrastructure. In particular, it examined whether:

- the budget for government spending on the precinct was based on complete and well founded estimates of revenue and expenditure
- the planned transport infrastructure is adequate to move the significant number of people in and out of the precinct.

Audit scope

The audit's examination of the implementation of the Barangaroo project only examined the project's concept planning and procurement processes to the extent that they have influenced budget forecasting and transport planning activities. The Auditor-General has a limited mandate and is not authorised to question the merits of government policy objectives, such as the scale and design of the development.

Audit criteria

In reaching our conclusion against the audit objective, we used the following audit criteria to judge performance. Criteria were designed around models based on agency responsibilities, standards on auditing estimates, principles of policy implementation and project management. They were discussed and agreed with the agencies.

Budget forecasts:

- Are estimates of developer contributions soundly based?
- Are estimates of public domain and infrastructure costs soundly based?
- Will developer contributions cover public domain and infrastructure construction and other related government development costs?
- Are estimates of BDA operating and financing costs soundly based?
- Does the budget include contingencies that are clearly identified and estimated?
- Are future precinct maintenance costs clearly identified and included in the budget?

Transport planning:

- Is there a comprehensive plan for getting people in and out of the precinct?
- Does planning provide effective solutions for the movement of an increasing number of people over the life of the project?
- Is there effective co-ordination between the relevant agencies and relevant stakeholders to plan and implement transport initiatives?

Audit methodology and approach

Our performance audit methodology is designed to satisfy Australian Assurance Standard ASAE 3500 on performance auditing, including related quality control procedures. Our processes have also been designed to comply with the auditing requirements specified in the Public Finance and Audit Act 1983.

The audit collected evidence by:

- conducting discussions with agency staff and stakeholders
- reviewing relevant documents on the project and its implementation
- analysing performance against criteria
- consulting with agencies on the results of analysis.

The audit's conclusions are based on findings made against audit criteria. The audit's findings are based on evidence appropriate and sufficient to provide a reasonable level of assurance. To form the audit's conclusion the findings are evaluated both individually and in aggregate. The greater, or more material, the variation the more likely the performance is outside accepted tolerances and will result in modified audit conclusions. Guiding judgement is the extent to which the performance gaps (findings) impact on Parliament's decisions or expectations about the economy, efficiency and effectiveness of activities and, if relevant, the discharge of accountability for the activities by public officials.

Potential performance gaps identified in our planning indicated how variations from criteria, and their materiality, would be judged. These included:

- dollar variations relating to –
 - current estimates of public domain and infrastructure costs, such as remediation and Cruise Passenger Terminal costs differing from how they are recorded in the budget
 - increases in costs and scale of public domain and infrastructure giving rise to questions of value for money or financial prudence and whether savings could have been passed on to government
 - developer contributions to fund the public domain and infrastructure being more or less than estimated.
- gaps in planning due to –
 - components of plans not being co-ordinated, making them incomplete
 - supporting infrastructure not likely to be completed on time
 - analysis lacking, making plans inaccurate
 - agencies or stakeholders not participating in planning
 - uncertainties following changes in government transport policies
 - lack of commitment to infrastructure in forward estimates.

Audit selection

We use a strategic approach to selecting performance audits. This balances our performance audit program to reflect issues of interest to Parliament and the public of New South Wales. Details of our approach to selecting topics and our forward program are available on our website.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the Barangaroo Delivery Authority, the Department of Transport, NSW Treasury and the Department of Planning. In particular we wish to thank our liaison officers and officials who participated in discussions, provided documentation and appraised the audit's papers and reports.

Audit team

Our team leader for the performance audit was Chris Bowdler, who was assisted by Lucy Stedman. Sean Crumlin provided direction and quality assurance.

Audit cost

Including staff costs, printing costs and overheads, the estimated cost of the audit is \$216,000.

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing 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 a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of Government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently, economically or effectively and in accordance with the law.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from Parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities 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 agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork the audit team meets with agency management 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 agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant Minister and the Treasurer are also provided with a copy of the final report. The report tabled in Parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in Parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) 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 is tabled. These reports are available on the Parliamentary website.

Who audits the auditors?

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

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice. We are also subject to independent audits of our quality management system to maintain certification under ISO 9001.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every three years. The review's report is tabled in Parliament and available on its website.

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 9275 7100.

Performance audit reports

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
214	Barangaroo Delivery Authority Department of Transport NSW Treasury	<i>Government Expenditure and Transport Planning in relation to implementing Barangaroo</i>	June 2011
213	Aboriginal Affairs NSW Department of Premier and Cabinet	<i>Two Ways Together - NSW Aboriginal Affairs Plan</i>	18 May 2011
212	Office of Environment & Heritage WorkCover NSW	<i>Transport of Dangerous Goods</i>	10 May 2011
211	NSW Police Force NSW Health	<i>The Effectiveness of Cautioning for Minor Cannabis Offences</i>	7 April 2011
210	NSW Health	<i>Mental Health Workforce</i>	16 December 2010
209	Department of Premier and Cabinet	<i>Sick leave</i>	8 December 2010
208	Department of Industry and Investment	<i>Coal Mining Royalties</i>	30 November 2010
207	Whole of Government electronic information security	<i>Electronic Information Security</i>	20 October 2010
206	NSW Health NSW Ambulance Service	<i>Helicopter Emergency Medical Service Contract</i>	22 September 2010
205	Department of Environment, Climate Change and Water	<i>Protecting the Environment: Pollution Incidents</i>	15 September 2010
204	Corrective Services NSW	<i>Home Detention</i>	8 September 2010
203	Australian Museum	<i>Knowing the Collections</i>	1 September 2010
202	Industry & Investment NSW Homebush Motor Racing Authority Events NSW	<i>Government Investment in V8 Supercar Races at Sydney Olympic Park</i>	23 June 2010
201	Department of Premier and Cabinet	<i>Severance Payments to Special Temporary Employees</i>	16 June 2010
200	Department of Human Services - Ageing, Disability and Home Care	<i>Access to Overnight Centre-Based Disability Respite</i>	5 May 2010
199	Department of Premier and Cabinet NSW Treasury WorkCover NSW	<i>Injury Management in the NSW Public Sector</i>	31 March 2010
198	NSW Transport and Infrastructure	<i>Improving the Performance of Metropolitan Bus Services</i>	10 March 2010
197	Roads and Traffic Authority of NSW	<i>Improving Road Safety: School Zones</i>	25 February 2010
196	NSW Commission for Children and Young People	<i>Working with Children Check</i>	24 February 2010
195	NSW Police Force NSW Department of Health	<i>Managing Forensic Analysis – Fingerprints and DNA</i>	10 February 2010
194	Department of Premier and Cabinet Department of Services, Technology and Administration NSW Treasury	<i>Government Advertising</i>	10 December 2009

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
193	Roads and Traffic Authority of NSW	<i>Handback of the M4 Tollway</i>	27 October 2009
192	Department of Services, Technology and Administration	<i>Government Licensing Project</i>	7 October 2009
191	Land and Property Management Authority Maritime Authority of NSW	<i>Administering Domestic Waterfront Tenancies</i>	23 September 2009
190	Department of Environment, Climate Change and Water NSW Environmental Trust	<i>Environmental Grants Administration</i>	26 August 2009
189	NSW Attorney General's Department NSW Department of Health NSW Police Force	<i>Helping Aboriginal Defendants through MERIT</i>	5 August 2009
187	Roads and Traffic Authority of NSW	<i>Improving Road Safety – Heavy Vehicles</i>	13 May 2009
186	Grants	<i>Grants Administration</i>	6 May 2009
185	Forests NSW	<i>Sustaining Native Forest Operations</i>	29 April 2009
184	NSW Police Force	<i>Managing Injured Police</i>	10 December 2008
183	Department of Education and Training	<i>Improving Literacy and Numeracy in NSW Public Schools</i>	22 October 2008
182	Department of Health	<i>Delivering Health Care out of Hospitals</i>	24 September 2008
181	Department of Environment and Climate Change	<i>Recycling and Reuse of Waste in the NSW Public Sector</i>	11 June 2008
180	Follow-up of 2003 Performance Audit	<i>Protecting Our Rivers</i>	21 May 2008
179	NSW Office of Liquor, Gaming and Racing; NSW Police Force	<i>Working with Hotels and Clubs to reduce alcohol-related crime</i>	23 April 2008
178	Greyhound and Harness Racing Regulatory Authority	<i>Managing the Amalgamation of the Greyhound and Harness Racing Regulatory Authority</i>	3 April 2008
177	Office of the Director of Public Prosecutions	<i>Efficiency of the Office of the Director of Public Prosecutions</i>	26 March 2008

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.