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

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

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

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

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

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

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General’s Reports to Parliament – Financial Audits.
Newcastle Urban Transformation and Transport Program

Section one – Newcastle Urban Transformation and Transport Program

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Section one

Newcastle Urban Transformation and Transport Program
Executive summary

The Newcastle Urban Transformation and Transport Program (the Program) is an urban renewal and transport program in the Newcastle city centre. The Hunter and Central Coast Development Corporation (HCCDC) has led the Program since 2017. UrbanGrowth NSW led the Program from 2014 until 2017. Transport for NSW has been responsible for delivering the transport parts of the Program since the Program commenced. All references to HCCDC in this report relate to both HCCDC and its predecessor, the Hunter Development Corporation. All references to UrbanGrowth NSW in this report relate only to its Newcastle office from 2014 to 2017.

This audit had two objectives:

1. To assess the economy of the approach chosen to achieve the objectives of the Program.
2. To assess the effectiveness of the consultation and oversight of the Program.

We addressed the audit objectives by answering the following questions:

a) Was the decision to build light rail an economical option for achieving Program objectives?
b) Has the best value been obtained for the use of the former railway land?
c) Was good practice used in consultation on key Program decisions?
d) Did governance arrangements support delivery of the program?

Conclusion

1. The urban renewal projects on the former railway land are well targeted to support the objectives of the Program. However, there is insufficient evidence that the cost of the light rail will be justified by its contribution to Program objectives.

   The planned uses of the former railway land achieve a balance between the economic and social objectives of the Program at a reasonable cost to the Government. HCCDC, and previously UrbanGrowth NSW, identified and considered options for land use that would best meet Program objectives. Required probity processes were followed for developments that involved financial transactions. Our audit did not assess the achievement of these objectives because none of the projects have been completed yet.

   Analysis presented in the Program business case and other planning documents showed that the light rail would have small transport benefits and was expected to make a modest contribution to broader Program objectives. Analysis in the Program business case argued that despite this, the light rail was justified because it would attract investment and promote economic development around the route. The Program business case referred to several international examples to support this argument, but did not make a convincing case that these examples were comparable to the proposed light rail in Newcastle.

   The audited agencies argue that the contribution of light rail cannot be assessed separately because it is a part of a broader Program. The cost of the light rail makes up around 53 per cent of the total Program funding. Given the cost of the light rail, agencies need to be able to demonstrate that this investment provides value for money by making a measurable contribution to the Program objectives.

2. Consultation and oversight were mostly effective during the implementation stages of the Program. There were weaknesses in both areas in the planning stages.

   Consultations about the urban renewal activities from around 2015 onward followed good practice standards. These consultations were based on an internationally accepted framework and met their stated objectives. Community consultations on the decision to close the train line were held in 2006 and 2009. However, the final decision in 2012 was made without a specific community consultation. There was no community consultation on the decision to build a light rail.

   The governance arrangements that were in place during the planning stages of the Program did not provide effective oversight. This meant there was not a single agreed set of Program objectives until 2016 and roles and responsibilities for the Program were not clear. Leadership and oversight improved during the implementation phase of the Program. Roles and responsibilities were clarified and a multi-agency steering committee was established to resolve issues that needed multi-agency coordination.
1. Key findings

Planned urban renewal projects are aligned with Program objectives

The planned uses of the former railway land align with the objectives of encouraging people to visit and live in the city centre, creating attractive public spaces and supporting growth in employment in the city. The heritage objective of the Program was added later than other objectives after consultation with the community. Projects addressing the heritage objective focus mostly on the former railway. This could be broadened and strengthened by including projects that recognise other types of heritage.

Processes were followed to achieve value for commercial land transactions

HCCDC, and previously UrbanGrowth NSW, followed good practice processes for the sale and lease of parts of the former railway land. There is evidence that options for the best use of this land were identified and assessed systematically. Competitive processes were used for most transactions and the required assessment and approval processes were followed. The sale of land to the University of Newcastle did not use a competitive process, but the required processes for direct negotiation for this sale were followed.

The evidence that the cost of light rail will be justified by its contribution to Program objectives is not convincing

The Program business case acknowledged that the light rail would not improve transport services in the city centre significantly and would make a modest contribution to Program objectives. The main justification in the business case for the cost of the light rail was its contribution to broader economic development in Newcastle, such as increased property values and private investment. There is international evidence that light rail can support broad economic outcomes. However, this is not conclusive and the examples drawn on were not directly comparable to the Newcastle light rail project. Recent policy statements from Transport for NSW have compounded this by incorrectly stating that investment decisions in Newcastle were influenced by the light rail, including the Newcastle court house development and University of Newcastle city centre expansion.

Light rail was decided and announced before business case analysis was done

The analysis of the benefits and costs of light rail was prepared after the decision to build light rail had been made and announced. Our previous reports have emphasised the importance of completing thorough business case analysis that sets out the expected scope, benefits and costs before announcing infrastructure projects. This is important for transparency and accountability in the use of public funds. Business case analysis provided to Cabinet after the initial light rail decision was announced was overly optimistic. The analysis also underestimated the costs of the project because the project scope had not been completed at the time and subsequently increased several times.

Consultations on urban renewal options mostly followed good practice guidelines

Consultations about urban renewal options for the Program included a range of stakeholders and provided opportunities for input into decisions about the use of the former railway land. Participant evaluations of these consultations were mostly positive. Changes and additions were made to the objectives and specific projects in response to feedback received. We assessed consultations according to good practice standards from the International Association for Public Participation.

Most community consultation on transport decisions did not meet good practice guidelines

There had been several decades of debate about the potential closure of the train line in Newcastle. Community consultations held in 2006 and 2009 explored this issue. However, there was no specific community consultation before the final decision was made in 2012. UrbanGrowth NSW and HCCDC consulted with industry representatives but not with the broader community. HCCDC states that consultation with industry and business representatives constitutes community consultation because industry representatives are also members of the community. This does not meet good practice standards because it is not a representative sample of the community.
There was no community consultation on the decision to build a light rail. There were subsequent opportunities for the community to comment on the implementation options, but the decision to build it had already been made. Community and industry consultation was held on which route the light rail should use, but the results of this were not made public.

**Leadership and oversight of the Program was not clear during planning but improved during the implementation stage**

Multi-agency coordination and oversight were not effective during the planning stages of the Program. Examples of limitations include multiple versions of Program objectives, unclear reporting lines for project management groups, and poor role definition for the initial advisory board. Program ownership was clarified in mid-2016 with the appointment of a new Program Director. This was supported by the creation of a multi-agency steering committee that was more effective than previous oversight bodies. The development and delivery of programs to support businesses affected by light rail construction could have been coordinated better. The Program Benefits Realisation Plan has not been used to actively measure and monitor the benefits of the Program in a coordinated way.

## 2. Recommendations

For future infrastructure programs, NSW Government agencies should:

1. Support economical decision-making on infrastructure projects by:
   a) providing balanced advice to decision makers on the benefits and risks of large infrastructure investments at all stages of the decision-making process
   b) providing scope and cost estimates that are as accurate and complete as possible when initial funding decisions are being made
   c) making business cases available to the public.

2. Develop and implement a benefits management approach from the beginning of a program to ensure responsibility for defining benefits and measuring their achievement is clear.

3. Consult with a wide range of stakeholders before major decisions are made and announced, and report publicly on the results and outcomes of consultations.

4. Establish whole-of-government oversight early in the program to guide major decisions. This should include:
   a) agreeing on objectives and ensuring all agencies understand these
   b) clearly defining roles and responsibilities for all agencies
   c) establishing whole-of-government coordination for the assessment and mitigation of the impact of major construction projects on businesses and the community.

**By March 2019, the Hunter and Central Coast Development Corporation should:**

5. Update and implement the Program Benefits Realisation Plan. This should include:
   a) setting measurable targets for the desired benefits
   b) clearly allocating ownership for achieving the desired benefits
   c) monitoring progress toward achieving the desired benefits and reporting publicly on the results.

6. Work with relevant stakeholders to explore options for increasing the focus on the heritage objective of the Program in projects on the former railway land. This could include projects that recognise the cultural and industrial heritage of Newcastle.
1. Introduction

1.1 Newcastle Urban Transformation and Transport Program

Program overview

The Newcastle Urban Transformation and Transport Program (the Program) aims to revitalise the Newcastle city centre. The Program is led by the Hunter and Central Coast Development Corporation (HCCDC) with Transport for NSW delivering the transport components. Exhibit 1 lists the six objectives of the Program and Exhibit 2 shows the main projects that make up the Program.

Exhibit 1: Objectives of the Program

<table>
<thead>
<tr>
<th>Program objective</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bring people back to the city centre</td>
<td>Re-imagine the city centre as an enhanced destination, supported by new employment, educational and housing opportunities and public domain, that will attract people.</td>
</tr>
<tr>
<td>Connect the city centre to its waterfront</td>
<td>Unite the city centre and the harbour to improve the experience of being in and moving around the city.</td>
</tr>
<tr>
<td>Preserve and enhance the unique heritage</td>
<td>Respect and enhance the unique heritage and character of the Newcastle city centre through the revitalisation activities.</td>
</tr>
<tr>
<td>Help grow new jobs in the city centre</td>
<td>Invest in initiatives that create jobs, with a focus on innovative industries, higher education and initiatives to encourage a range of businesses to the city centre.</td>
</tr>
<tr>
<td>Create great places linked to new transport</td>
<td>Integrate urban transformation with new, efficient transport to activate Hunter and Scott Streets and return them to thriving main streets.</td>
</tr>
<tr>
<td>Create economically sustainable public domain and community assets</td>
<td>Leave a positive legacy for the people of Newcastle. Ensure that new public domain and community facilities can be maintained to a high standard into the future.</td>
</tr>
</tbody>
</table>

Source: Information compiled from Revitalising Newcastle website and Program planning documents.

Exhibit 2: Summary of projects on the former railway land

<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light rail and road upgrades</td>
<td>2.7 km of light rail running along about one third of the former railway land. Additional vehicle and pedestrian crossings over the former railway land.</td>
</tr>
<tr>
<td>Newcastle Interchange</td>
<td>Multi-modal transport interchange at Wickham providing links between trains, light rail, and bus services.</td>
</tr>
<tr>
<td>Repurposing of railway infrastructure</td>
<td>Repurposing two former train stations and a signal box for public events and commercial use including hospitality.</td>
</tr>
<tr>
<td>New public spaces</td>
<td>New public recreation areas that are built on the former railway land, including the Market Street lawn and Darby Plaza.</td>
</tr>
<tr>
<td>Mixed use developments</td>
<td>Sale of former railway land for commercial development including retail, residential, accommodation.</td>
</tr>
<tr>
<td>University of Newcastle expansion</td>
<td>Extension of the existing city centre campus of the University of Newcastle, using some former railway land and other land owned by government. Includes teaching space and student housing.</td>
</tr>
<tr>
<td>Affordable housing</td>
<td>Former railway land given to a not-for-profit housing provider to build and operate 30 affordable housing units.</td>
</tr>
</tbody>
</table>

Source: Information compiled from Revitalising Newcastle website and Program planning documents.
The Program has its origins in the Newcastle Urban Renewal Strategy, which was released in December 2012. Several key decisions and announcements about transport were made between 2012 and 2014, including the decisions to close the train line and replace it with a light rail. The commencement of work on the transport projects was delayed by around 12 months because of a legal challenge to the decision to close the train line. Most decisions about the repurposing of the former railway land were made and announced from 2015 onward. The light rail is due to be operational by early 2019 and arrangements for the urban renewal projects, such as land sales and leases, will be finalised during 2019. Exhibit 3 summarises the timeline of milestones for the Program.

Exhibit 3: Timeline of milestones for the Program

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2012</td>
<td>Decision to close the train line announced, with buses to replace trains</td>
</tr>
<tr>
<td></td>
<td>Newcastle Urban Renewal Strategy released</td>
</tr>
<tr>
<td>June 2013</td>
<td>Decision to build light rail to replace train line announced</td>
</tr>
<tr>
<td>December 2013</td>
<td>Wickham confirmed as location for new train terminus and interchange</td>
</tr>
<tr>
<td>May 2014</td>
<td>Preferred route for light rail chosen (railway land and Hunter Street)</td>
</tr>
<tr>
<td>December 2014</td>
<td>Train line closed</td>
</tr>
<tr>
<td>July 2015</td>
<td>Major community consultation held on former railway land use</td>
</tr>
<tr>
<td>November 2016</td>
<td>Temporary public space opened on former railway land</td>
</tr>
<tr>
<td>September 2017</td>
<td>Light rail construction in the city centre commences</td>
</tr>
<tr>
<td>October 2017</td>
<td>Newcastle Interchange opens (new train terminus and transport interchange)</td>
</tr>
<tr>
<td>December 2017</td>
<td>Rezoning application for former railway land approved</td>
</tr>
<tr>
<td></td>
<td>Initial plan for repurposing Newcastle Station announced</td>
</tr>
<tr>
<td>April 2018</td>
<td>Affordable housing development provider announced</td>
</tr>
<tr>
<td>Q1 2019 (scheduled)</td>
<td>Light rail operational</td>
</tr>
</tbody>
</table>

Source: Information compiled from Revitalising Newcastle website and Program planning documents.

Program goals

HCCDC and Transport for NSW expect the Program to generate economic and social benefits by repurposing the former railway land for community and commercial uses. The final business case set out expected benefits including:

- an additional 2,900 residents by 2036 (compared to current forecasts)
- an additional 3,200 jobs by 2036 (compared to current forecasts)
- 746 new houses and apartments in the city centre
- 29,700 square metres of new commercial space.

Other benefits noted in planning documents include: higher property values in the city centre; increases in commercial activity including construction, retail, and hospitality; and more people visiting and spending time in the city centre. Specific targets were not set for these areas.

Program scope and funding

The scope of the Program and the total amount of funding both increased considerably between 2012 and 2017. Initial planning indicated that the cost of closing the train line, building a new train terminus and transport interchange, and completing public space improvements would be $220 million, with $100 million of this coming from unspecified Australian Government and private sources. This did not include the cost of a light rail, as initial plans involved replacing the train service with buses. Further details of the scope and cost increases of the light rail project are in Exhibit 6 in Chapter Two. The estimated cost of the Program to the NSW Government had risen to $693 million by March 2017.
The sources of funding for the Program have changed several times. Initial planning documents indicated that most of the Program funding would come from the NSW Government's Restart NSW fund. To qualify for the Restart NSW fund, projects must meet certain criteria including a positive benefit-cost ratio. The Program did not meet this standard, so funding was reallocated from the Transport for NSW capital funding budget. Exhibit 4 summarises the changes in project cost and sources of funding from 2012 to 2017.

**Exhibit 4: Increases in cost and changes to funding sources for the Program, 2012 to 2017**

<table>
<thead>
<tr>
<th>Date</th>
<th>Cost</th>
<th>Funding sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2012</td>
<td>$220 million:</td>
<td>Hunter Infrastructure and Investment Fund - $60m</td>
</tr>
<tr>
<td></td>
<td>Railway closure - $200m</td>
<td>Restart NSW - $60m</td>
</tr>
<tr>
<td></td>
<td>Urban renewal - $20m</td>
<td>Australian Government (unspecified) - $100m</td>
</tr>
<tr>
<td>December 2013</td>
<td>$460 million:</td>
<td>Port of Newcastle revenue - $340m</td>
</tr>
<tr>
<td></td>
<td>Railway closure - $275m</td>
<td>Hunter Infrastructure and Investment Fund - $60m</td>
</tr>
<tr>
<td></td>
<td>Light rail - $165m*</td>
<td>Restart NSW - $60m</td>
</tr>
<tr>
<td></td>
<td>Urban renewal - $20m</td>
<td></td>
</tr>
<tr>
<td>May 2014</td>
<td>$498 million:</td>
<td>Port of Newcastle revenue - $340m</td>
</tr>
<tr>
<td></td>
<td>Railway closure - $202m</td>
<td>Hunter Infrastructure and Investment Fund - $60m</td>
</tr>
<tr>
<td></td>
<td>Light rail - $215m</td>
<td>Restart NSW - $60m</td>
</tr>
<tr>
<td></td>
<td>Urban renewal - $81m*</td>
<td>Land sale revenue - $30m</td>
</tr>
<tr>
<td></td>
<td>(including land sale revenue)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$8m shortfall</td>
</tr>
<tr>
<td>October 2014</td>
<td>$556 million:</td>
<td>Restart NSW - $400m</td>
</tr>
<tr>
<td></td>
<td>Railway closure - $207m</td>
<td>Hunter Infrastructure and Investment Fund - $60m</td>
</tr>
<tr>
<td></td>
<td>Light rail - $255m</td>
<td>Land sale revenue - $44m</td>
</tr>
<tr>
<td></td>
<td>Urban renewal - $94m*</td>
<td>$52m shortfall</td>
</tr>
<tr>
<td></td>
<td>(including land sale revenue)</td>
<td></td>
</tr>
<tr>
<td>December 2014</td>
<td>$561 million:</td>
<td>Transport for NSW capital funding - $402m</td>
</tr>
<tr>
<td></td>
<td>Railway closure - $207m</td>
<td>Hunter Infrastructure and Investment Fund - $60m</td>
</tr>
<tr>
<td></td>
<td>Light rail - $255m</td>
<td>Land sale revenue - $44m</td>
</tr>
<tr>
<td></td>
<td>Urban renewal - $99m*</td>
<td>$55m shortfall</td>
</tr>
<tr>
<td></td>
<td>(including land sale revenue)</td>
<td></td>
</tr>
<tr>
<td>June 2016</td>
<td>$658 million:</td>
<td>Transport for NSW capital funding - $499m</td>
</tr>
<tr>
<td></td>
<td>Railway closure - $226m</td>
<td>Hunter Infrastructure and Investment Fund - $60m</td>
</tr>
<tr>
<td></td>
<td>Light rail - $333m</td>
<td>UrbanGrowth NSW funding - $75m</td>
</tr>
<tr>
<td></td>
<td>Urban renewal - $99m*</td>
<td>Land sale revenue - $24m</td>
</tr>
<tr>
<td></td>
<td>(including land sale revenue)</td>
<td></td>
</tr>
<tr>
<td>March 2017</td>
<td>$693 million:</td>
<td>Transport for NSW capital funding - $499m</td>
</tr>
<tr>
<td></td>
<td>Railway closure - $226m</td>
<td>Hunter Infrastructure and Investment Fund - $60m</td>
</tr>
<tr>
<td></td>
<td>Light rail - $368m</td>
<td>UrbanGrowth NSW funding - $110m</td>
</tr>
<tr>
<td></td>
<td>Urban renewal - $99m*</td>
<td>Land sale revenue - $24m</td>
</tr>
<tr>
<td></td>
<td>(including land sale revenue)</td>
<td></td>
</tr>
</tbody>
</table>

* All light rail figures include $10 million allocated for future light rail network planning.

Source: Information compiled from business case documents and financial audit documents.
1.2 About the audit

This audit had two objectives:

1. To assess the economy of the approach chosen to achieve the objectives of the Newcastle Urban Transformation and Transport Program.
2. To assess the effectiveness of the consultation and oversight of the Newcastle Urban Transformation and Transport Program.

We addressed the audit objectives by answering the following questions:

a) Was the decision to build light rail an economical option for achieving Program objectives?
b) Has the best value been obtained for the use of the former railway land?
c) Was good practice used in consultation on key Program decisions?
d) Did governance arrangements support delivery of the program?

For this performance audit, the “economy of the approach chosen” means whether the audited agencies could demonstrate that the cost of the Program activities was necessary to achieve the objectives of the Program. The “effectiveness of the consultation and oversight” means whether the consultation processes and oversight arrangements achieved their stated goals.

The audit scope included all activities associated with the Program that are the responsibility of HCCDC and Transport for NSW. It did not include areas of local government responsibility, such as zoning decisions, or policy decisions made by Ministers or Cabinet. More information about the audit approach is at Appendix two.
2. Using light rail to achieve Program objectives

The light rail is not justified by conventional cost-benefit analysis and there is insufficient evidence that the indirect contribution of light rail to achieving the economic development objectives of the Program will justify the cost.

Analysis presented in Program business cases and other planning documents showed that the light rail would have small transport benefits and was expected to make a modest contribution to broader Program objectives. Analysis in the Program business case argued that despite this, the light rail was justified because it would attract investment and promote economic development around the route. The Program business case referred to several international examples to support this argument, but did not make a convincing case that these examples were comparable to the proposed light rail in Newcastle.

The business case analysis of the benefits and costs of light rail was prepared after the decision to build light rail had been made and announced. Our previous reports, and recent reports by others, have emphasised the importance of completing thorough analysis before announcing infrastructure projects. Some advice provided after the initial light rail decision was announced was overly optimistic. It included benefits that cannot reasonably be attributed to light rail and underestimated the scope and cost of the project.

The audited agencies argue that the contribution of light rail cannot be assessed separately because it is part of a broader Program. The cost of the light rail makes up around 53 per cent of the total Program funding. Given the high cost of the light rail, we believe agencies need to be able to demonstrate that this investment provides value for money by making a measurable contribution to the Program objectives.

Recommendations
For future infrastructure programs, NSW Government agencies should support economical decision-making on infrastructure projects by:

- providing balanced advice to decision makers on the benefits and risks of large infrastructure investments at all stages of the decision-making process
- providing scope and cost estimates that are as accurate and complete as possible when initial funding decisions are being made
- making business cases available to the public.

2.1 Rationale for light rail in Newcastle

The light rail line starts at the Newcastle Interchange, where the train line terminates. It follows the former railway land before diverting onto Hunter Street and then Scott Street, and terminating close to Newcastle Beach. Hunter Street is one of the major shopping streets in the Newcastle city centre and is a key focus of the urban renewal objectives of the Program. Exhibit 5 shows the light rail route, which is 2.7 km long and has six stops.
The Hunter and Central Coast Development Corporation (HCCDC) and Transport for NSW say the light rail will contribute to the objectives of the Program by:

- bringing people back to the city centre
- delivering customers directly to the door of businesses
- linking new public spaces and city precincts
- forming the centrepiece of an integrated transport network.

The Program business case also advised that light rail would improve the amenity of the Newcastle city centre, encourage private sector investment in Newcastle, and increase property values in the surrounding areas.

**Light rail costs are the largest area of spending for the Program**

The scope of the Program increased several times between 2012 and 2017, which increased the funding required for the Program. The scope additions were due to a combination of community and stakeholder feedback and omissions from the original business case. The funding for the Program was approved in several stages, which meant that the government did not have an overview of the full cost of the Program when making earlier funding decisions.

The total cost of light rail and associated enabling works is currently around $368 million. This makes up around 53 per cent of the total funding for the Program. Exhibit 6 shows that the total cost of the light rail has increased by 44 per cent since the final business case was approved. Some of these increases relate to design and scope modifications that aim to improve the urban amenity of the light rail. These were added following community and stakeholder consultations. Other changes were required to cover additional work that was not included in the original business case. For example, an extra $42 million was required for additional road works to allow the light rail to run along Hunter Street. Delays caused by a legal challenge to the decision to close the train line increased costs by $36 million.

**Exhibit 6: Increase in scope and cost of light rail construction, 2014 to 2017**

<table>
<thead>
<tr>
<th>Year</th>
<th>Scope change</th>
<th>Item cost $m</th>
<th>Total cost $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Original funding approved for light rail construction</td>
<td>245</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Funding for future light rail network planning</td>
<td>10</td>
<td>255</td>
</tr>
<tr>
<td>2016</td>
<td>Road works necessary to enable light rail</td>
<td>42</td>
<td>333</td>
</tr>
<tr>
<td></td>
<td>Project delays increasing bus service cost and currency changes</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Urban amenity improvements (landscaping and wire-free running)</td>
<td>35</td>
<td>368</td>
</tr>
</tbody>
</table>

Source: Information compiled from Program business cases and other planning documents.
**Business case analysis indicated economic and transport benefits would not justify the cost of light rail**

The analysis in the Program business case showed there is no strong economic rationale for light rail in Newcastle. Cost-benefit analysis indicated that light rail would make a modest direct contribution to the overall outcomes of the Program. The estimated benefit-cost ratio for the Program was between 0.47 and 0.73. This means that the Program was estimated to lead to a maximum of around 73 cents in benefits for every $1 spent. This analysis was done in 2014, so does not include subsequent cost increases for the light rail. Analysis commissioned by HCCDC in 2009 identified light rail as a possible option to replace the trains, but concluded it was unsuitable for Newcastle because of the high cost.

The analysis in the Program business case also indicated that light rail would not make a significant contribution to improving public transport in Newcastle. This analysis predicted there would be some benefits for people travelling within the city centre, including better east-west connections with twice as many stops as the former train route.

However, for those travelling from outside the city centre, the projections showed that light rail would increase travel times for both rail users and road users, and increase the number of changes travellers are required to make on each journey.

**Evidence for the link between light rail and urban renewal does not justify the cost in Newcastle**

The justification for light rail in the business case for the Program draws heavily on international studies to support the contention that light rail will lead to urban renewal improvements in Newcastle. There is some evidence that light rail can be associated with economic development such as increases in property and land values. However, the evidence for this relationship is not conclusive and these studies do not demonstrate that light rail is necessary to achieve urban renewal improvement. Weaknesses in the analysis include:

- the studies do not all show a positive relationship between light rail and urban renewal outcomes
- the studies do not distinguish between correlation and causation. The analysis presented in the Program business case assumes that light rail has an intrinsic urban renewal value, but this is not supported by the research cited
- other studies show trains and rapid transit bus services are also associated with improvements in land or property value
- land and property values are only one element of urban renewal.

HCCDC and Transport for NSW believe that investment in light rail was important as a signal to potential private sector investors that the government was serious about urban renewal in Newcastle. It is widely recognised that government investment in infrastructure and urban renewal can encourage private investment and stimulate economic growth in underperforming regions. Many types of government investment can be used to stimulate growth and investment and some of these come at a significantly lower cost than major transport infrastructure.

The business case for the Program includes detailed analysis of 30 urban renewal options in the Newcastle city centre and surrounds. These had a combined cost of around $280 million. The NSW Government has created a $10 million Mines Grouting Fund, which underwrites the cost of fixing damage to land that was previously used for mining. Industry representatives that we spoke to highlighted this as an example of a relatively inexpensive government investment that improved certainty and confidence for potential investors.
The contribution of light rail to achieving the objectives of the Program has been overstated

Internal reviews of the light rail business case noted that many of the economic and amenity benefits being attributed to light rail would be achieved through the closure of the train line and associated urban renewal projects, rather than the light rail. Despite this, recent statements from Transport for NSW describe light rail as a transformative infrastructure project that has triggered investment in Newcastle. For example, the 2018 ‘Greater Newcastle Future Transport Plan’ states that the Newcastle light rail has triggered investments including the Newcastle court house development, the Newcastle Interchange, and the first University of Newcastle building in the city centre.

None of these examples can feasibly be linked to the light rail project because:

- construction on the Newcastle court house began in December 2012, six months before the light rail decision was announced, and was funded by the NSW Government
- the Newcastle Interchange was necessary because of the NSW Government’s decision to close the train line into Newcastle, and was funded entirely by the NSW Government
- the University of Newcastle’s first new building in the city centre was being planned before the announcement of light rail, with contracts finalised just three months after the light rail was announced.

The contribution of the light rail to the objectives of the Program cannot be measured in a reliable way. Separating the impact of investment in light rail from other projects that are not related to the light rail, such as the expansion of a university campus, the creation of new public spaces, and the sale of land for commercial development, will be very difficult. This means that it will not be possible to assess which areas of spending on the Program have provided best value for money.

2.2 Business case for light rail in Newcastle

Light rail was announced publicly before a business case was completed

The light rail was announced publicly in June 2013. There was no business case or other preliminary planning work done before this announcement. The original public announcement indicated that the decision to build light rail would be subject to a business case analysis. In subsequent advice to Cabinet, the reasons given for recommending approval of the light rail funding included the fact that a public announcement had already been made. The business case has not been released publicly.

The Infrastructure NSW assurance system requires agencies to complete preliminary and final business cases for infrastructure investments. NSW Government policy requires that preliminary business cases include a detailed analysis of a proposed option and alternative options. An executive summary of a preliminary business case was presented to Cabinet, but Transport for NSW could not locate a final approved version of this document when we requested it for this audit. Adequate record keeping for key planning documents is important to ensure accountability for major projects.

In addition to the announcement of the light rail project in the Newcastle city centre, public announcements referred to a “future light rail network” that would extend to the Newcastle suburbs. This announcement also preceded any analysis by Transport for NSW of the need for, or cost of, extending a light rail service beyond the city centre. The government released the ‘Greater Newcastle Future Transport Plan’ in 2018, which included some potential future routes for light rail.

Program business case included analysis of benefits that was overly optimistic

Most of the studies that are used in the Program business case to argue for the benefits of light rail are not comparable to the light rail being built in Newcastle. Several studies that found a link between light rail and property prices were cited in the final business case. The studies that found higher impacts were emphasised, but these were the least comparable to Newcastle. For example, the light rail system in Newcastle, England operates as a full metropolitan transport system, with 60 stations and almost 77 km of tracks. Other examples cited, including Freiburg in Germany and Strasbourg in France, are also extensive light rail networks that are much larger than the Newcastle light rail project.
Some of the potential benefits of light rail listed in the final business case for the Program cannot reasonably be attributed to light rail. For example, it is claimed that light rail will increase community health and fitness in Newcastle because more people will walk to the Newcastle Interchange to use the light rail. The business case states that this increase in fitness would in turn contribute to increased productivity in Newcastle. These potential benefits were not included in the calculation of the benefit-cost ratio for the Program, but were included in a discussion of broader benefits. They are not robust enough to be included in a business case advising on a major infrastructure decision.

NSW Government guidelines state that a final business case should include objective assessment of project merits, including detailed specification of expected costs and benefits that can be attributed to the proposed activity. Numerous reports and studies have highlighted the importance of following good practice when preparing business cases for government infrastructure projects. For example:

- Our ‘Performance Audit Insights’ report in 2018 noted that inadequate business case analysis or justification is a common issue identified in our previous reports, including recent audit reports on the CBD and South East Light Rail project in Sydney, and the Albert ‘Tibby’ Cotter Walkway in Moore Park.
- The Australian National Audit Office and Victorian Auditor-General's Office reports on the East-West Link project in 2015, and the ACT Audit Office's report on the ACT light rail project in 2016 all highlighted the risks of decisions based on flawed advice and the importance of identifying and managing benefits, costs and risks clearly.
- Infrastructure Australia's ‘Infrastructure Decision-making Principles’, released in 2018, state that governments should complete thorough analysis before announcing preferred options and should release information on the rationale for their decisions to the public.
- The Productivity Commission inquiry into public infrastructure in 2014 identified examples of poor value for money in public infrastructure projects due to the selection of projects with inadequate justification.
- The Grattan Institute's ‘Cost overruns in transport infrastructure’ report in 2016 noted that early announcement of projects was a common factor in projects that exceeded their budget.
- The UK National Audit Office 2018 guide to costing major projects notes that common "warning signs" of problems in business cases include ruling out alternative options without thorough evaluation and a heavy reliance on wider benefits with long timeframes for delivery.
- The Institute for Government has published a series of reports on decision-making for major infrastructure projects in the UK, which identifies common issues including poor options appraisal and inconsistency in assessing benefits in major infrastructure projects.
3. Use of the former railway land

The planned uses of the former railway land achieve a balance between the economic and social objectives of the Program at a reasonable cost to the government.

The planned uses of the former railway land align with the objectives of encouraging people to visit and live in the city centre, creating attractive public spaces, and supporting growth in employment in the city. The transport benefits of the activities are less clear, because the light rail is the major transport project and this will not make significant improvements to transport in Newcastle.

The processes used for selling and leasing parts of the former railway land followed industry standards. Options for the former railway land were identified and assessed systematically. Competitive processes were used for most transactions and the required assessment and approval processes were followed. The sale of land to the University of Newcastle did not use a competitive process, but required processes for direct negotiations were followed.

Recommendation

By March 2019, the Hunter and Central Coast Development Corporation should:

- work with relevant stakeholders to explore options for increasing the focus on the heritage objective of the Program in projects on the former railway land. This could include projects that recognise the cultural and industrial heritage of Newcastle.

3.1 Projects on the former railway land

Program planning documents stated that closing the train line at the Western edge of the city was crucial to achieving the objectives of the Program. Several projects are being planned that involve repurposing the former railway land for economic and community uses. Exhibit 7 shows the main projects on the former railway land and Exhibit 8 describes these projects. These developments have not been finalised. In this chapter, we assess the processes used to decide on uses for the former railway land, but do not assess whether the objectives have been achieved.

Exhibit 7: Map of projects on the former railway land

Source: HCCDC planning documents.
Exhibit 8: Projects on the former railway land

<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
<th>% of land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light rail and road crossings</td>
<td>Light rail tracks starting at the transport interchange will follow about 1 km of the former railway land, with some additional road crossings added.</td>
<td>41</td>
</tr>
<tr>
<td>Newcastle and Civic Station developments</td>
<td>Restoration and repurposing of former railway stations for hospitality, events, education and community uses.</td>
<td>21</td>
</tr>
<tr>
<td>Commercial developments</td>
<td>Parts of the railway land have been rezoned and will be sold for development as residential, commercial, and retail space.</td>
<td>11</td>
</tr>
<tr>
<td>Market Street Lawn open space</td>
<td>New outdoor space on former railway land including landscaped recreation and public events areas.</td>
<td>14</td>
</tr>
<tr>
<td>University of Newcastle expansion</td>
<td>Sale of former railway land as part of a broader land sale to the University to build new teaching and research spaces and student accommodation.</td>
<td>10</td>
</tr>
<tr>
<td>Affordable housing</td>
<td>Former railway land and additional funding provided for construction of 30 affordable housing units.</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: Total does not add to 100 per cent as a parcel of land totalling 1 per cent has not yet been allocated.
Source: Descriptions are compiled from Program information on the Revitalising Newcastle website. Percentages from HCCDC planning documents.

Projects on the former railway land align with social and economic objectives of the Program

Several urban renewal projects that use former railway land aim to make central Newcastle more attractive to residents, visitors and students. These projects align with the Program objectives of bringing people back to the city centre, creating public domain and community assets, and helping create jobs in the city centre. The main public domain project is Market Street Lawn, which will be a large area of landscaped green space with facilities for community events such as concerts. Several public events were held in this area before light rail construction began and these were well attended. Two former train stations, Civic and Newcastle Stations, are being restored and repurposed to allow for hospitality and community uses. The plans for the Newcastle Station precinct involve a community-based organisation trialling several uses of the space over an 18-month period.

Commercial developments on parts of the former railway land are aligned with the objectives of creating jobs and bringing more people to the city. Three parts of the former railway land will be sold and developed for uses including retail, commercial buildings, and apartments. A community housing provider has won a tender to build and operate an affordable housing development. This will lead to more people living in the city and contribute to the affordable housing options in Newcastle. The sale of land to the University of Newcastle will allow the expansion of its existing city centre campus. Plans for the site include teaching and research spaces and student accommodation.

The waterfront is more accessible, but other transport benefits are less clear

Several new vehicle and pedestrian crossings will be built across the former railway land to address the objective of improving access to the waterfront. The light rail will have three additional stops in the area adjacent to the waterfront, which will improve access to these areas compared to the train service that it replaces. The NSW Government has previously invested in the renewal of the waterfront area through HCCDC projects, so improving access helps to increase the value of this government investment.

The light rail takes up the largest proportion of any project on the former railway land. As discussed in Chapter Two, analysis presented in the Program business case advised that the light rail would not provide significant transport benefits. While the Program does not include projects that have clear transport benefits, there are other transport plans in Newcastle that aim to increase public transport use. These include the introduction of a single transport operator in Newcastle and other actions under the ‘Greater Newcastle Future Transport Plan’.
The chosen light rail route created opportunities for development that align with the urban renewal objectives of the Program. The Program business case estimated the chosen route would allow ten per cent more housing, and create 24 per cent more jobs and 60 per cent more parkland than alternative routes because it would make the former railway land available for development. However, this route resulted in higher road impacts, increased travel times, and a reduction in space available for active transport such as bike lanes.

**Several projects preserve railway heritage on the former railway land**

Several decisions about projects on the former railway land will preserve heritage railway buildings in Newcastle. The façade of the Newcastle Station building will be preserved and restoration works will be done on the building as part of the repurposing of the station. A heritage-listed signal box that was a part of the communications system for the railway will be restored and repurposed as a cafe in the Market Street Lawn area.

The focus on railway heritage reflects one important aspect of the recent history of Newcastle. This could be broadened and strengthened by recognising other types of cultural and industrial heritage. The development of new open spaces, such as the Market Street Lawn and the repurposing of Newcastle Station, could present opportunities to do this. The Barangaroo development in Sydney is one example where local indigenous Australian heritage was incorporated into a large urban renewal project. This is a complex area and would require cooperation between multiple government agencies and non-government organisations.

### 3.2 Processes followed for repurposing former railway land

**Plans for the use of the former railway land changed over time**

The early decisions about the use of the former railway land were not transparent to the public. When the decision to close the train line was announced in December 2012, the Minister for Planning made a statement guaranteeing that the former railway land would stay in public ownership and would not be sold to private developers. This decision was changed after the decision to build light rail was made in 2013. However, the reasons for this change were not explained publicly.

The final plans for the former railway land show that around 11 per cent will be sold for commercial development. While this is not a large proportion of the land, in the context of the previous public assurances given about government retaining the land in public ownership, this decision required a clearer explanation.

Subsequent community consultations allowed members of the community and other stakeholders to contribute to discussions about the use of the former railway land. These are discussed in detail in Chapter Four.

**Transactions for commercial developments have followed industry standards**

HCCDC provided evidence that it followed established industry practice for the commercial transactions involving the former railway land. UrbanGrowth NSW and then HCCDC obtained valuations for the land, developed an overall strategy for the use of the railway land, and sought commercial advice on the best way to combine pieces of land to achieve the objectives of the Program.

Competitive processes were used for commercial transactions including:

- the sale of land for commercial developments
- the selection of a community housing provider to build and manage the affordable housing development
- the lease for temporary repurposing of the former Newcastle Station
- the lease for hospitality operations in the Newcastle Signal Box building.
Ministerial approval was obtained where required, and evaluation plans that included detailed assessment criteria were created and used for these transactions. Some of these processes are still in progress so we did not fully assess these. This audit did not assess the financial outcomes of commercial transactions using former railway land. For example, we did not commission additional valuations to test the reliability of the valuations obtained by HCCDC.

The sale of land to the University of Newcastle did not use a competitive process but followed required processes

UrbanGrowth NSW chose to negotiate directly for the sale of land to the University of Newcastle, rather than use an open competitive process such as advertising and calling for expressions of interest. UrbanGrowth NSW followed required processes for this direct negotiation, including gaining Ministerial approval to proceed with the negotiation.

Direct negotiations create potential risks to probity and value for money, but can be justified in some circumstances. UrbanGrowth NSW judged the University of Newcastle was likely to be the only realistic candidate to establish a university campus in the Newcastle city centre. This was based on UrbanGrowth NSW’s Higher Education Strategy, which involved speaking with 13 universities in New South Wales in 2015, including the University of Newcastle. UrbanGrowth NSW did not complete a market sounding exercise before starting the negotiations. A formal market sounding would have provided greater assurance that the University of Newcastle was the only realistic candidate, but this was not a mandatory requirement. UrbanGrowth NSW obtained legal advice in 2016 to increase its assurance about using a direct negotiation for the sale.

The sale price for the land was within an acceptable range of the valuation that was obtained. In addition to the sale price, HCCDC believes the University presence in the city centre will contribute to achieving the objectives of the Program. HCCDC based this view on international research that indicates city centre university campuses can support direct and indirect urban renewal outcomes by creating jobs, making amenity improvements, and increasing the number of people using businesses in surrounding areas.

NSW Government policies and guidelines generally advise against the use of direct negotiations in sales and procurement because open competitive processes are considered most likely to achieve the best value. The absence of a competitive process for this sale increases the importance of measuring the benefits of the university presence in the city centre. The need for clearer benefits management is discussed in more detail in Chapter Five.
4. Consultation about Program decisions

Consultations about the urban renewal activities followed good practice standards, but consultation on transport decisions for the Program did not.

Consultations focusing on urban renewal options for the Program included a range of stakeholders and provided opportunities for input into decisions about the use of the former railway land. These consultations received mostly positive feedback from participants. Changes and additions were made to the objectives of the Program and specific projects in response to feedback received.

There had been several decades of debate about the potential closure of the train line, including community consultations in 2006 and 2009. However, the final decision to close the train line was made and announced in 2012 without a specific community consultation. HCCDC states that consultation with industry and business representatives constitutes community consultation because industry representatives are also members of the community. This does not meet good practice standards because it is not a representative sample of the community.

There was no community consultation on the decision to build a light rail. There were subsequent opportunities for members of the community to comment on the implementation options, but the decision to build it had already been made. A community and industry consultation was held on which route the light rail should use, but the results of this were not made public.

Recommendation

For future infrastructure programs, NSW Government agencies should consult with a wide range of stakeholders before major decisions are made and announced, and report publicly on the results and outcomes of consultations.

4.1 Overview of consultation activities

There were four consultations to inform Program decisions between 2014 and 2017. These are summarised in Exhibit 9. UrbanGrowth NSW led the consultations, as the lead agency for the Program at that time.

Exhibit 9: Summary of consultations on decisions about the Program

<table>
<thead>
<tr>
<th>Consultation</th>
<th>Date</th>
<th>Scope</th>
<th>Consultation objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light rail route</td>
<td>February 2014</td>
<td>Light rail route</td>
<td>To help to inform the NSW Government’s decision on which route light rail should take through the Newcastle city centre and which features should be included in the new Wickham interchange.</td>
</tr>
<tr>
<td>Revitalising Newcastle</td>
<td>July 2015</td>
<td>Program objectives and use of railway land</td>
<td>To understand the views of stakeholders about urban renewal priorities in Newcastle and consult on the Program objectives. To discuss project ideas for achieving urban renewal objectives.</td>
</tr>
<tr>
<td>Ideas Festival</td>
<td>December 2016</td>
<td>Use of Newcastle and Civic stations</td>
<td>To continue consultation on revitalisation plans for the city centre. To involve people in planning for the future use and design of Civic and Newcastle stations.</td>
</tr>
</tbody>
</table>

Source: Information compiled from consultation planning documents and outcome reports.
The NSW Government and Newcastle City Council held several consultations prior to 2012 to collect community and stakeholder views on the priorities for Newcastle urban planning. These were not specific to the Program so were not assessed in this audit. Newcastle City Council also undertook several consultations between 2012–2017, for example during the Council assessment of the rezoning proposal for the former railway land. Council consultation activities were not assessed in this audit.

We used the International Association for Public Participation (IAP2) framework to assess the quality of consultation for major decisions about the Program. The framework sets out core values that should guide good practice consultation. It also classifies types of consultation on a spectrum ranging from the lowest level of 'inform' to the highest level of 'empower'. This spectrum is summarised in Exhibit 10. Across all levels, transparency to the public is a core goal. The IAP2 Quality Assurance Standard notes that different levels of engagement can be appropriate for different projects, depending on the goals, time frames, resources, and levels of community concern around the decision. A goal to ‘empower’ participants will not be appropriate for all government projects.

**Exhibit 10: IAP2 Spectrum for public participation**

<table>
<thead>
<tr>
<th>INFORM</th>
<th>CONSULT</th>
<th>INVOLVE</th>
<th>COLLABORATE</th>
<th>EMPOWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.</td>
<td>To obtain public feedback on analysis, alternatives and/or decisions.</td>
<td>To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.</td>
<td>To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.</td>
<td>To place final decision making in the hands of the public.</td>
</tr>
<tr>
<td>We will keep you informed.</td>
<td>We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.</td>
<td>We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.</td>
<td>We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.</td>
<td>We will implement what you decide.</td>
</tr>
</tbody>
</table>


### 4.2 Consultation on transport decisions

**Consultations on initial transport decisions did not meet good practice standards**

There were several decades of debate before the 2012 decision to close the train line, including an earlier decision to terminate the train line in 2006 that was later reversed. Community consultations were held between 2006 and 2009 on the future of the Newcastle CBD. These consultations indicated there were differing views in the community on the potential train line closure. In March 2009, HCCDC recommended the train line closure and a new interchange built at Wickham following community consultation in October and November 2008. The final decisions to close the train line into Newcastle city centre and locate the transport interchange at Wickham were made without further formal community consultations. The train line closure was announced by the Minister for Planning in 2012 in conjunction with the release of the ‘Newcastle Urban Renewal Strategy’. 
The community was not given clear information about the logic for the final decision to close the train line. The ‘NSW Long Term Transport Masterplan’, a major transport planning document that was released in December 2012, did not include a view about the advantages and disadvantages of closing the train line. This was released by Transport for NSW two weeks before the decision to close the train line was announced by the Minister for Planning as a part of a broader announcement about urban renewal in Newcastle.

Business and industry groups were consulted about the decision to close the train line. Several groups made public statements in support of its closure. These groups argued that closing the train line would increase business and investor confidence, which would support economic growth in Newcastle. The views of these groups featured prominently in advice to Cabinet on the impact of closing the train line.

There were consultation periods for the ‘Newcastle Urban Renewal Strategy’ and the ‘Wickham Interchange Review of Environmental Factors’ report. Both occurred after the decision to close the train line and build the interchange at Wickham had been made. These two consultations received a large amount of feedback about the decision to close the train line, which indicates some people felt strongly about the issue.

The decision to build light rail in the Newcastle city centre was announced in the 2013–14 NSW Budget. No community consultation was conducted prior to this announcement. HCCDC states that its consultation with industry and business representatives constitutes community consultation because industry representatives are also members of the community. This does not meet good practice standards for community consultation because it does not constitute a representative sample of the community.

The Light Rail Review of Environmental Factors in 2016 allowed public comment on the plans for light rail. The timing of this consultation meant that feedback could influence light rail implementation and design details, but not the decision to build light rail. Several changes to the light rail design were made following community and stakeholder feedback on this consultation. The changes aimed to reduce negative impacts on urban amenity, for example by making rail tracks level with the road where possible.

Governments are not obliged to follow community preferences for every infrastructure decision. However, good practice suggests that communities should be involved in decisions that affect them. The lack of consultation prior to major decisions about the Program contributed to negative views about the Program among some community groups. Consultation to understand community views on these decisions would have increased the transparency of the Program and helped to mitigate negative perceptions about the decision-making process. A community group that opposed the decision to close the train line challenged the method of closure in court. This delayed the commencement of the Program and increased the total cost by more than $55 million.

**Consultation was held on the light rail route, but the results were not reported publicly**

Consultation on the light rail route was conducted in 2014. The results were not released publicly and there was no public reporting on how the outcomes of this consultation informed the decision on route selection. 68 per cent of participants indicated overall support for the light rail, however this consultation occurred after the decision to build light rail had been made and announced.

Exhibit 11 shows the three light rail routes proposed during the consultation, which were:

- Option A: using the former railway land and Scott Street to Pacific Park
- Option B: using Hunter Street and Hunter Street Mall to Pacific Park
- Option C: a hybrid route using about one third of the former railway land before diverting to Hunter Street and Scott Street to Pacific Park.

Hunter Street is one of the main retail streets in the Newcastle city centre. Consultations explained that constructing light rail infrastructure on Hunter Street would cost more and cause more disruption to local businesses, but would provide greater opportunities for urban renewal by making former railway land available for development.
The results of community consultation show that 45 per cent of participants favoured the former railway land route. The hybrid route of the former railway land and Hunter Street was supported by 26 per cent of participants, and a full Hunter Street option was supported by 19 per cent. Industry stakeholders consulted generally favoured the hybrid route.

In the report on the outcomes of consultation, the feedback on the two options that included Hunter St (B and C) were combined to suggest that 45 per cent of respondents favoured light rail on at least part of Hunter Street. This gives the impression that participants in the consultation were evenly split between two route options (option A, and option B plus C). This minimises the level of support for the former railway land route, which was clearly the favoured option among consultation participants.

Good practice suggests that transparency to the public is a fundamental element of community engagement in decision-making. The lack of transparency for the light rail route consultation contributed to negative perceptions from some members of the community about the consultation process.

Exhibit 11: Three potential light rail routes presented during 2014 consultation


The 2014 Design Newcastle consultation did not follow all aspects of good practice

The Design Newcastle consultation was held in June 2014, after the decision to close the train line (2012) and build a light rail (2013) had already been announced. Despite this, the consultation asked participants for their views on the rail line closure, the introduction of light rail, and the light rail route. Consultation documents did not clearly say which elements of the Program had already been decided and which were being consulted on. Good practice guidelines state that these things should be made clear.

The Design Newcastle consultation aimed to promote a positive impression of the Program. One of the objectives of the Design Newcastle consultation was to generate enthusiasm for the Program, in addition to other objectives to understand community views about the future of Newcastle city centre. Good practice suggests that consultation activities and materials should not be promotional, but should be objective and balanced to enable participants to understand the issues being discussed and potential solutions.

The presentation of the results of the Design Newcastle consultation also did not fully follow good practice, because some participant feedback was reported in way that inflated support for the Program. During the consultation, participants were asked if they would be likely to use light rail and 54 per cent said they would. This was presented in the report as participants being "supportive of" light rail. Consultation reports should present results against the questions asked, rather than inferring participant feelings from related but different questions.

4.3 Consultation on urban renewal decisions

Consultation on urban renewal projects mostly followed good practice standards

The consultations on urban renewal sought a range of community and stakeholder feedback on elements of the Program, including land use for the former railway land and the re-purposing of train stations.
The consultations were based on a comprehensive engagement plan outlining the objectives and strategy for engagement. Good practice approaches used included:

- identifying methods to engage a range of stakeholders
- using a wide range of engagement activities including a statistically representative sample of participants
- reporting publicly on the outcomes of consultation and how the feedback was used
- employing an external advisor to provide advice on good practice in line with the IAP2 guidelines.

The IAP2 level of engagement identified for most activities was to ‘consult’ (see Exhibit 10). Participant feedback about the clarity of information in the consultation was positive. For example, 87 per cent said that information provided was clear and easy to understand and 75 per cent said that they had a better understanding of urban renewal in Newcastle. This indicates that the consultations achieved their objectives.

Some consultation activities, including community forum events, aimed for the higher engagement level of ‘involve’. This means the specific contributions of these participants should be directly reflected in the development of the Program. We did not see evidence that these consultation activities influenced the outcomes to a greater extent than other consultation activities. Participant feedback on the likely impact of the consultation was moderate. 57 per cent said they felt their ideas were considered during the consultation and 46 per cent thought their feedback would be considered in the future.

**Feedback from urban renewal consultations informed the urban renewal project plans**

Information from consultations informed several decisions about urban renewal projects. Feedback collected during the 2016 consultation was analysed by a review committee with representatives from stakeholder groups including local business and community groups.

Urban renewal consultations contributed to the design and implementation of the Program, resulting in some changes or additions to project plans. For example, the HCCDC added a sixth objective on protecting heritage following the 2015 consultation. The application to Newcastle City Council in 2016 for rezoning of the former railway land proposed both public space and mixed-use development that was consistent with community and stakeholder feedback received during the 2015 consultation.
5. Governance of the Program

The governance arrangements that were in place during the planning stages of the Program did not provide effective oversight. Project leadership and oversight improved during the implementation phase of the Program.

Multi-agency coordination and oversight were ineffective during the planning stages of the Program. Examples include: multiple versions of Program objectives being in circulation; unclear reporting lines for project management groups; and poor role definition for the initial advisory board. Program ownership was clarified in mid-2016 with the appointment of a new Program Director with clear accountability for the delivery of the Program. This was supported by the creation of a multi-agency steering committee that was more effective than previous oversight bodies.

The limitations that existed in multi-agency coordination and oversight had some negative consequences in important aspects of project management for the Program. This included whole-of-government benefits management and the coordination of work to mitigate impacts of the Program on small businesses.

**Recommendations**

For future infrastructure programs, NSW Government agencies should:

- develop and implement a benefits management approach from the beginning of a program to ensure responsibility for defining benefits and measuring their achievement is clear
- establish whole-of-government oversight early in the program to guide major decisions. This should include:
  - agreeing on objectives and ensuring all agencies understand these
  - clearly defining roles and responsibilities for all agencies
  - establishing whole-of-government coordination for the assessment and mitigation of the impact of major construction projects on businesses and the community.

By March 2019, the Hunter and Central Coast Development Corporation should update and implement the Program Benefits Realisation Plan. This should include:

- setting measurable targets for the desired benefits
- clearly allocating ownership for achieving the desired benefits
- monitoring progress toward achieving the desired benefits and reporting publicly on the results.

5.1 Multi-agency coordination

**Different versions of Program objectives were in circulation at the same time**

The original business case approved by Cabinet in 2014 had five objectives. These were reported publicly during consultations in 2015. The objectives relating to urban renewal, including bringing people to the city centre, improving connections to the waterfront and improving public spaces, were consistent throughout this period. The economic development objectives remained mostly consistent, although an objective relating to encouraging investment was replaced with one relating to protecting heritage following community consultation.

The focus on transport in the Program objectives reduced over time. The original Program objectives included one objective focusing on improving the quality of public transport in the city centre. The final endorsed Program objectives in 2017 removed the references to quality, revising it to “create great places linked to new transport”.

When the Program objectives were consolidated in mid-2016, a total of eight objectives were identified from various agency documents that were in circulation. The additional objectives related to connections with the Asia-Pacific region and fast-tracking development outcomes. These were not included in the final Program objectives. It is not clear where these additional objectives originated or whether they were ever endorsed.
The existence of different sets of Program objectives, some of which may not have been formally endorsed, indicates that there was not enough clarity between the agencies involved about the goals of the Program. A lack of clarity in Program objectives may make consistent decision-making more difficult.

**Program leadership was not clearly defined until 2016**

The roles and responsibilities for delivering the Program changed several times between 2012 and 2016 and the interaction between the urban renewal and transport parts of the Program was not clear until mid-2016, as shown in Exhibit 12.

**Exhibit 12: Timeline of roles and responsibilities for the Program**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2012</td>
<td>Newcastle Urban Renewal Strategy released by Department of Planning and Environment. Decision to close train line announced concurrently by the Minister for Planning.</td>
</tr>
<tr>
<td>March 2014</td>
<td>Newcastle Delivery Office established, led by a Program Director from UrbanGrowth NSW with Project Leaders from Transport for NSW and UrbanGrowth NSW.</td>
</tr>
<tr>
<td>May 2014</td>
<td>A “Collaboration Agreement” between the agencies involved was endorsed. This stated that UrbanGrowth NSW was responsible for all aspects of the Program except building light rail.</td>
</tr>
<tr>
<td>June 2016</td>
<td>Program Director appointed from UrbanGrowth NSW, with all government agencies reporting through UrbanGrowth NSW.</td>
</tr>
<tr>
<td>July 2017</td>
<td>UrbanGrowth NSW’s Newcastle office merged with HCCDC; responsibility for the Program moved to HCCDC; Revitalising Newcastle branding and work toward consolidated communications between HCCDC and Transport for NSW began.</td>
</tr>
</tbody>
</table>

Source: Information compiled from Program planning documents and Program business case.

The origins of the Program are in the ‘Newcastle Urban Renewal Strategy’, which was released in 2012 by the Department of Planning and Environment. The decision to close the train line was announced by the Minister for Planning in a concurrent announcement about the ‘Newcastle Urban Renewal Strategy’. Transport for NSW undertook work on the detailed planning for closing the train line during 2013 and worked on plans for a light rail to replace the train service.

From 2014, roles and responsibilities between UrbanGrowth NSW and Transport for NSW were formalised. However, there was no system for dealing with issues that cut across the agencies, including the impact of the light rail on urban amenity and other road users.

A Newcastle Delivery Office was created in March 2014, with a Program Director from UrbanGrowth NSW and Project Leaders for the transport and urban renewal elements of the Program. The Program Director reported to the Minister for Planning and did not have a reporting line to or from Transport for NSW. The Transport for NSW Project Leader reported through the Program Director, but also had a separate reporting line to the Minister for Transport. A collaboration agreement was signed in May 2014 between UrbanGrowth NSW and Transport for NSW to formalise these arrangements.

A review by Infrastructure NSW in May 2016 found that governance arrangements had not been effective in making decisions on issues that cut across agencies, such as integrating the light rail with other traffic on Hunter Street. Other stakeholders told us that a lack of integration between the agencies involved created difficulties when making decisions.
A new Program Director was appointed in June 2016 to create a single point of accountability for delivering the objectives of the Program. The dual reporting lines were removed, which gave the Program Director more oversight of and accountability for delivery of the Program. The Program Director's responsibilities were:

- leading the preparation of a business plan and objectives for the Program
- recommending the combined scope of the Program
- leading engagement with stakeholders, including Newcastle City Council.

Staff from HCCDC and Newcastle City Council told us that the clarification of roles and reporting lines between agencies involved during 2016 were positive because they provided a single point of accountability for decisions about the Program. It also clarified communication arrangements with stakeholders.

5.2 Multi-agency oversight

**Multi-agency oversight structures were not clear early in the Program**

Multi-agency structures changed multiple times and were unclear during the planning stages of the Program. HCCDC was unable to provide clear information on the role or current status of most of the boards and working groups established at various times during the Program. The information that we received on governance arrangements is summarised in Exhibit 13. The gaps in record keeping have prevented us from assessing these issues in more detail.

**Exhibit 13: Program governance arrangements between 2014 and 2016**

<table>
<thead>
<tr>
<th>Title</th>
<th>Established</th>
<th>Role</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-agency Implementation Board</td>
<td>Unclear</td>
<td>Oversight of Program</td>
<td>Not specified</td>
</tr>
<tr>
<td>Advisory Board</td>
<td>2014</td>
<td>Endorsing key documents and providing challenge</td>
<td>Three independent members</td>
</tr>
<tr>
<td>Newcastle Urban Transformation Steering Group</td>
<td>2015</td>
<td>Guiding urban renewal activities</td>
<td>UrbanGrowth NSW; HCCDC; Newcastle City Council</td>
</tr>
<tr>
<td>Strategic Oversight Committee</td>
<td>2015</td>
<td>Strategic oversight</td>
<td>UrbanGrowth NSW; Transport for NSW; Advisory Board; Newcastle City Council</td>
</tr>
<tr>
<td>Program Implementation Group</td>
<td>Unclear</td>
<td>Operational oversight</td>
<td>UrbanGrowth NSW; Transport for NSW; HCCDC; Department of Planning and Environment; Roads and Maritime Services; Department of Premier and Cabinet</td>
</tr>
<tr>
<td>Urban Transformation Working Group</td>
<td>2015</td>
<td>Collaborative planning</td>
<td>UrbanGrowth NSW; Newcastle City Council</td>
</tr>
<tr>
<td>NUTTP Multi-Agency Steering Committee</td>
<td>2016</td>
<td>Oversight and advice, focusing on whole of government issues</td>
<td>Independent chair; UrbanGrowth NSW; Transport for NSW; HCCDC; Department of Planning and Environment; Roads and Maritime Services; NSW Treasury; Infrastructure NSW (observer)</td>
</tr>
<tr>
<td>Project Control Group</td>
<td>2016</td>
<td>Unclear</td>
<td>UrbanGrowth NSW; HCCDC; Roads and Maritime Services</td>
</tr>
<tr>
<td>Stakeholder Reference Group</td>
<td>2016</td>
<td>Unclear</td>
<td>UrbanGrowth NSW; HCCDC; Roads and Maritime Services</td>
</tr>
</tbody>
</table>

Sources: MoU between UrbanGrowth NSW and Newcastle City Council, Multi Agency Steering Committee Terms of Reference.
The role of the Advisory Board established in 2014 was not clear. The Terms of Reference gave the Board a wide role that included endorsing key documents, providing challenges to decisions, and providing advice from a whole-of-government perspective. The Board and the Program Director were unable to resolve some key issues. For example, the independent members of the Board wrote a cover letter to the final business case that raised concerns about key elements of the Program, including the cost of the light rail. We were not provided with any documents that explained why these concerns were not addressed before the business case was finalised.

There was no standard governance model to draw on in New South Wales for an urban renewal program when the Program was first established in 2012. However, senior staff were aware of weaknesses in governance arrangements from early 2014 and it took more than two years to establish more effective structures.

**Multi-agency oversight structures improved from 2016**

A multi-agency steering committee (MASC) was established to help address some of the key issues that were impeding progress of the Program. The MASC was established following a Cabinet direction in March 2016 that a new governance structure was required to support delivery of the Program. The MASC held its first meeting in July 2016.

The MASC had representation from all relevant agencies and an independent Chair. The main purpose of the MASC was to provide a forum for discussion of issues from a whole-of-government perspective. Meeting minutes indicated that key decisions were discussed in detail at meetings. MASC members we consulted believe the committee was an effective forum for clarifying the objectives and providing a forum for discussion of cross-agency issues.

The MASC also provided an additional source of accountability for monitoring progress. The Chair was authorised to report directly to the responsible Ministers on the progress of the Program. This provided additional accountability for delivery of the Program. A similar committee was set up for the Parramatta light rail project around the same time. Staff from the HCCDC and Transport for NSW informed us they have had informal contact to share information and lessons about their projects.

Transport for NSW had additional governance arrangements to oversee the light rail project. We did not assess these arrangements in this audit.

**The extent of MASC roles and responsibilities was not understood by all agencies involved**

Program documents and our meetings with representatives from the agencies involved indicate that the extent of the MASC’s governance responsibilities was not entirely clear. For example:

- HCCDC and Transport for NSW described the MASC as the main governance body for the Program in our interviews and in progress reports. The joint HCCDC-Transport for NSW Program communications plan developed in 2017 said that it reported through the MASC.
- The terms of reference for the MASC include reviewing and endorsing Program documents. However, the same document states that the MASC is an advisory committee, rather than having an endorsement role.
- The MASC Chair noted that the MASC had an advisory role, not a decision-making or approval role, and it did not replace formal governance bodies within HCCDC and Transport for NSW. Program documents were provided to the MASC for approval on several occasions, but the MASC chair declined to endorse these.

A clear understanding of roles and responsibilities within and between different governance committees is an important aspect of a good governance system. Lack of clarity can lead to issues being missed and inconsistent decision-making.

The MASC was established several years after the Program began, and after most key decisions had been made. For future projects, it would be useful to ensure the extent of the role of the MASC is clear and is fully understood by MASC members and people working on the project. Establishing a MASC during the planning stages of a project, rather than during implementation, would assist with this.
5.3 Impact of coordination and oversight limitations

**Whole-of-government benefits management approach requires improvement**

A Program benefits management plan was developed in 2014 to accompany the business case, but has not been used during Program implementation. HCCDC and Transport for NSW staff told us that responsibility for monitoring outcomes will be split among agencies according to their areas of responsibility. For example, Transport for NSW will measure transport outcomes, Roads and Maritime Services will measure impacts on traffic, and the Department of Planning and Environment will measure urban renewal impacts. Agencies have not developed plans for how this work will be coordinated to assess the whole-of-government impact of the Program. The Program Director has formal responsibility for benefits management, but the targets for increases in jobs and housing are for 2021 and 2036. We have not seen evidence of planning for measuring these longer-term benefits after the Program is completed and the Program team is no longer in place. Funding has not been allocated for an evaluation or assessment of the achievement of the objectives of the Program.

The MASC’s terms of reference include responsibility for outcomes of the Program, but it did not take an active role in benefits management. The MASC is no longer meeting regularly so is unlikely to take up this work in the future. The Infrastructure NSW assurance process involves a gateway review that covers benefits management. However, Infrastructure NSW reviews have assessed the transport and urban renewal parts of the Program separately, so this will not provide a whole-of-government assessment of outcomes.

The recognition of the importance of structured benefits management as a part of good practice project management is relatively recent. More attention should now be given to implementing the benefits management plan given the likely challenges in measuring the benefits of the Program.

**Government support for local businesses could have been coordinated better**

HCCDC and Transport for NSW provided a significant amount of information to businesses in the Newcastle city centre about construction timelines and street accessibility before and during construction. This included forums and information sessions, individual consultations with businesses in affected areas, and regular newsletters and social media updates on construction plans. HCCDC ran advertising campaigns and organised events that aimed to encourage people to continue visiting the city centre during construction. These included a competition open to people who made purchases in the city centre and public events such as free exercise classes in the city. The NSW Small Business Commissioner offered business planning resources and advice to small businesses, and local business associations have held business forums and run advertising campaigns.

Despite these actions, many local businesses have reported that they have not been supported adequately during the construction period. Business representative groups told us that some city centre businesses have reported losses, and that several businesses have closed or relocated during the construction period. HCCDC and Transport for NSW have responded to complaints and concerns from businesses, but no government agency has monitored the impact of construction systematically. For example, there is no reliable data on the number of businesses that have opened or closed during the construction period and no data on changes to the number of pedestrians visiting the city centre.

There was a lack of coordination between government and external stakeholders in developing and delivering programs to support businesses affected by the light rail construction. For example, both HCCDC and the local business improvement association Newcastle Now launched separate but similar schemes to promote local businesses at a similar time. The Small Business Commissioner was not involved in the Program during the planning stages and only became involved after construction had started and businesses were reporting difficulties and seeking support. The Small Business Commissioner resources would have been more effective if they were promoted to businesses before light rail construction began.

Major infrastructure construction will inevitably have an impact on local businesses. Research from other jurisdictions suggests business mitigation strategies and proactive engagement are most effective when implemented early in the planning stages.
Compliance with integrity systems has improved

HCCDC and UrbanGrowth NSW are NSW Government agencies that report directly to the Minister for Planning. Both agencies sit within the Planning and Environment cluster, which is led by the Department of Planning and Environment. The Department of Planning and Environment provides some corporate resources to Hunter and Central Coast Development Corporation, including its governance and integrity monitoring systems.

HCCDC complies with departmental conflict of interest policies through the Department of Planning and Environment’s online reporting systems. The Department of Planning and Environment online system has been operating since 2016. This system enables centralised management of annual declarations of personal interests. HCCDC staff complete standard government online induction training that covers probity and integrity issues, although they have not done any specific training relating to conflicts of interest or other integrity or probity issues.

Prior to 2016, HCCDC maintained a register for declarations of personal interests for board members and had a system for staff to declare personal interests that may create conflicts with their professional role. UrbanGrowth NSW also had a conflict of interest management system for staff during this period.

Proactive management of personal interests is particularly important for agencies that work in high risk areas, which includes buying and selling land on behalf of the government. A Parliamentary Inquiry in 2014 found that HCCDC had not complied with best practice in its management of a conflict of interest. The Department of Planning and Environment committed to reviewing this.

Our audit did not examine other probity areas such as financial management, procurement, or gifts and benefits. Recent external reviews on systems such as financial management and procurement did not identify any issues with compliance in these areas.
Section two

Appendices
Appendix one – Response from agencies

Response from Hunter & Central Coast Development Corporation

5 December 2018

Ms Margaret Crawford
Auditor-General of NSW
GPO Box 12
Sydney NSW 2001

Dear Margaret

Performance Audit – Newcastle Urban Transformation and Transport Program

Thank you for the opportunity to comment on the Newcastle Urban Transformation and Transport Program Audit Report. Firstly, I would like to thank you and your team for the professional way in which the investigations were carried out.

We note the key findings and recommendations, in particular the recommendation to investigate expanding our heritage recognition and the need to implement a whole-of-government benefits plan.

I would also add, I firmly believe the Revitalisation program and the Light Rail has significantly contributed to the ongoing private investment in the city, creating significant short and long-term job growth and housing choice.

Yours sincerely

Michael Cassel
CHIEF EXECUTIVE

Email: Michael.cassel@hccdc.nsw.gov.au
Telephone: 4904 2764
Response from Transport for NSW

Ms Margaret Crawford
Auditor-General
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001

Dear Ms Crawford

Thank you for the opportunity to consider and respond to the Performance Audit report on the Newcastle Urban Transformation and Transport Program.

Transport for NSW considers the Newcastle Urban Transformation and Transport Program an important program that is revitilising the city by strengthening connections between the city and the waterfront, creating employment opportunities, providing more public space and amenity, and delivering better transport.

Transport for NSW welcomes the opportunity the Performance Audit provides to optimise and improve the planning of future infrastructure programs.

Transport for NSW notes the recommendations for NSW Government agencies to improve the effectiveness and efficiency of future infrastructure programs when viewed in the context of the existing policy settings.

Yours sincerely

Rodd Staples
Secretary

27 November 2018

Transport for NSW
13 Lee Street, Chippendale NSW 2008 | PO Box K659, Haymarket NSW 1240
T 02 8202 2200 | F 02 8202 2209 | W transport.nsw.gov.au | ABN 18 804 239 602
Appendix two – About the audit

Audit objectives

This audit had two objectives:

1. To assess the effectiveness of the consultation and oversight of the Newcastle Urban Transformation and Transport Program.
2. To assess the economy of the approach chosen to achieve the objectives of the Newcastle Urban Transformation and Transport Program.

Audit criteria

We addressed the audit objective through the following audit questions and criteria:

1. Was the decision to build light rail an economical option for achieving the objectives of the Program?
   − The rationale for using light rail to achieve the objectives of the Program was clearly identified.
   − The costs, benefits and risks of light rail were compared to other options for achieving the objectives of the Program.
   − Agencies have a plan to measure the impact of light rail on transport and urban renewal outcomes in Newcastle.

2. Has the best value been obtained for the use of the former railway corridor land?
   − The process for decision-making about land use was transparent.
   − The decisions made about land use achieved a balance between the objectives of the Program.
   − The mechanisms used for private development of land achieved the best financial outcomes for the Program.

3. Was good practice used in consultation on key decisions about the Program?
   − The role of the consultation in the decision-making process was explained clearly.
   − Consultation allowed meaningful community and local business participation.
   − Feedback from the consultation informed the objectives of the Program.

4. Did governance arrangements support delivery of the Program?
   − Agency roles and responsibilities for planning the Program were clear.
   − Multi-agency structures supported whole-of-government oversight and delivery of the Program.
   − Probity systems protected the integrity of the Program (actual and perceived).

Audit Exclusions

The audit did not assess:

- procurement, construction or other detailed project management aspects of the transport infrastructure works that are a part of the Program, such as light rail and the new transport interchange
- areas relating to the Program that were local government responsibilities, such as development applications and zoning decisions
- the merits of decisions made by Ministers or Cabinet.
Audit approach

Our audit procedures included:

1. Interviewing staff from the audited agencies.
2. Reviewing documents relevant to the Program, including:
   a) records of consultations conducted
   b) records of governance and probity systems
   c) planning and implementation documents.
3. Meeting with people with an interest in the Program, including:
   a) other NSW Government agencies and Newcastle City Council
   b) local and regional business and industry representative groups
   c) local and regional community representative groups.

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

Audit methodology

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

Acknowledgements

We gratefully acknowledge the cooperation and assistance provided by the audited agencies throughout the audit. We also thank all those from other NSW Government agencies and other stakeholders who met with us to discuss the audit.

Audit cost

The estimated cost of the audit, including travel and overheads, is $325,000.
Appendix three – Performance auditing

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

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

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

Why do we conduct performance audits?
Performance audits provide independent assurance to the NSW Parliament and the public.

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

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

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

What happens during the phases of a performance audit?
Performance audits have three key phases: planning, fieldwork and report writing.

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

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

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

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

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

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

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

Who audits the auditors?

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

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

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

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

Who pays for performance audits?

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

Further information and copies of reports

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

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

OUR PURPOSE

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

OUR VALUES

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.