



**Examination of Auditor-General**  
**Report 14: 2019-20**  
***Evaluating major infrastructure***  
***projects***

**Report No. 10, 57<sup>th</sup> Parliament**

**State Development and Regional Industries Committee**

**June 2021**

## **State Development and Regional Industries Committee**

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### **Acknowledgements**

The committee acknowledges the work undertaken by the Queensland Audit Office and assistance provided by the Department of State Development, Infrastructure, Local Government and Planning.

All web address references are current at the time of publishing.

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## Chair's foreword

This report presents a summary of the State Development and Regional Industries Committee's examination of the Auditor-General Report No. 14: 2019-20—*Evaluating major infrastructure projects*.

With billions spent each year on state infrastructure projects it is vital that the government has access to rigorous and comprehensive infrastructure advice. It is therefore important that lessons learned from this audit continue to be taken into consideration with the transition of Building Queensland to government. As such, the committee has recommended that the Department of State Development, Infrastructure, Local Government and Planning (the department) and the Queensland Audit Office take steps to ensure that relevant recommendations contained in the Auditor-General's report are assigned to the department for implementation and reporting purposes.

On behalf of the committee, I thank officials from the Queensland Audit Office and the Department of State Development, Infrastructure, Local Government and Planning for their assistance with the committee's examination.

Thank you also to my committee colleagues for their collaborative approach and Parliamentary Service staff who have supported this inquiry.

I commend this report to the House.



Chris Whiting MP

**Chair**

## Recommendations

### **Recommendation 1** **9**

That the Legislative Assembly note the contents of this report.

### **Recommendation 2** **9**

That the Department of State Development, Infrastructure, Local Government and Planning (the department) and the Queensland Audit Office take steps to ensure that relevant recommendations contained in *Auditor-General Report No. 14 of 2019-20 – Evaluating major infrastructure projects*, are assigned to the department for implementation and reporting purposes.

## 1 Introduction

### 1.1 Role of the committee

The State Development and Regional Industries Committee (committee) is a portfolio committee of the Legislative Assembly which commenced on 26 November 2020 under the *Parliament of Queensland Act 2001* and the Standing Rules and Orders of the Legislative Assembly.<sup>1</sup>

The committee's primary areas of responsibility include:

- State Development, Infrastructure, Local Government and Planning
- Agricultural Industry Development, Fisheries and Rural Communities
- Regional Development, Manufacturing and Water.

Within these portfolio areas, the committee has responsibility for the assessment of the integrity, economy, efficiency and effectiveness of government financial management. This includes consideration of reports of the Auditor-General.<sup>2</sup>

### 1.2 Role of the Auditor-General

The role of the Auditor-General is to provide Parliament with independent assurance of public sector accountability and performance. This is achieved through reporting to Parliament on the results of its financial and performance audits.

A performance audit evaluates whether an agency or government program is achieving its objectives effectively, economically and efficiently, and is compliant with relevant legislation. It does not consider the merits of government policy. Rather, it focuses on how that policy is implemented.<sup>3</sup>

The Queensland Audit Office's (QAO) performance audit Report to Parliament No. 14 of 2019-20—Evaluating major infrastructure projects was prepared under Part 3 Division 3 of the *Auditor-General Act 2009* and was tabled in the Legislative Assembly in accordance with section 67 of that Act on 5 May 2020.

### 1.3 About the audit

The audit examined whether Building Queensland (BQ) effectively and efficiently led and assisted agencies to deliver robust business cases for major infrastructure projects and provided agencies about expert advice about infrastructure. Specifically, the audit assessed whether BQ:

- developed robust business cases that informed government's decisions about major infrastructure projects
- provided independent expert advice to government and agencies about infrastructure in Queensland
- operates efficiently and effectively.<sup>4</sup>

### 1.4 Referral and report examination process

Standing Orders provide that the Committee of the Legislative Assembly shall refer a report of the Auditor-General to the relevant portfolio committee for consideration. This report was referred to the former Economics and Governance Committee (former committee) of the 56th Parliament on 21 May 2020.

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<sup>1</sup> *Parliament of Queensland Act 2001*, s 88 and Standing Order 194.

<sup>2</sup> *Parliament of Queensland Act 2001*, s 94(1)(a).

<sup>3</sup> QAO Factsheet - About us, p 2.

<sup>4</sup> QAO, Report 14: 2019-20, May 2020, p 3.

The former committee received a public briefing from the QAO on 17 July 2020. See Appendix A for list of advisors. The former committee's examination of the report lapsed on dissolution of the 56th Parliament on 6 October 2020.

In April 2021, this committee agreed to complete the examination of the QAO report. The committee wrote to the Department of State Development, Infrastructure, Local Government and Planning (the department) for an update on progress against QAO recommendations, noting that the government had now outlined its intentions to transition BQ into core government.

All inquiry documents including transcripts of briefings and departmental correspondence can be found on the committee's web page.

## 2 Examination of the Auditor-General Report

### 2.1 Building Queensland

Queensland's infrastructure investment is significant, with the government's capital program amounting to some \$50 billion over the next four years.<sup>5</sup> BQ was established by the Queensland Government in 2015 as an independent statutory authority to improve public sector infrastructure outcomes.<sup>6</sup> The QAO Report states that the Queensland Government 'recognised the need for a fundamental shift in how infrastructure was planned and delivered in Queensland'.<sup>7</sup>

BQ's roles are defined in the *Building Queensland Act 2015* (BQ Act) and include:

- developing a framework for assessing infrastructure projects
- assisting in the preliminary preparation of proposals, assisting with or leading the preparation of business cases, and evaluating infrastructure proposals
- preparing and maintaining an infrastructure pipeline report
- providing independent expert advice to the state and government agencies about infrastructure
- leading the procurement or delivery of infrastructure projects where directed to do so by the Minister, and
- promoting public awareness by publishing information, project summaries, and summaries of cost-benefit analyses.<sup>8</sup>

#### 2.1.1 Transition of Building Queensland to core government

On 7 September 2020, the Queensland Government announced that BQ would transfer into state government. The Treasurer, and then Minister for Infrastructure and Planning outlined the following arrangements:

The Government has decided that, subject to the passage of legislation, Building Queensland (BQ) will cease to be a statutory authority and will become part of Queensland Treasury. Combining the skills of BQ staff and the existing capabilities within Treasury will streamline investment assessment and assurance functions, reduce administrative overheads and enhance our capability to plan and deliver our infrastructure program.

The work of the BQ Board and the staff to develop and implement a framework for the delivery of business cases for important public infrastructure investments has made a noticeable improvement in the quality of infrastructure proposals being presented to the Government for consideration.

We will now move to consolidate these skills and expertise within Treasury and provide for a more coordinated and streamlined process for the provision of infrastructure investment advice and assurance for Government. All BQ staff will transfer to Queensland Treasury, and existing employment arrangements for staff will continue.<sup>9</sup>

Following changes to the Administrative Arrangements Orders, responsibility for BQ was transferred to the Deputy Premier and Minister for State Development, Infrastructure, Local Government and Planning. On 26 November 2020, the Deputy Premier outlined the following arrangements:

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<sup>5</sup> Queensland Government, Capital Statement 2020-21, Budget Paper No. 3, p 3.

<sup>6</sup> QAO, Report 14: 2019-20, May 2020, p 3.

<sup>7</sup> QAO, Report 14: 2019-20, May 2020, p 3.

<sup>8</sup> QAO, Report 14: 2019-20, May 2020, p 3.

<sup>9</sup> Correspondence, The Hon. Cameron Dick MP, Treasurer, Minister for Infrastructure and Planning, to Mr Alan Millhouse, Chair, Building Queensland, 7 September 2021, p 1.



...The Treasurer's letter advised you [Chair, Building Queensland] that, subject to the passage of legislation, Building Queensland will cease to be a statutory authority. I confirm it remains the Queensland Government's intention to introduce legislation as soon as possible.

While that correspondence advised that staff would move to Queensland Treasury, following the Machinery of Government Changes associated with the Administrative Arrangements Order, staff from Building Queensland will now transfer to the Department of State Development, Infrastructure, Local Government and Planning (DSDILGP). As stated in the Treasurer's letter, it is intended existing employment arrangements for staff will continue.

I require Building Queensland to continue to work collaboratively with DSDILGP to plan and implement this change and to provide for an orderly cessation of activities undertaken by BQ in the delivery of its functions under the BQ Act. This includes taking instruction from the Director-General of DSDILGP, or its nominees, in regard to the planning and implementation of transitional arrangements and not commencing any new activities or recruiting any new staff without first consulting with DSDILGP. For clarity, this represents a direction under section 19 of the BQ Act.<sup>10</sup>

## **2.2 Key findings and recommendations**

The QAO report made a number of findings and recommendations under the three areas of business cases, infrastructure advice and operations. These are discussed in turn below.

### **2.2.1 Business cases**

The Queensland Government uses business cases to inform infrastructure investment decisions. These documents contain important information such as the nature of the problem to be addressed by the investment, possible options to address a problem, analysis on costs and benefits, and other matters.

A *Business Case Development Framework* was developed by BQ and seeks to ensure a consistent and rigorous approach to business case development. The framework provides a staged approach which can be tailored to suit the scale and complexity of a specific infrastructure proposal. The QAO reported that BQ had completed 29 business cases for major infrastructure since its inception.

#### **2.2.1.1 Findings**

In summary, the QAO found that:

- BQ had worked with government agencies to improve the quality of business cases in Queensland using its better practice frameworks. As a result, BQ had provided the government with more robust analysis to support investment decisions.
- Sample business cases reviewed by the QAO generally aligned with better practice frameworks. However some areas for improvement were identified. This included options analysis, economic assessments, and financial assessments.
- Business cases reviewed by the QAO varied in the adequacy of their analysis and did not always align with scale, complexities, and risks associated with each project.
- The timing of infrastructure investment announcements can affect the value of developing business cases. Early infrastructure investment announcements by government can create risk and lead to undue pressure to progress an infrastructure proposal.
- BQ planned assurance activities for selected business cases in line with its assurance framework. However, project teams did not always fully implement all activities as planned and did not adequately address some issues identified from assurance activities.<sup>11</sup>

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<sup>10</sup> Correspondence, The Hon. Steven Miles MP, Deputy Premier, Minister for State Development, Infrastructure, Local Government and Planning, to Mr Alan Millhouse, Chair, Building Queensland, 26 November 2020, p 1.

<sup>11</sup> QAO, Report 14: 2019-20, May 2020, pp 7- 8.

### 2.2.1.2 *QAO Recommendations*

#### **QAO Recommendation**

1. That BQ improves the design and application of its frameworks for developing business cases and providing assurance activities on business cases. This should include:
  - reviewing and refining its assurance framework to better reflect its current practices (that is, ensuring there is clearer alignment between BQ’s assurance framework and its actual assurance activities)
  - improving how it manages any risks to its independence when it both leads the development of a business case and performs project assurance activities
  - improving the process for quantifying and monetising benefits for social infrastructure projects that have less-developed datasets available
  - improving timing and conduct of its assurance activities on business cases, to enable comprehensive reviews and timely resolution of issues before finalising a business case
  - providing clear protocols for agencies to follow during the early stages of developing an infrastructure proposal to ensure announcements occur once sufficient assessment has been undertaken to determine the project is suitable and sufficiently viable
  - establishing and applying internal guidelines for developing business cases for investment proposals where the government has already decided to deliver a project.

### 2.2.2 **Infrastructure advice**

Under its establishing legislation, BQ was required to advise government on infrastructure proposals that it considered to be a priority for meeting the state’s needs. One of the ways it did this was by way of an infrastructure pipeline report. The QAO reported that BQ had published 7 infrastructure pipeline reports since its establishment in 2015.<sup>12</sup>

The BQ Act also required BQ to advise government on broader matters relevant to Queensland’s infrastructure sector, such as current and future needs; policy, pricing and regulatory matters; and emerging national and international trends etc.<sup>13</sup>

#### 2.2.2.1 *Findings*

In summary, the QAO found that:

- BQ’s infrastructure pipeline reports provide a high-level snapshot of priority proposals, however, the same proposals are also included in the State Infrastructure Plan (SIP). While BQ’s pipeline provides more analysis on unfunded proposals, it creates duplicate reporting obligations for agencies.
- BQ does not conduct its own research to identify infrastructure priorities, when developing its infrastructure pipelines. It relies on government agencies to put forward ideas on priorities for the state.
- BQ is not as transparent as it could be on its criteria for deciding which proposals it considers to be a priority for the state.

<sup>12</sup> QAO, Report 14: 2019-20, May 2020, p 6.

<sup>13</sup> QAO, Report 14: 2019-20, May 2020, p 4.

- Although BQ provided infrastructure advice about business cases, it had not necessarily fulfilled its legislative role relating to broad ranging advisory responsibilities.<sup>14</sup>

In making these findings, the QAO acknowledged that BQ had not explicitly focussed on its expert infrastructure advice role, as it had been focussing on developing decision-making frameworks and improving the quality of Queensland government infrastructure business cases.<sup>15</sup>

#### 2.2.2.2 *QAO Recommendations*

##### **QAO Recommendation**

2. That BQ publish information on its infrastructure pipeline reports on how it uses its assessment criteria to identify infrastructure proposals that it considers to be a priority for the state.

#### 2.2.3 **Operations**

The QAO reported that in 2018-19, BQ's total operating costs were \$22.2 million, of which \$15.5 million (70 per cent) was spent on external consultant and contractors, primarily to deliver business cases.<sup>16</sup> BQ is funded through a combination of annual government grant and fee-for-project arrangements with agencies. BQ recovers the costs of developing business cases from project owner agencies.<sup>17</sup>

##### 2.2.3.1 *Findings*

In summary, the QAO found that:

*Is BQ's lead role for developing business cases well understood and applied?*

- BQ is required to lead the development of business cases for major infrastructure projects. It did not explicitly lead 3 of the 5 business cases audited. While these business cases were endorsed by the BQ Board, key deliverables were undertaken by the project owner rather than BQ.
- BQ has created a risk categorisation framework to better target its resources. However, BQ's risk categorisation framework is not consistent with the BQ Act, which requires BQ to lead the development of business cases for projects with an estimated capital cost of \$100 m or more.
- Amendments to the BQ Act (in April 2019) have allowed the Department of Transport and Main Roads (TMR) to lead business cases for most of its road transport projects. This helps to avoid duplicating efforts with BQ. It also releases some of BQ's capacity to focus on areas where its resources are needed more.<sup>18</sup>

*How effective is BQ's operating model?*

- BQ's operating model enables it to access external consultants to manage variability in workloads and to utilise external expertise where technical knowledge and skills are required. As BQ primarily engages external consultants for developing and assuring business cases, this affects BQ's ability to develop its internal capability.
- By developing internal capability, BQ could reduce its reliance on external consultants, reduce the costs of delivering business cases, and provide more effective expert infrastructure advice to government and agencies.

<sup>14</sup> QAO, Report 14: 2019-20, May 2020, p 9.

<sup>15</sup> QAO, Report 14: 2019-20, May 2020, p 9.

<sup>16</sup> QAO, Report 14: 2019-20, May 2020, p 6.

<sup>17</sup> QAO, Report 14: 2019-20, May 2020, p 33.

<sup>18</sup> QAO, Report 14: 2019-20, May 2020, p 9.

- Unlike its jurisdictional peers, BQ performs two key roles – it both develops and provides assurance activities on business cases. This affects how BQ’s stakeholders perceive the independence between these two roles.<sup>19</sup>

*Does BQ measure its costs efficiently?*

- BQ does not analyse the cost efficiency of its business case development activities. BQ records the costs of external consultants used to develop business cases and recovers these costs from project owner agencies. However, it does not capture and analyse its internal costs.
- By ensuring all relevant costs and time spent are adequately captured and analysed, BQ could improve its understanding of business case development and assurance costs, and better identify opportunities for efficiency gains.<sup>20</sup>

*How do agencies value BQ’s services?*

- Central government agencies value BQ’s role in providing independent assurance on the robustness of business cases for decision making.
- Non-central government agencies have different perceptions of the value that BQ delivers in developing business cases. Agencies with limited experience generally place a higher value on BQ’s services than those which are highly experienced in developing business cases.
- TMR has expressed ongoing concerns with BQ’s value for money, costs of assurance reviews, and duplication of effort in developing business cases. Recent changes to the threshold for road transport projects should help address some of these concerns.
- BQ’s use of its risk categorisation framework assists in addressing some of TMR’s concerns. The framework enables BQ to allocate business case development workload between the project owner agencies, including TMR, and itself. This assists in minimising duplication of effort and costs in developing business cases.<sup>21</sup>

### 2.2.3.2 QAO Recommendations

The QAO directed 4 recommendations to BQ, 2 of which were also directed to the responsible department.

#### **QAO Recommendations**

3. That BQ develops and implements a strategy to improve its internal infrastructure knowledge and capability, so it can more effectively undertake its functions as required under the BQ Act.

This strategy should include plans for developing, retaining and using internal capacity to undertake its core responsibilities, and optimising its mix of internal and external resources.

4. That BQ performs cost-efficiency analysis of its business case development activities to enable efficiency improvements. This should include:

- monitoring costs and time of internal resources used in developing business cases
- improving the process for recording costs of external consultants used in developing business cases to ensure all costs are appropriately categorised.

5. That BQ and Department of State Development, Manufacturing, Infrastructure and Planning (DSDMIP) [the then responsible department] work together to assess the merits of developing both BQ’s infrastructure pipeline and DSDMIP’s SIP.

<sup>19</sup> QAO, Report 14: 2019-20, May 2020, p 10.

<sup>20</sup> QAO, Report 14: 2019-20, May 2020, p 10.

<sup>21</sup> QAO, Report 14: 2019-20, May 2020, p 10.

6. That BQ and DSDMIP [the then responsible department] work together to review and clarify BQ's role and obligations in fulfilling what is required under the BQ Act to enable it to more effectively manage its functions. This should include reviewing the BQ Act and, where necessary, recommending to the Minister for DSDMIP to amend the BQ Act to clarify its role of leading and developing business cases to ensure:
  - there is clearer alignment between BQ's current practices and the obligations stated in the BQ Act (that is, BQ considers its role in developing business cases based on project risks and agencies' capability)
  - there is clarity on the distinction between BQ's role in leading business cases and providing project assurance.

#### 2.2.4 Relevance of findings and recommendations

The committee sought comment from the Director-General of the State Development, Infrastructure, Local Government and Planning on the QAO findings recommendations, acknowledging that BQ was to transition to the department.

In May 2021, the Director-General advised that as the QAO report related to BQ, the recommendations no longer remain relevant or actionable. However, the Director-General recognised the importance of the findings and recommendations and stated that the department will continue to reference the report in its role of evaluating major infrastructure projects:

As the Auditor-General Report related to the role and activities of BQ, I am of the view that the recommendations set out in the report no longer remain relevant or actionable in the absence of BQ.

The department recognises the importance of the findings and recommendations of the Auditor-General Report and will continue to reference the report in its role of evaluating major infrastructure projects. The department will support agencies to prepare high quality business cases through participation in project governance, provision of assurance and direct assistance as required. The integration of BQ into the department will provide the State Government with confidence when making important public infrastructure investment decisions.<sup>22</sup>

### 2.3 Committee comment

With over \$50 billion expected to be invested in infrastructure projects over the next four years, the need for the Queensland Government to have access to rigorous and comprehensive infrastructure advice is clear. The *Auditor-General Report No. 14 of 2019-20 – Evaluating major infrastructure projects* sought to examine the effectiveness of BQ in performing that role.

Shortly after the Auditor-General's report was tabled in Parliament, the government announced its intention to transition BQ, including all of its staff, into core government. The rationale included streamlined investment assessment, reduced overheads, and the opportunity for enhanced capability to plan and deliver the state's infrastructure program. The committee examined the Auditor-General's report within this context.

The committee did not seek to examine the merits of the policy decision to dissolve BQ. Rather, it sought to identify those areas where QAO findings and recommendations remained relevant to ensure that lessons learned were not lost in transition, and were acted and reported upon accordingly.

The committee welcomes the Queensland Audit Office finding that BQ worked with government agencies to improve the quality of business cases using its better practice frameworks and that as a result, the government has been provided with more robust analysis to support investment decisions.

<sup>22</sup> Mr Damien Walker, Director-General, Department of State Development, Infrastructure, Local Government and Planning, correspondence, 10 May 2021, p 1.

It is important that this expertise and momentum is not affected by the transition to the Department of State Development, Infrastructure, Local Government and Planning.

It is the committee's view that certain findings and recommendations within the audit report – particularly those relating to functions that will be directly transferred into the department, and which will essentially be delivered by the same staff – will continue to hold relevance.

This includes Recommendation 1 which is directed towards improving the design and application of the business case development framework, and addresses how costs and benefits for social infrastructure projects are quantified and monetised, the timing of assurance activities and the timing of infrastructure announcements.

The committee also considers that Recommendation 3, regarding developing, retaining and using internal capacity to undertake core responsibilities to optimise the mix of internal and external resources being used to deliver outputs, will continue to hold relevance.

While the committee welcomes the Director-General's assurance that the department will continue to reference the audit report in its role of evaluating major infrastructure projects, the committee recommends that the department and the QAO take steps to ensure that relevant recommendations contained in *Auditor-General Report No. 14 of 2019-20 – Evaluating major infrastructure projects*, are assigned to the department for implementation and reporting purposes.

**Recommendation 1**

That the Legislative Assembly note the contents of this report.

**Recommendation 2**

That the Department of State Development, Infrastructure, Local Government and Planning (the department) and the Queensland Audit Office take steps to ensure that relevant recommendations contained in *Auditor-General Report No. 14 of 2019-20 – Evaluating major infrastructure projects*, are assigned to the department for implementation and reporting purposes.

## **Appendix A – Officials at public briefing**

### **Queensland Audit Office**

- Brendan Worrall, Auditor-General
- Patrick Flemming, Assistant Auditor-General
- David Toma, Director