



Examination of Auditor-General Report 16: 2021-22 *Contract management for new infrastructure*

Report No. 39, 57th Parliament

State Development and Regional Industries Committee

February 2023

State Development and Regional Industries Committee

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Acknowledgements

The committee acknowledges the work of the Auditor-General and officials from the Queensland Audit Office in preparing Report No. 16: 2021-22- *Contract management for new infrastructure*.

The committee also acknowledges the work of officials from the Department of Energy and Public Works and the Department of Education in responding to the recommendations of the Auditor-General.

Inquiry documents

All inquiry documents are available on the inquiry webpage here:

<https://www.parliament.qld.gov.au/Work-of-Committees/Committees/Committee-Details?cid=172&id=4173>

All web addresses are correct at the time of publication.

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Chair's foreword

This report presents a summary of the State Development and Regional Committee's examination of *Report 16: 2021-22 – Contract management for new infrastructure* by the Queensland Audit Office (QAO).

The audit focused on the Department of Energy and Public Works and the Department of Education. The audit stated its reason being that these departments deliver approximately 60 per cent of Queensland's building infrastructure projects.

The audit examined contract management for 6 projects, with a combined value of around \$1.4 billion, and made 11 recommendations relating to government frameworks, managing contract performance and good practice.

The committee fully supports the recommendations of the QAO. Effective contract management is critical to ensuring value for money, securing the project's intended benefits and reducing the risk of cost overruns and delays.

The committee also recognises the significant work by both departments during and after the audit to improve their contract management and governance frameworks. These improvements include training, streamlining business units, updated frameworks and, consolidation of guidelines. The committee recommends that, in 12 months, we examine the progress by both departments in implementing the QAO's recommendations.

On behalf of the committee, I thank officials from the Queensland Audit Office, the Department of Energy and Public Works and the Department of Education for their assistance with the committee's examination.

Thank you also to my committee colleagues for their collaborative approach and the committee secretariat who have supported this inquiry.

I commend this report to the House.



Chris Whiting MP

Chair

Recommendations

Recommendation 1 **7**

That the Legislative Assembly note the contents of this report.

Recommendation 2 **7**

That the State Development and Regional Industries Committee, within 12 months, further examine the progress of implementation of the Queensland Audit Office recommendations by the Department of Energy and Public Works and the Department of Education.

1 Examination of the Audit Report

1.1 Infrastructure contract management in Queensland

The Queensland Government plans to spend approximately \$52.2 billion on infrastructure projects over the next 4 years.¹ Effective contract management is critical to reducing risks of cost and time overruns and ensuring public sector entities achieve value for money and the intended benefits of these public infrastructure projects.

The Auditor-General conducted an audit into how effectively government entities have designed their contract management frameworks and applied them in managing contracts for new infrastructure projects. The audit focussed on the Department of Energy and Public Works (DEPW) (the entity responsible for the whole-of-government framework for managing infrastructure projects) and the Department of Education (DoE) as between them, these departments deliver around 60 per cent of the state's building infrastructure projects. The audit examined 6 projects with a total value of around \$1.4 billion.²

1.2 Summary of Auditor-General's findings

A summary of the key findings of the Queensland Audit Office (QAO) are set out below. The QAO found:

- The DEPW and the DoE have designed their contract management frameworks to manage new infrastructure projects but have not adequately updated them.³
- During a project, the scope of work may change for various reasons, resulting in contract variations. Some variations can be positive and others can indicate a range of issues. At September 2021, the contracts reviewed by the QAO had over \$127 million in contract variations, or 9 per cent of the total cost of the audited projects.⁴
- The Capital Works Management Framework (for which DEPW is responsible) is the whole-of-government framework for managing infrastructure projects. The QAO found that at the whole-of-government level, DEPW could further promote its services for managing infrastructure contracts. At the same time, entities could be making more use of the department's knowledge.⁵
- Both the DEPW and the DoE need to provide better guidance, training, and support to their project teams in managing contracts for infrastructure projects. Project teams have not consistently demonstrated that they appropriately manage contract risks and issues. Nor have they always adequately assessed the performance of contractors.⁶

The QAO made 11 recommendations to strengthen government frameworks for contract management, better manage contract performance, and promote good practice in all government departments.

1.3 Summary of departmental improvements

The committee sought an update from the DEPW and the DoE on progress in implementing the Auditor-General's recommendations.⁷ A summary of key departmental improvements include:

¹ Queensland Audit Office (QAO), Contract management for new infrastructure (Report 16: 2021-22), p 4.

² QAO, Contract management for new infrastructure (Report 16: 2021-22), p 2.

³ QAO, Contract management for new infrastructure (Report 16: 2021-22), p 2.

⁴ QAO, Contract management for new infrastructure (Report 16: 2021-22), p 2.

⁵ QAO, Contract management for new infrastructure (Report 16: 2021-22), p 2.

⁶ QAO, Contract management for new infrastructure (Report 16: 2021-22), p 2.

⁷ These are published on the inquiry webpage. See: <https://www.parliament.qld.gov.au/Work-of-Committees/Committees/Committee-Details?cid=172&id=4173>

- Both departments have recently completed internal reviews of their contract management frameworks and practices.
- DEPW amalgamated its capital project, contract support and policy teams into the new Major Projects division, aligning key infrastructure management services.
- DEPW is releasing the Building Policy Framework (BPF), consolidating 4 frameworks that govern how agencies plan, deliver, and maintain government building projects. The BPF commences on 1 July 2023.
- DEPW is combining 70 guidelines into a single guideline to streamline the BPF. The new guideline will be published before 1 July 2023, subject to approval from the directors-general of the Department of Premier and Cabinet and DEPW.
- In May 2022, DoE engaged an external organisation to review its Infrastructure Services Division project planning, project delivery, contract management and risk management methods. The review delivered its findings and DoE will implement them, along with the QAO recommendations, by 30 November 2023.
- In 2022, over 90 per cent of DoE Infrastructure Services Division staff completed mandatory (all staff) training and Management Foundations (Executive and senior officer) training. This training included contract management, finances and procurement. Six regional infrastructure managers received additional pilot training in contracts and procurement, with more sessions planned based on the integration of feedback.

2 Audit recommendations and implementation progress

2.1 Audit recommendations

The QAO made 11 recommendations to strengthen the frameworks for managing contracts in the Queensland public sector. The committee has focussed on assessing the progress of both departments in addressing each of the 11 recommendations.

The Director-General of each department expressed ongoing commitment to improving infrastructure contract management and embracing learnings from the Auditor-General's report.

It is also important to note that several initiatives to improve contract management were underway at the time of the publication of the QAO report.⁸

Each of the QAO recommendations, together with the responses from the departments, are discussed further below.

2.2 Strengthening government frameworks for managing infrastructure contracts

The QAO recommends that the DEPW:

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| 1. | Strengthen its whole-of-government framework to ensure it clearly states the minimum requirements for managing infrastructure contracts and provides supporting guidelines to public sector entities in applying the framework. |
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DEPW confirmed that it is modernising the governing framework for infrastructure asset management in the public sector, and that it is addressing the QAO's recommendations across government through the recently released Building Policy Framework (BPF). The new BPF consolidates and rationalises 4 existing frameworks which govern how agencies plan, deliver, and maintain government building projects. The new framework is set to commence 1 July 2023.⁹

As part of the BPF implementation, DEPW has commenced the Reinforced Infrastructure Contract Management (RICMAN) initiative. This initiative seeks to develop a targeted contract management framework for infrastructure contracts and bridge the gap between policy principles and their operational application by public sector entities. DEPW is currently finalising its implementation plan for this sizable body of work, and governance structures and working groups are being established.¹⁰

The QAO recommends that the DEPW:

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| 2. | Reviews and where necessary updates its whole-of-government framework at least every 3 years to ensure it reflects contemporary better practices and lessons learned from contract management activities. |
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DEPW has advised that subject to approval from the Directors-General of the Department of Premier and Cabinet and DEPW, the new Guideline will be published on the ForGov website prior to

⁸ DPEW, correspondence, 4 January 2023, p 1.

⁹ DPEW, *New Building Policy Framework*, 1 September 2022. Read at: <https://www.epw.qld.gov.au/about/initiatives/new-building-policy-framework#:~:text=The%20new%20Building%20Policy%20Framework%20consolidates%20and%20rationalises,Building%20Asset%20Performance%20Framework%20Strategic%20Asset%20Management%20Framework>.

¹⁰ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 1.

commencement on 1 July 2023.¹¹ DEPW also acknowledged that improvement opportunities identified by users of the new Guideline will be ongoing.¹²

The QAO recommends that the DEPW and DoE:

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| 3. | Revise its internal policies, procedures and guidance for managing infrastructure contracts. |
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DEPW advised that through the establishment of a Contract Management Centre of Excellence, a Contract Management Plan and user guide have been developed for release in early 2023.

The RICMAN initiative (discussed above) will also include: identifying better practice and developing or upgrading materials and toolkits for practitioners (January 2023 – July 2024). It will also involve engaging relevant workforces in training (July 2024 – December 2024).¹³

DoE also confirmed that work was ongoing under this recommendation. Training has been provided to all relevant staff to ensure appropriate skills and capabilities are in place. Furthermore, an external organisation was appointed to review the effectiveness of the department's project, contract and risk management approaches. That review recommended operational improvement in several areas including: governance and assurance, reporting and automation, risk management, monitoring and control, communications and issues management, and people and culture.¹⁴

Resourcing for the implementation of those recommendations was finalised in late 2022 and the implementation plan requires completion of all QAO contract management recommendations by 2023. The Director-General set out assurances that all recommendations remain on track to be delivered by the stipulated timeframes, and will achieve performance improvement and contract management capabilities.¹⁵

The QAO recommends that the DEPW and DoE:

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| 4. | Review internal policies, procedures, and guidance for managing infrastructure contracts at least every 3 years to ensure they reflect contemporary better practices and lessons learned. |
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DEPW confirmed that policies, procedures, and guidance materials are planned for another review in 2025, and every 3 years thereafter. These materials have been registered in the department's quality control system, which assigns ownership, review parties, and auto-generates review or renewal reminders in line with set schedules.¹⁶

DoE also confirmed that it has a Policy Management Framework and continues to review all policies and procedures on a regular basis to ensure the contents meet DoE's legislative obligations and strategic priorities. Further review and amendments will be required once the updated *Buy Queensland 2022* and revised *Queensland Procurement Policy* are approved by the government.¹⁷

¹¹ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 1.

¹² DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 1.

¹³ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 1.

¹⁴ DoE, correspondence, correspondence, Status of actions in response to report, 2 September 2022, p 2.

¹⁵ DoE, correspondence, correspondence, 24 January 2023, p 1.

¹⁶ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 1.

¹⁷ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 1.

2.3 Managing contract performance

The QAO recommended that the DEPW and DoE:

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| 5. | Strengthen their contract management by ensuring their planning is in line with the government framework and reflects between practice approaches. |
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The Contract Management Centre of Excellence has commenced an agenda to promote greater integration in practice between the Project and Contract management disciplines, encouraging improved diversity in planning activities for significant capital projects. The Contract Management Plan and user guide has been developed from the principles outlined in the existing Queensland Government Contract Management Framework.¹⁸

A Contract Deliverables Register for projects of significant size and complexity has also been developed to support project teams track the status of contractual requirements and deliverables for their projects. The RICMAN initiative will further identify and develop improved frameworks and toolkits, which will be amalgamated into the Centre of Excellence resource repository and associated Community of Practice.¹⁹

The QAO recommended that the DEPW and DoE:

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| 6. | Implement clearly defined processes and procedures to ensure all contract risks and issues are identified and effectively managed. |
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DEPW advised that through the Contract Management Centre of Excellence, several initiatives have been implemented. This includes: minimum project governance requirements for all capital projects; and project management checklists which prompt project teams to access or seek lessons learned with a view to inform risk identification activities.²⁰

DoE confirmed the completion of all QAO contract management recommendations by 30 November 2023.²¹

The QAO recommended that the DEPW and DoE:

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| 7. | Apply standardised processes and procedures for recording, evaluating, approving, and reporting on contract variations. |
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DEPW advised that through the Centre of Excellence, project governance arrangements have stronger minimum requirements as part of DEPW's Project Management methodology. This includes project management plans that outline the process for escalation, endorsement and approval of variations.²²

Looking forward, a scalable project delivery assurance framework will also be developed, which will include review and endorsement controls or activities that promote value for money outcomes (planned for implementation in June 2024).²³

¹⁸ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 1.

¹⁹ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 2.

²⁰ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 2.

²¹ DoE, correspondence, 2 September 2022, Status of actions in response to report, p 4.

²² DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 2.

²³ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 2.

Further, through the RICMAN initiative, the project will develop support materials and toolkits for practitioners that standardise the capture, management and reporting of contract claims and variations (January 2023 – July 2023).²⁴

DoE advised that it has changed its process regarding contract variations and now requires all principal-led variations to be approved by the Infrastructure Services Division's (ISD) New School Board, and all other discretionary variations to be approved by the Deputy Director-General (DDG) of ISD and an appropriate procurement delegate (to ensure a separation of duties).²⁵

In mid-2022, DoE also changed the expenditure approval processes for the officer approving a contract (e.g. Director-General) to specifically identify the position delegated the authority to approve nondiscretionary variations (e.g. Project Coordinator) and discretionary variations (DDG ISD).²⁶

The QAO recommended that the DEPW and DoE:	
8.	Implement clearly defined processes and procedures for developing project design briefs (including specifying what the contract is expected to deliver) and for undertaking stakeholder consultations during the project design stage.

The DEPW advised that the Centre of Excellence has commenced preliminary briefings with the Office of the Queensland Government Architect to identify and understand better practice in developing design briefs. Through the RICMAN initiative, a working group will consider and develop more effective mechanisms for transferal of design briefs to contractual requirements or deliverables (January 2023 – July 2023).²⁷

As discussed above, the DoE advised that it has refined its end-to-end processes for infrastructure projects, and will implement completion of all QAO contract management recommendations by 30 November 2023.²⁸

The QAO recommended that the DEPW and DoE:	
9.	Assess, report, and where necessary act on contractor performance.

Through the Centre of Excellence's Project Management Checklists, practitioners are now prompted to, and given direct access links, to complete Prequalification Performance Reports. These prompts have been included at relevant milestones against the recommendations of BPF (50 per cent and 100 per cent completion).²⁹

As discussed above, the DoE advised that it has refined its end-to-end processes for infrastructure projects, and will implement completion of all QAO contract management recommendations by 30 November 2023.³⁰

²⁴ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 2.

²⁵ DoE, correspondence, 2 September 2022, Status of actions in response to report, p 4.

²⁶ DoE, correspondence, 2 September 2022, Status of actions in response to report, p 4.

²⁷ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 2.

²⁸ DoE, correspondence, 2 September 2022, Status of actions in response to report, p 5.

²⁹ DoE, correspondence, 2 September 2022, Status of actions in response to report, p 4.

³⁰ DoE, correspondence, 2 September 2022, Status of actions in response to report, p 5.

The QAO recommended that the DEPW and DoE:

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| 10. | Implement appropriate processes and procedures for sharing lessons learned and better practices from contract management activities. |
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The DEPW advised that this recommendation is complete.³¹

As discussed above, DoE advised that it has refined its end-to-end processes for infrastructure projects, and will implement completion of all QAO contract management recommendations by 30 November 2023.³²

2.4 Good practice for all government departments

The QAO recommended for all government departments:

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| 11. | We recommend that all government departments review their internal policies, procedures and guidance for managing infrastructure contracts at least every 3 years and, where necessary, implement changes to enhance their contract management performance. |
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2.5 Committee comment

Effective contract management is fundamental to reducing the risk of cost and time overruns and ensuring public sector infrastructure projects provide value for money. The Queensland Audit Office found that the whole-of-government framework for managing contracts needs updating and that departments need to improve their management of contract performance.

The committee has considered how the Department of Energy and Public Works and the Department of Education have responded to the Auditor-General's recommendations. It is clear that both departments have embraced the opportunity to improve their contract management frameworks, with progress against the Auditor-General's recommendations well underway.

Specifically, the committee is encouraged that each department is committed to: revising and renewing contract management policies and procedures at set intervals; adopting clearly-defined risk management procedures; and standardising, improving and defining procedures for recording and evaluating contract variations, developing design briefs, and contractor performer assessment.

However, the committee believes it should monitor the continued implementation of these recommendations from the Queensland Audit Office, and will further examine the progress of implementation.

We also use this opportunity to reinforce the Auditor-General's recommendation that all government departments should review their internal policy, procedures and guidance at least every 3 years, to ensure that they remain fit for purpose.

Recommendation 1

That the Legislative Assembly note the contents of this report.

Recommendation 2

That the State Development and Regional Industries Committee, within 12 months, further examine the progress of implementation of the Queensland Audit Office recommendations by the Department of Energy and Public Works and the Department of Education.

³¹ DEPW, correspondence, 3 January 2022, Progress of Queensland Audit Office Recommendations, p 2.

³² DoE, correspondence, 2 September 2022, Status of actions in response to report, p 5.

Appendix A – Officials at public briefing on 10 October 2022

Queensland Audit Office

- Mr Brendan Worrall, Auditor-General
- Mr Patrick Flemming, Assistant Auditor-General
- Mr Darren Brown, Assistant Auditor-General

Statement of Reservations

Mr Jim McDonald MP and Mr Michael Hart MP

Committee examination of Auditor-General Report 16: 2021-22 **Contract management for new infrastructure**

The Queensland Audit Office (QAO) reports that the Queensland Government plans to spend \$52.2 billion on infrastructure projects over the next 4 years. They also reported that, in the past, poorly managed contracts for infrastructure projects have contributed to delays and unexpected costs. Effective contract management is fundamental to reducing the risk of cost and time overruns and ensuring public sector entities achieve value for money and the project's intended benefits.

We believe that this report is further evidence of a government that cannot plan infrastructure projects and deliver them on time and on budget.

Contract variations

The QAO examined 6 projects with a combined value of around \$1.4 billion, and identified over \$127 million in contract variations. That equates to around 11 per cent of the combined value of the contracts. The audit found that in most cases, project budgets were increased to cover additional costs. Some of the variations could have been avoided by better planning before awarding the contract.¹

The QAO provides examples of these significant cost variations. North Queensland Stadium – 142 variations at a cost of \$48.4 million, or 21 per cent of the contract value. Fortitude Valley State Secondary School, 116 variations at a cost of \$14.5 million, or 21.5 per cent of the contract value.

The whole-of-government framework had not been updated since it was introduced in 1999

The QAO audit also found that the Capital Works Management Framework – the whole-of-government framework and the government's key guiding document for managing risks in planning and delivering infrastructure projects - does not reflect contemporary practice. Nor does it provide a clear and standardised approach for managing infrastructure contracts, and is not used by many entities.²

In fact, the QAO found that the Department of Energy and Public Works had not appropriately reviewed it since it was introduced in 1999.

It is acknowledged that the government is in the process of replacing the Capital Works Management Framework with the new Building Policy Framework. This includes and incorporates the Best Practice Principles of major building construction projects. Evidence provided to us from industry suggests these Best Practice Industry Conditions (BPIC) are causing increases of over 30% in these projects final costings with no extra benefit provided to Queenslanders.

Departments need to improve their management of contract performance

The QAO report also tells us that the departments need to improve their management of contract performance. They found that both had developed internal guidelines, processes, and systems but they did not adequately align with the Capital Works Management Framework, to the extent that the

¹ Queensland Audit Office, Contract management for new infrastructure (Report 16: 2021-22), p 1.

² Queensland Audit Office, Contract management for new infrastructure (Report 16: 2021-22), p 1.

framework remains relevant. The QAO also found they are not comprehensive nor consistently applied, resulting in important aspects of contract management being overlooked.³

The QAO also found instances where the departments had not adequately planned their contract management, had not clearly defined and documented roles and responsibilities or expected project deliverables, and had not undertaken enough (or effective) stakeholder consultation.⁴

The QAO stated that in some cases, these limitations reduced the departments' ability to deliver, monitor, and report on projects as well as they may have done so otherwise. At times, this contributed to scope and cost changes after the contract was awarded.⁵

Recommendations going forward

The LNP members of the State Development and Regional Industries Committee agree with the QAO that effective contract management is fundamental to reducing the risk of cost and time overruns.


We believe and recommend that other infrastructure projects that could be the subject of a future QAO audit on effective contract management and cost and time overruns include the following new major infrastructure projects which show missed planning targets, and budget overruns by the Labor Government:

Project	Original Target Date	New Target Date
Gold Coast Light Rail- Stage 3	Construction start was "imminent" in October 2020.	Construction to start by Christmas 2021. Then, construction to start in April 2022.
Centenary Bridge duplication	Construction to start in 2021	Construction to start in early 2023
Project	Original Target Budget	New Target Budget
Gold Coast Light Rail Stage 3	\$709.9m	\$1.219bn
Cross River Rail	\$5.4bn	~\$8bn
Coomera Connector	\$1.53bn	\$2.162bn

In closing, we believe that this QAO report, its findings and recommendations, as well as the delivery of the above major projects are further evidence of a Government that cannot plan infrastructure projects and deliver them on time and on budget.



**Mr Jim McDonald MP Deputy Chair
Member for Lockyer**



**Mr Michael Hart MP
Member for Burleigh**

³ Queensland Audit Office, Contract management for new infrastructure (Report 16: 2021-22), p 1.

⁴ Queensland Audit Office, Contract management for new infrastructure (Report 16: 2021-22), p 1.

⁵ Queensland Audit Office, Contract management for new infrastructure (Report 16: 2021-22), p 1.