

**Consideration of the Queensland Audit
Office Report to Parliament 8 for 2014–15**
Traveltrain renewal: Sunlander 14

Report No. 15, 55th Parliament
Infrastructure, Planning and Natural Resources Committee
December 2015

Infrastructure, Planning and Natural Resources Committee

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Contents

Chair’s foreword	i
Abbreviations	ii
Recommendation	iii
1 Introduction	1
1.1 Role of the committee	1
1.2 Role of the Auditor-General and Queensland Audit Office	1
1.3 The referral and the committee’s examination	1
2 Queensland Audit Office Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14	2
2.1 Audit scope	2
2.2 Audit conclusions and recommendations	2
2.2.1 Original investment decision.....	3
2.2.2 De-scoping decision.....	5
2.2.3 Governance.....	6
Appendix – Correspondence received from Queensland Rail.....	9

Chair's foreword

This report provides the committee's consideration of the *Queensland Audit Office Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14*.

On behalf of the committee, I thank the Auditor-General and staff of the Queensland Audit Office, and Queensland Rail for their assistance with the committee's examination.

I commend the report to the House.

A handwritten signature in black ink that reads "Jim Pearce". The signature is written in a cursive style with a large initial "J" and "P".

Jim Pearce MP

Chair

December 2015

Abbreviations

DTMR	Department of Transport and Main Roads
QAO	Queensland Audit Office
QR	Queensland Rail
the report	Queensland Audit Office Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14

Recommendation

Recommendation 1

The committee recommends the Legislative Assembly notes the contents of this report.

1 Introduction

1.1 Role of the committee

The Infrastructure, Planning and Natural Resources Committee was established by the Legislative Assembly on 27 March 2015 and consists of government and non-government members.

The committee's areas of portfolio responsibility are:¹

- Transport, Infrastructure, Local Government, Planning and Trade
- State Development, Natural Resources and Mines.

1.2 Role of the Auditor-General and Queensland Audit Office

The Auditor-General is an independent Officer of the Queensland Parliament and is the external auditor of state and local government public sectors.

The Auditor-General examines and reports to Parliament on the efficiency and effectiveness of public sector finances and administration. The Auditor-General is supported by the Queensland Audit Office.

The Auditor-General undertakes both financial audits and performance audits. Financial audits provide advice on the financial statements of public sector entities. Performance audits encompass broader objectives, including evaluating whether an entity, program or initiative has achieved its objectives in an economical and efficient manner.

1.3 The referral and the committee's examination

Section 94(1)(a) of the POQA provides that a portfolio committee has responsibility within its portfolio areas for—

- (a) the assessment of the integrity, economy, efficiency and effectiveness of government financial management by—
 - (i) examining government financial documents, and
 - (ii) considering the annual and other reports of the auditor-general.

Standing Order 194B provides the Committee of the Legislative Assembly (CLA) shall as soon as practicable after a report of the Auditor-General is tabled in the Assembly, refer that report to the relevant portfolio committee(s) for consideration.

The Queensland Audit Office Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14 (QAO report) was tabled in the Legislative Assembly on 9 December 2014. On 5 May 2015, the House referred the report to the committee for consideration.

A portfolio committee may deal with this type of referral by considering and reporting on the matter and making recommendations about it to the Assembly.²

On 28 October 2015, the committee held a public briefing with officers of the QAO. Following the briefing, the committee followed up with Queensland Rail in relation to the implementation of the report's recommendations. Queensland Rail's response is provided in the Appendix to this report.

A copy of the transcript of the public briefing is available from the committee's website.

¹ Schedule 6 of the *Standing Rules and Orders of the Legislative Assembly*, effective from 31 August 2004 (amended 17 July 2015).

² *Parliament of Queensland Act 2001*, s 92(3).

2 Queensland Audit Office Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14

2.1 Audit scope

The QAO report examined the Traveltrain renewal program and focused more specifically on the Sunlander 14 project.³ The scope of the Sunlander 14 project was for delivery of three, 14-car trains at a cost of \$195 million. This 14-car tilt train would replace the diesel-hauled locomotive and reduce travel time. Furthermore, two other existing Cairns tilt trains were to be upgraded to 14 cars under the \$195 million plan approved by the then Shareholding Ministers (SHM) – the Treasurer and Minister for Trade, and the Minister for Transport – in August 2011.⁴

The Sunlander project established a fixed price contract for three new and refurbished trains to be branded the ‘Spirit of Queensland’.⁵ When Queensland Rail (QR) identified that it could not deliver the project outcomes within the existing government investment approval levels, it decided to de-scope the project and deliver three, 9-car trains rather than three 14-car trains.⁶

The audit assessed the planning and decision-making processes for both the original decision to replace the Sunlander rollingstock and the subsequent decision to de-scope the project. The Queensland Audit Office (QAO) also audited governance-related matters, including the timing of key decisions made either shortly before or during the 12 months after the separation of QR National from QR and the impact on information-sharing, and the effectiveness of communication about the project to executive government. Finally, QAO also assessed the corrective action taken by QR once it became aware of the systematic failings in the project management.

2.2 Audit conclusions and recommendations

The report’s examination of the QR project to replace long-distance trains concluded that the Sunlander 14 project was a ‘case study in obfuscation and ill-informed decision-making’. The report stated that QR failed to provide ‘full and frank advice’ before proceeding, and did not demonstrate value for money.⁷ The report made the following key findings:

- While the capital outlay of \$195 million to acquire and upgrade the cars for the Sunlander 14 project was reasonable, the case presented to invest in Sunlander 14 did not demonstrate value for money.
- The three 14-car train solution exceeded requirements based on patronage, which was declining.
- While the case to de-scope the project was presented as a cost saving, it also did not demonstrate that value for money was optimised. The report concluded that it was a false economy to ‘save’ \$50 million when this means writing off over \$50 million already spent or committed.
- The parties involved ignored or did not want to advise Government on the full costs of the project, preferring instead to communicate costs in what they perceived to be more palatable portions. It could not be established whether information was withheld intentionally. The report noted that the distinction was important, as it is the difference between maladministration and possible malfeasance.

³ Queensland Rail developed the Traveltrain renewal program in response to ageing rollingstock, some of which was 60 years old: QAO Report to Parliament 8 for 2014-15, p 10.

⁴ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 1.

⁵ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 13.

⁶ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 1.

⁷ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 2.

- There was a serious failure to communicate effectively, particularly in the advice from the Public Service to the Government, which is the common thread that characterises the Sunlander 14 project from its inception through to the decision to de-scope. During this time, public servants did not fulfil their obligations to provide full and frank advice to the executive Government of the State.⁸

The QAO report noted that the QR Board acted quickly and appropriately to investigate the project once it became aware of the need to write off a significant part of its capital investment. A range of issues were identified in the QR Board's investigation into the Sunlander 14 project procurement processes (finalised in November 2013), and these were confirmed and expanded upon in the report.

The QAO report further noted that since the QR Board investigation, governance, project management, communication and reporting reforms have been implemented. Although, the audit investigation pointed to systemic weaknesses with the QR strategic asset management and project management frameworks, which would expose the remaining long-distance passenger train travel network to the same risks as the Sunlander 14 project, QAO noted that the QR Board had committed to reforming these frameworks.⁹ These reforms are discussed under 2.2.3 Governance.

2.2.1 Original investment decision

The QAO report noted that the original decision to invest in three 14-car trains did not demonstrate value for money because they would have delivered significantly more capacity than was warranted, and they excluded the significant costs for ancillary works and maintenance facilities.

The QAO report concluded:¹⁰

While the approved capital cost to acquire the three train sets was reasonable, decisions about whether the project in its entirety represented value for money were not fully informed. QR and the Department of Transport and Main Roads (DTMR) knew about other significant costs needed to deliver the solution but at times ignored these, and omitted to include that information in deliberations. This failure to provide or act on information about the total cost of the project, even arguing only partial investment approval was sought, is maladministration, at best.

Further, the QAO emphasised the importance of having a robust business case as part of a project management framework to ensure investment represented value for money:¹¹

The business case to invest on the project did not demonstrate value for money, as it delivered more capacity than warranted and omitted significant costs that understated the total cost of the solution. The original solution of three 14-car trains exceeded needs and the market research did not support a luxury travel service.

The QAO report made the following key findings in regard to the original investment decision:

- DTMR approved a more costly three 14-car train option contradicting consultancy recommendations by opting to add carriages to the existing Cairns tilt train and working the trains much harder.
- QR did not undertake comprehensive market or other analysis to support its expectations of patronage and full fare growth. Even if this hoped for growth was achieved, the trains would not have been operating at their full capacity until 2027.
- Market research and actual experience did not support other key assumptions on fares and the proportion of full fare paying guests.
- Optimism bias was evident in the original project assumptions about future patronage and revenues; the QR Board and DTMR did not challenge this bias.

⁸ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 2.

⁹ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 2.

¹⁰ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 17.

¹¹ Public briefing transcript, Brisbane, 28 October 2015, p 1.

- Both QR and DTMR knew the current maintenance facility at Mayne would not be suitable for longer consists and that the interim solution proposed ignored significant safety risks, the effect on the Travetrain schedule and possible interference to the City train fleet.¹²

Report recommendation

As a result of these findings, the QAO made the following recommendation:

That Queensland Rail implements, for all proposed major capital investments, a total net present cost of ownership which includes all initial and subsequent capital, operating, maintenance and disposal costs based on the most likely mode of operation of the asset; and which identifies and costs all infrastructure interdependencies and ancillary costs.¹³

In its response to QAO's report, QR accepted this recommendation and its Board and senior management implemented a number of reforms to QR's project management framework. These are outlined in a letter to QAO included in the report.¹⁴

QR has since implemented further reforms that strengthen QR's project management framework and ensure that investment decisions represent value for money and are based on full disclosure of cost-related information:

- a) The Business Case Financial Appraisal Model is now in use by Queensland Rail and captures information in relation to the total net present cost of ownership. This includes all initial and subsequent capital costs, operating costs, maintenance costs and disposal costs, based on the most likely mode of operation of the relevant asset.
- b) The requirement to identify interdependencies and ancillary costs of a particular project is part of the project scoping. The project planning methodology used by Queensland Rail requires these interdependent and ancillary costs to be considered and documented as part of the capital planning process, in order to mitigate the risk that dependent items are not properly considered and funded in the broader portfolio of projects. Currently, Queensland Rail does not develop financial appraisals that span multiple interdependent projects, but Queensland Rail does treat major infrastructure initiatives as programs of work.
- c) A Capital Plan Reform Program was commenced in March 2015. The reforms implemented as part of that program of work are aimed at improving the prioritisation and optimisation of the capital portfolio in line with the strategic objectives of Queensland Rail and its responsible Ministers. This 'top down' strategic focus is creating a better understanding and alignment of project outcomes, key performance indicators and project scopes. This is enabling Queensland Rail to select the right projects, with well-defined outcomes and scopes. As part of the new capital planning process, project interdependencies are identified and considered in the definition of each of the capital programs.¹⁵

Committee comment

The committee notes the report's findings relating to QR's poor planning and decision-making processes for projects. The committee is satisfied that QR's implementation of the Business Case Financial Appraisal Model and its approach to mitigating risk through its capital planning process address QAO's concern regarding QR's poor business case for the Sunlander project that resulted in a finding that the original investment decision did not demonstrate value for money. The committee believes that this model will ensure that QR considers the total net present cost of ownership for an asset in the future. The committee is also satisfied that QR's Capital Plan Reform Program, which focusses on aligning project outcomes, key performance indicators and project scopes, will also

¹² QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 17.

¹³ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 17.

¹⁴ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 54.

¹⁵ Queensland Rail, correspondence dated 6 November 2015, pp 1-2.

ensure that investment decisions are based on sound financial information and are in accordance with strategic objectives.

2.2.2 De-scoping decision

In 2012, after evaluating the cost of completing the Sunlander 14 project, QR sought \$22.63 million additional government investment approval. After discussions with Queensland Treasury and Trade, QR withdrew the request and chose to reconsider the scope of the Sunlander 14 project. QR's decision to de-scope reduced the total number of new carriages to be constructed by 15, thus delivering three 9-car trains instead of three 14-car trains. QR changed the scope of the project to focus on affordability, which in this context meant 'constraining the total project cost to within \$221 million.'¹⁶

As part of the audit, QAO assessed whether the decision to de-scope the Sunlander 14 project to meet the cost cap was cost effective and represented value for money. QAO concluded that QR's decision to opt for the lowest cost option produced a 'false economy' that was based on 'incomplete analysis and advice'. QAO found:

In effect, QR procured three 9-car trains for not much less than the price it originally contracted to procure three 14-car trains. QR also missed opportunities to extract greater economies of scale and improved operating efficiencies for its entire Traveltrain fleet.¹⁷

QAO also found:

By reducing the investment in the project by \$50 million [following the de-scoping decision], QR wasted a similar amount.¹⁸

As a result of this, QAO advised that the decision to de-scope:

...did not demonstrate value for money and resulted in writing off over \$50 million already spent on the project. The descope contract resulted in 40 per cent fewer new cars for 88 per cent of the original price. The average cost per carriage is now slightly more than \$10 million, which is a 92 per cent increase from the original fixed cost of \$5.27 million per carriage.¹⁹

Further, the report stated that QR lost sight of the broader objectives of the Traveltrain renewal program and subordinated strategic asset management considerations to short-term cost savings. In doing so, QR lost opportunities for greater economies of scale that could also have created more certainty for other Traveltrain projects.

The report identified these other key findings:

- QR and DTMR had identified other necessary costs during the project-planning phase, but it was not until well into the construction phase (March 2012) that the QR Board formally acknowledged the full capital costs would exceed the Board approved budget.
- The removal of 15 carriages from the project scope impeded QR's strategic intent to deliver a premium rail travel product. The decision however can be rationalised in part because a shorter train suited QR's existing facilities and historical patronage trends better.
- QR selected the most financially affordable of the three options it evaluated and the only option that came with the Board approved funding envelope of \$221.3 million.
- The QR Board's decision was not fully informed in that, although the adopted option would have the lowest initial capital outlay, it did not evaluate whether reducing the scope was the optimal asset management strategy over the longer term for the entire Traveltrain fleet.²⁰

¹⁶ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 32.

¹⁷ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 32.

¹⁸ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 31.

¹⁹ Public briefing transcript, Brisbane, 28 October 2015, p 1.

²⁰ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 31.

Committee comment

The committee notes QAO's concerns regarding the decision-making process for de-scoping the project. The committee notes that QR has implemented a number of reforms to address the concerns, including more timely and comprehensive reporting of relevant project information to the Board and the Major Projects and Procurement Committee.²¹

2.2.3 Governance

Governance responsibilities for QR sit primarily with the QR Board and with the Department of Transport and Main Roads (DTMR) as the purchaser of passenger rail transport services.²²

The report concluded that the QR Board did not oversee the Sunlander 14 project effectively. It stated that the shortcomings of the Sunlander 14 project are in part attributable to broader governance issues that existed at QR during the project's development and delivery phases.

QAO found that communication was also ineffective: between QR management and the QR Board; and between QR and DTMR through to the government. As stated previously, QAO concluded that QR and DTMR did not provide 'full and frank advice' to the government.²³

QAO expressed concern that '[w]ithout a strategic fleet plan to support whole of life asset management for the Traveltrain program, the shortcomings from the Sunlander project may be repeated.'²⁴

The report made the following key findings:

- The high turnover of both Board members and executive leadership positions in QR impacted on QR's ability to implement consistent governance practices over the life of the Sunlander 14 project.
- QR Board records held by Aurizon for the period from January 2009 to July 2010 confirmed that the Traveltrain renewal / Sunlander 14 project was not discussed or minuted.
- Project roles and responsibilities within QR and between QR and DTMR were poorly defined.
- QR staff responsible for Traveltrain maintenance who had the required experience and capabilities were excluded from the project planning phase.
- QR's inability to establish certainty about the future of the Westlander and Inlander services meant it missed an opportunity to benefit from updating and rationalising its Traveltrain fleet.
- There was no comprehensive strategic fleet plan to support whole of life asset management of the Traveltrain program and the services it delivers. Such a plan would facilitate an effective governance model for all asset management activities for the Traveltrain fleet.
- In 2013, the QR Board undertook an internal review of the Sunlander 14 project procurement processes, which identified systematic project and governance failures and has implemented an action plan to address these systematic failures. A project governance framework has been implemented in broad alignment with the Queensland Government Project Assurance Framework.²⁵

QAO acknowledged that the QR Board 'acted quickly' and investigated the project fully once it became aware of the need to write off part of its capital investment. The report noted that since the QR Board's investigation, 14 key actions to address the systematic failures identified were at various stages of completion. QAO advised that the newly-established project governance framework and

²¹ Queensland Rail, correspondence dated 6 November 2015, pp 1-2.

²² QAO defines governance as setting direction for an organisation, securing performance, ensuring compliance, managing stakeholders and addressing risk: QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 41.

²³ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 41.

²⁴ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 41.

²⁵ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, pp 41, 42.

other reforms being implemented should strengthen QR's control over major projects.²⁶ Some of these reforms include:

- implementing steps to more clearly delineate the roles and responsibilities with DTMR on key projects
- reforming the role of the executive-led investment committee to monitor and assess key projects²⁷

Report recommendations:

QAO recommended that Queensland Rail:

- implements an integrated strategic fleet asset management plan for the Traveltrain program
- implements independent assurance over the newly implemented project management framework and on individuals' projects.²⁸

QR accepted the recommendations and advised:

While the Traveltrain Renewal Program has been in place for some time, it is recognised that further work is required to develop a more comprehensive strategic plan in relation to the Traveltrain products. That work is underway. The strategic direction of the Traveltrain products is part of Queensland Rail's current reform program. Matters as significant as the strategic direction of the Traveltrain services also require approval by Queensland Rail's Responsible Ministers. It is ultimately a policy decision for Queensland Rail's Responsible Ministers as to what level and frequency of passenger train services are provided on the Traveltrain network, given the public benefit in those services being provided even when it is uneconomical to do so.²⁹

The committee requested further advice on the status of QR's implementation of its governance framework reforms. In relation to the implementation of an integrated strategic fleet asset management plan, QR advised the committee:

A program of work is well underway to address the recommendation. The program of work includes further assessment of the Traveltrain suite of products, and consequently the rollingstock and infrastructure requirements necessary to support those products, with a view to developing a comprehensive strategic plan for Traveltrain for the next 20 years.

As part of that work, consideration is being given to possible future operating models, service demands, product optimisation opportunities and the development of the Traveltrain Rollingstock Fleet Replacement Plan to support the product suite. Once that work is completed, recommendations will be provided to the Board and responsible Ministers for approval.

In the interim, Queensland Rail continues to actively manage its existing Traveltrain rollingstock fleet to meet the current product offering.³⁰

In relation to the status of implementing independent assurance over the project management framework and on individual projects, QR advised the committee:

A new project governance framework was implemented in 2014 as part of the reforms initiated by the Board and senior management in response to the issues that arose in the Sunlander 14 project. The new project management framework aligns with the Queensland Government's Project Assurance Framework and includes adoption of the OnQ project management methodology used by the Department of Transport & Main Roads.

Queensland Rail has also accepted the need to undertake reviews and assurance activities to determine the effectiveness of the new project management framework and has appointed a panel

²⁶ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, pp 41, 42.

²⁷ Queensland Rail, correspondence dated 6 November 2015, p 3.

²⁸ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 41.

²⁹ QAO Report to Parliament 8 for 2014-15 - Traveltrain renewal: Sunlander 14, p 57.

³⁰ Queensland Rail, correspondence dated 6 November 2015, p 2.

of service providers to provide that independent project assurance. Queensland Rail uses the panel to:

1. undertake independent regular end-to-end reviews of a range of projects to identify areas of improvement in Queensland Rail's project management framework. By way of example, Queensland Rail is utilising the panel to conduct 'deep dives' of a single PMBOK project management function (e.g. Cost Management, Scope Management, Risk Management etc) across multiple projects. The first of these reviews is in progress and is focussing on the PMBOK (Project Management Book of Knowledge) area of 'risk'. These reviews will provide in-depth analysis and insights into the effectiveness of existing processes and will help Queensland Rail identify whether further changes or training are required in relation to the project management framework; and
2. undertake independent project specific reviews to provide assurance against high risk and significant projects. One of these reviews has been completed and another is currently in progress. Queensland Rail also undertakes formal Gateway Assurance processes as projects move through the various stage gates in the project management framework. These reviews are undertaken by an internal panel of Queensland Rail personnel. For projects valued over \$10m, the internal panel is independent of the Queensland Rail project team that is managing the project. For projects valued under \$10m, the internal panel is comprised of the Project Control Group established as part of the governance framework for the relevant project.³¹

Committee comment

The committee is satisfied with Queensland Rail's response to the Queensland Audit Office's recommendations regarding QR's strategic asset management and project management frameworks. The committee notes that QR has directly addressed QAO's concerns regarding a lack of a strategic asset plan for Traveltrain through further development of the Traveltrain Renewal Program.

In regard to governance processes, the committee notes QR's implementation of a project management framework that aligns with the Queensland Government's Project Assurance Framework and includes adoption of the OnQ project methodology. The committee is satisfied with QR's ongoing work to ensure a strong project management framework, including undertaking independent end-to-end reviews of products to help identify areas for improvement. The committee believes that the implementation of these reforms will help to identify issues for projects as they arise, which will contribute to better decision-making processes, more effective communication, and strong strategic asset management and project management frameworks.

The committee also notes QAO's advice that it is currently finalising an audit that examines infrastructure projects, which includes the Moreton Bay Rail Link. The QAO advised that this audit will provide the current status of project management for DTMR. The committee looks forward to this report and an update on how DTMR is progressing with improving its project management framework.

Recommendation 1

The committee recommends the Legislative Assembly notes the contents of this report.

³¹ Queensland Rail, correspondence dated 6 November 2015, p 2.

Appendix – Correspondence received from Queensland Rail



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QUEENSLAND RAIL-IN CONFIDENCE

Mr Jim Pearce MP
Chair
Infrastructure, Planning and Natural Resources Committee
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George Street
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By email – IPNRC@parliament.qld.gov.au

Dear Mr Pearce

Queensland Audit Office Report 8 - 2014-15 Traveltrain Renewal : Sunlander 14

I refer to your letter of 29 October 2015 requesting that Queensland Rail provide an update to the Infrastructure, Planning and Natural Resources Committee in relation to the implementation of the Auditor-General's recommendations in the above Report.

I advise as follows.

Recommendation 1

Recommendation 1 made by the Auditor General was that "Queensland Rail implements for all proposed major capital investments, a total net present cost of ownership which includes all initial and subsequent capital, operating, maintenance and disposal costs based on the most likely mode of operation of the asset, and which identifies the costs of all infrastructure interdependencies and ancillary costs."

Queensland Rail accepted that recommendation and advised the Queensland Audit Office by letter dated 25 November 2014 that various reforms had already been implemented by the Board and senior management in relation to the project management framework at Queensland Rail to address that requirement. Further reforms that have since been implemented by Queensland Rail include:

- (a) the Business Case Financial Appraisal Model now in use by Queensland Rail captures information in relation to the total net present cost of ownership. This includes all initial and subsequent capital costs, operating costs, maintenance costs and disposal costs, based on the most likely mode of operation of the relevant asset;
- (b) the requirement to identify interdependencies and ancillary costs of a particular project is part of the project scoping. The project planning methodology used by Queensland Rail requires these interdependent and ancillary costs to be considered and documented as part of the capital planning process, in order to mitigate the risk that dependent items are not properly considered and funded in the broader portfolio of projects. Currently, Queensland Rail does not develop financial appraisals that span multiple interdependent projects, but Queensland Rail does treat major infrastructure initiatives as programs of work. An example is the current NGR Operational Readiness Program which includes various



-2-

interdependent projects associated with preparing Queensland Rail operations for the introduction of the New Generation Rollingstock from 2016; and

- (c) a Capital Plan Reform Program was commenced in March 2015. The reforms implemented as part of that program of work are aimed at improving the prioritisation and optimisation of the capital portfolio in line with the strategic objectives of Queensland Rail and its responsible Ministers. This 'top down' strategic focus is creating a better understanding and alignment of project outcomes, key performance indicators and project scopes. This is enabling Queensland Rail to select the right projects, with well-defined outcomes and scopes.

As part of the new capital planning process, project interdependencies are identified and considered in the definition of each of the capital programs.

Recommendation 2

Recommendation 2 made by the Auditor General was that "*Queensland Rail implements an integrated strategic fleet asset management plan for the Traveltrain program*".

Queensland Rail accepted that recommendation.

A program of work is well underway to address the recommendation. The program of work includes further assessment of the Traveltrain suite of products, and consequently the rollingstock and infrastructure requirements necessary to support those products, with a view to developing a comprehensive strategic plan for Traveltrain for the next 20 years. As part of that work, consideration is being given to possible future operating models, service demands, product optimisation opportunities and the development of the Traveltrain Rollingstock Fleet Replacement Plan to support the product suite. Once that work is completed, recommendations will be provided to the Board and responsible Ministers for approval.

In the interim, Queensland Rail continues to actively manage its existing Traveltrain rollingstock fleet to meet the current product offering.

Recommendation 3

Recommendation 3 made by the Auditor General was that "*Queensland Rail implements independent assurance over the newly implemented project management framework and on individual projects*."

Queensland Rail accepted that recommendation.

A new project governance framework was implemented in 2014 as part of the reforms initiated by the Board and senior management in response to the issues that arose in the Sunlander 14 project. The new project management framework aligns with the Queensland Government's Project Assurance Framework and includes adoption of the OnQ project management methodology used by the Department of Transport & Main Roads.

Queensland Rail has also accepted the need to undertake reviews and assurance activities to determine the effectiveness of the new project management framework and has appointed a panel of service providers to provide that independent project assurance. Queensland Rail uses the panel to:

- 1) undertake independent regular end-to-end reviews of a range of projects to identify areas of improvement in Queensland Rail's project management framework. By way of example, Queensland Rail is utilising the panel to conduct 'deep dives' of a single PMBOK project management function (e.g. Cost Management, Scope Management, Risk Management etc) across multiple projects. The first of these reviews is in progress and is focussing on the PMBOK (Project Management Book of Knowledge) area of 'risk'. These reviews will provide in-depth analysis and insights into the effectiveness of existing processes and will help Queensland Rail identify whether further changes or training are required in relation to the project management framework; and

-2-

- 2) undertake independent project specific reviews to provide assurance against high risk and significant projects. One of these reviews has been completed and another is currently in progress.

Queensland Rail also undertakes formal Gateway Assurance processes as projects move through the various stage gates in the project management framework. These reviews are undertaken by an internal panel of Queensland Rail personnel. For projects valued over \$10m, the internal panel is independent of the Queensland Rail project team that is managing the project. For projects valued under \$10m, the internal panel is comprised of the Project Control Group established as part of the governance framework for the relevant project.

Other reforms

In addition to the three recommendations made by the Auditor General in his Report, the Board and senior management of Queensland Rail have implemented a range of other reforms to address the deficiencies identified by the Board in relation to the Sunlander 14 project. Those reforms included improvements to governance processes (including more timely and comprehensive reporting of relevant project information to the Board and the Major Projects & Procurement Committee), reform of the role of the executive-led investment committee to monitor and assess key projects and a range of steps to more clearly delineate roles and responsibilities with DTMR on key projects. A summary of those additional reforms is contained in Queensland Rail's letter of 25 November 2014 to the Queensland Audit Office (a copy of which is attached for ease of reference).

Thank you for the opportunity to provide information to the Committee in relation to this matter. If you require any clarification or further information in relation to the matters set out in this letter, please contact me.

Yours faithfully



Helen Gluer
Chief Executive Officer

6 November 2015

Cc: Mr Neil Scales, Director General, DTMR (by email)