

The Auditor-General  
Auditor-General Report No.3 2024–25  
Performance Audit

## **Australian Government Commitment to the Melbourne Suburban Rail Loop East Project**

Department of Infrastructure, Transport, Regional Development,  
Communications and the Arts

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Canberra ACT  
18 September 2024

Dear President  
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Department of Infrastructure, Transport, Regional Development, Communications and the Arts. The report is titled *Australian Government Commitment to the Melbourne Suburban Rail Loop East Project*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rona Mellor', written in a cursive style.

Rona Mellor PSM  
Acting Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

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# Audit snapshot

## Auditor-General Report No.3 2024–25

*Australian Government Commitment to the Melbourne Suburban Rail Loop East Project*



### Why did we do this audit?

- ▶ Funding of \$2.2 billion from the Australian Government was committed in the October 2022–23 Federal Budget to deliver the 2022 election commitment to the Suburban Rail Loop (SRL) East.
- ▶ This audit examined whether the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the department) effectively managed the approval and commitment of the \$2.2 billion funding commitment towards the SRL East project.



### Key facts

- ▶ The Australian Government commitment to a project in the Federal Budget does not guarantee funding for the project, with the project requiring formal approval under legislative requirements.
- ▶ The department is responsible for the assessment of land transport infrastructure project proposals prior to project approval, with Infrastructure Australia input as required.

**\$2.2 bn**

committed in total to the SRL East project by the Australian Government.



### What did we find?

- ▶ Advice provided by the department to the Australian Government focused on securing the \$2.2 billion in funding for the election commitment in the October 2022–23 Federal Budget.
- ▶ There is a process in place to support Australian Government investment in land transport infrastructure that aligns to the relevant legislation and frameworks.
- ▶ As at June 2024, SRL East had yet to go through the formal project approval process, and the department is awaiting a project proposal report from the Victorian Government. This process must occur before funding can be expended.



### What did we recommend?

- ▶ There were no recommendations to the department.

**3**

reviews since 2022 of the processes that support the Australian Government's investment in infrastructure projects.

# Summary and recommendations

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## Background

1. The Victorian Government announced the construction of the Suburban Rail Loop (SRL) in August 2018. When complete, the SRL will be a 90-kilometre rail line from Cheltenham to Werribee.
2. In May 2022, a \$2.2 billion initial contribution towards the SRL East project was announced by the Australian Labor Party as part of its 2022 federal election campaign. SRL East is the first section of the SRL project and connects Cheltenham to Box Hill.
3. The Australian Government committed \$2.2 billion to SRL East in the October 2022–23 Federal Budget.
4. Australian Government funding for land transport infrastructure projects is administered by the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the department) and the Department of the Treasury (Treasury), with input from the states and territories and Infrastructure Australia. The funding is governed by an approval process. As at June 2024, the SRL East project has progressed only through the first stage of the project approval process (refer to Figure 1.3).

## Rationale for undertaking the audit

5. The Australian Government provides significant investment in land transport infrastructure, in partnership with state and territory governments. This audit provides assurance to Parliament that Australian Government funding decisions for the SRL East project were supported by appropriate advice and consistent with the requirements for Australian Government infrastructure investment.<sup>1</sup>

## Audit objective and criteria

6. The audit objective was to assess whether the department effectively managed the approval and administration of the Australian Government's \$2.2 billion funding commitment towards SRL East.
7. To form a conclusion against the objective, the ANAO examined the following criteria:
  - Did the department provide appropriate advice to the Australian Government on allocation of funding to SRL East?
  - Were established processes for allocating infrastructure funding to the states and territories followed to protect the Australian Government's interests and achieve value for money?

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1 Senator the Hon Bridget McKenzie requested the Auditor-General to audit the approval of Australian Government funding to the SRL project on 22 December 2023. See Australian National Audit Office (ANAO), *Request for audit — Australian Government commitment to the Melbourne Suburban Rail Loop*, ANAO, Canberra, 2024, available from <https://www.anao.gov.au/work/request/australian-government-commitment-to-the-melbourne-suburban-rail-loop-project> [accessed March 2024].

## Conclusion

8. The department was largely effective in managing the approval and administration of the Australian Government’s \$2.2 billion commitment to SRL East, noting the current status of the SRL East project within the project approval process.

9. The department provided largely appropriate advice to the Australian Government on the SRL East project, relative to its current status in the project approval process. The advice focused on including the \$2.2 billion election commitment in the October 2022–23 Federal Budget. Other advice provided on the SRL East commitment to the Minister for Infrastructure, Transport, Regional Development and Local Government (the minister) was primarily through email correspondence or verbal advice — for which limited records were kept.

10. There are established processes in place to support land transport infrastructure investment by the Australian Government, which align with legislative requirements and have review mechanisms in place. For SRL East, the department has followed the components of the process required to be undertaken as of June 2024. As at June 2024, the SRL East is yet to go through the formal project approval process, which must occur before funding can be expended.

## Supporting findings

### Advice to government on the SRL East project

11. The department provided advice to the Australian Government on the SRL commitment as part of the October 2022–23 Federal Budget process. The department used the \$2.2 billion election commitment as the basis for the level of funding and provided high-level risks, relative to the current status of the project in the project approval process. Where information was provided verbally between the department and the minister’s office, there were limited records kept by the department. (See paragraphs 2.2 to 2.25)

### Process approval process

12. The process for the Australian Government to approve and administer land transport infrastructure investment projects aligns with legislation and frameworks. There are changes underway to the frameworks based on findings and recommendations from three external reviews conducted since 2022. (See paragraphs 3.3 to 3.32)

13. The SRL East project was identified as a land transport investment project by the department following the announcement of SRL East as a 2022 election commitment. The Australian Government’s commitment of \$2.2 billion to the SRL East project was made through the usual Federal Budget processes. The \$2.2 billion has been added to the national partnership agreement schedule as required and updated to reflect the change to the funding profile agreed to by the Australian Government as part of the Mid-Year Economic and Fiscal Outlook (MYEFO) 2023–24. (See paragraphs 3.33 to 3.35)

14. A project proposal report from the Victorian Government is due to be submitted to the department by the end of 2024 to facilitate assessment of the project and consideration and approval by the minister. An updated SRL business case is also required to be submitted to Infrastructure Australia by the Victorian Government for a formal evaluation, which is required as



part of project approval for any Australian Government contribution to infrastructure projects over \$250 million. (See paragraphs 3.36 to 3.48)

## Summary of entity responses

15. The proposed report was provided to the department. Extracts of the proposed report were provided to Infrastructure Australia and the Treasury. The summary response from the department and the Treasury are provided below and the full responses from the department and the Treasury are at Appendix 1. Infrastructure Australia chose not to provide a response letter.

### Department of Infrastructure, Regional Development, Transport, Communications and the Arts

The department welcomes the proposed report and the report's overall conclusion that the department was largely effective in managing the approval and administration of the Australian Government's \$2.2 billion commitment to Suburban Rail Loop East (SRL East), noting the current project status within the project approval process.

As noted in the report, SRL East is yet to go through the formal project approval process, which must occur before Australian Government funding can be approved. Following receipt and assessment of a project proposal report from the Victorian Government, and having regard to the formal assessment provided by Infrastructure Australia, the department will provide advice to the Minister for Infrastructure, Transport, Regional Development and Local Government, in regards to approval of the SRL East project, in accordance with the *Public Governance, Performance and Accountability Act 2013* and the *National Land Transport Act 2014*.

### Infrastructure Australia

No summary response provided.

### The Department of the Treasury

Treasury welcomes the report. Although there are no recommendations or findings specifically directed to Treasury, Treasury notes and accepts the report's key message for all Australian Government entities, regarding the importance of appropriate records management and providing advice through formal ministerial briefings.

## Key messages from this audit for all Australian Government entities

16. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

### Records management

- Key program or funding decisions should be supported by briefs to ministers. Discussions on funding decisions should be documented and, along with email correspondence, should be filed in official systems. Discussions and emails should not replace the practice of providing advice through the ministerial briefing process. For guidance on providing ministerial advice, entities can refer to Australian Public Service Commission's *Working with Ministers*.



# Audit findings

# 1. Background

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## Introduction

1.1 The Victorian Government announced the construction of the Suburban Rail Loop (SRL) in August 2018. Once complete, the SRL will be a 90-kilometre rail line through Melbourne's middle suburbs from Cheltenham to Werribee. The SRL project is expected to be delivered in phased sections: SRL East, SRL North and SRL West.<sup>2</sup>

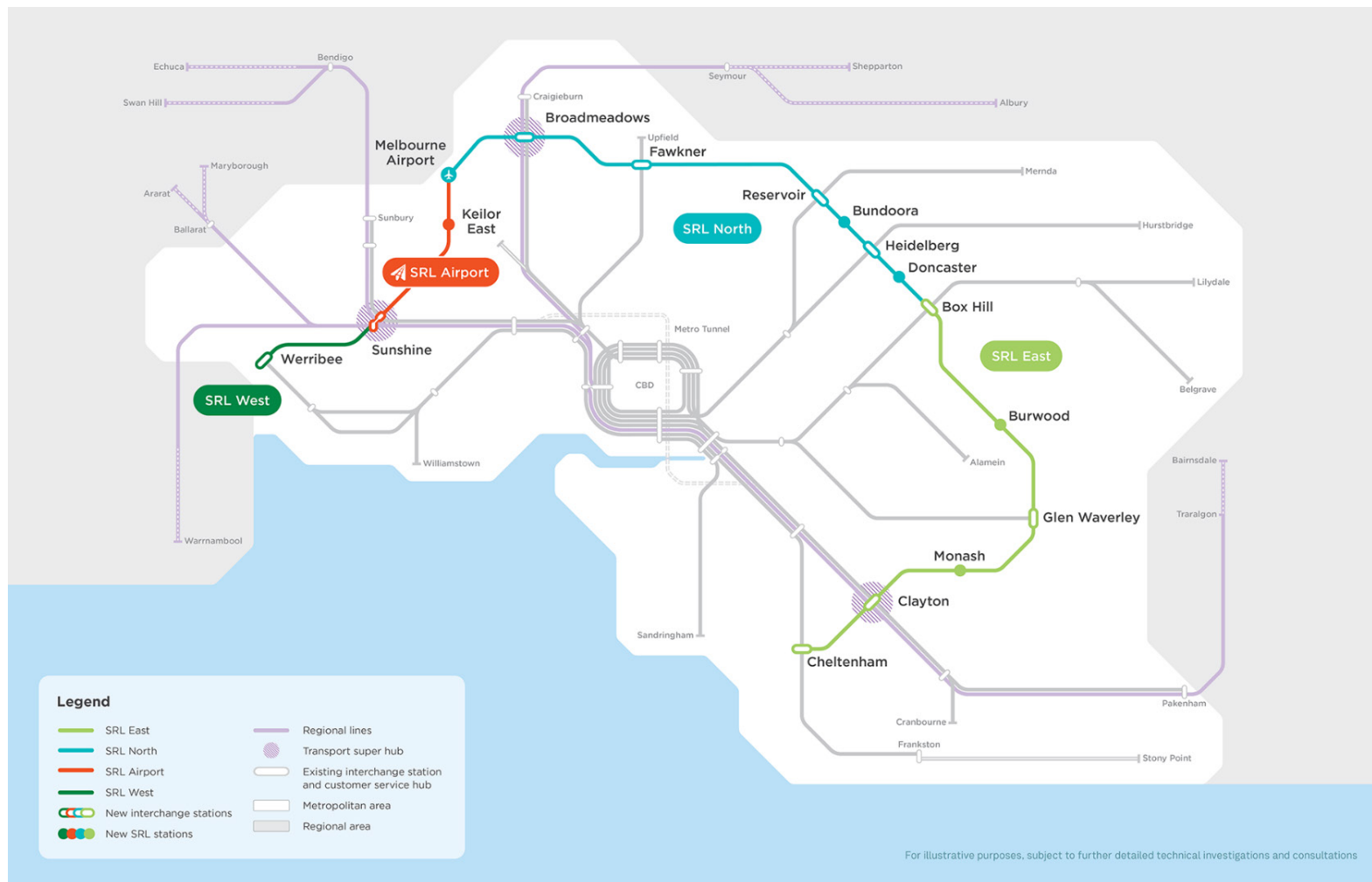
1.2 SRL East is the first section of the SRL project comprising 26 kilometres of underground rail line and six underground stations at Cheltenham, Clayton, Monash, Glen Waverley, Burwood and Box Hill (denoted in light green in Figure 1.1). SRL East is expected to be completed by 2035. SRL North is expected to be completed between 2043 and 2053, and further planning and scoping work is being conducted to inform delivery of SRL West.

1.3 Initial construction work for SRL East commenced in June 2022. In February 2024 the Victorian Government announced that construction had begun at all six stations of the SRL East project.

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2 On 30 October 2022, the Victorian Government announced that the Victorian project name for the Melbourne Airport Rail Link (MARL) project was to be changed to SRL Airport. See note to Figure 1.1.

Figure 1.1: SRL Network map



Note: On 30 October 2022, the Victorian Government announced that the Melbourne Airport Rail Link (MARL) project was to be incorporated into the SRL project (SRL West) and the Victorian project name for MARL was subsequently changed to SRL Airport. The Australian Government had committed a separate \$5 billion to the MARL project in the 2018–19 Federal Budget. The Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the department) advised the ANAO in June 2024 that the SRL East and MARL projects were individual projects and separate commitments and that the Victorian Government was in the early planning stages beyond SRL East and no details had been confirmed on how the projects may integrate.

Source: Victorian Government, *Suburban Rail Loop map*, 2024, available from <https://bigbuild.vic.gov.au/projects/suburban-rail-loop> [accessed 28 March 2024].

1.4 In August 2021, the Victorian Government published the SRL Business and Investment Case (business case), focusing on SRL East and North.<sup>3</sup> The business case estimated the cost of SRL East at \$30–34.5 billion and assumes multiple potential sources of funding, including the Australian Government.<sup>4</sup> As at May 2024, a total of \$14 billion has been committed to the SRL East project — \$11.8 billion from the Victorian Government and \$2.2 billion from the Australian Government.<sup>5</sup>

1.5 On 18 August 2022, the Victorian Parliamentary Budget Office (VPBO) released a cost estimate that indicated the cost to build SRL East would be \$36.5 billion and the cost to build and operate SRL East and North over 50 years to be \$200.3 billion.<sup>6</sup> On 12 March 2024, the VPBO updated these cost estimates to \$32.8 billion to build SRL East and \$216.7 billion to build and operate SRL East and North over 65 years.<sup>7</sup>

1.6 On 21 September 2022, the Victorian Auditor-General tabled an audit report on the *Quality of Major Transport Infrastructure Project Business Cases* that considered four Victorian Government transport infrastructure business cases, including the SRL business case.<sup>8</sup> The report stated in its conclusion that:

The business case DoT [Department of Transport] and SRLA [Suburban Rail Loop Authority] provided to the government for the SRL program did not support informed investment decisions. The business case only analysed part of the program and did not fully meet DTF's [Department of Treasury and Finance's] guidance requirements. DTF has provided substantial advice to government on the SRL program since 2019. However, it is yet to complete the assessment of the business case required under its HVHR [high value high risk] project assurance framework to give the government confidence in its deliverability.

## Australian Government commitment to SRL East

1.7 In May 2022, the Australian Labor Party announced as part of the 2022 federal election campaign, that if elected it would 'invest an initial \$2.2 billion in SRL East over the next five years'.

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3 Victorian Government, *SRL Business and Investment case*, Melbourne, 2021, available from <https://bigbuild.vic.gov.au/library/suburban-rail-loop/business-and-investment-case> [accessed 31 May 2024].

4 The business case assumes the Australian Government contribution matches the funding commitment from the Victorian Government.

5 As reported in the Victorian National Partnership Agreement on Land Transport Infrastructure 2023–24 MYEFO Schedule, available from <https://federalfinancialrelations.gov.au/sites/federalfinancialrelations.gov.au/files/2024-03/VIC%20NPA%20Schedule%20MYEFO%202023-24.pdf> [accessed 3 June 2024].

6 VPBO, *Advice: Suburban Rail Loop East and North – Building and operating costs*, VPBO, Melbourne, 2022, available from <https://pbo.vic.gov.au/response/2820> [accessed 31 May 2024].

7 VPBO, *Suburban Rail Loop: Cost to build and operate East and North sections*, VPBO, Melbourne, 2024, available from [https://static.pbo.vic.gov.au/files/PBO\\_Suburban-Rail-Loop-East-and-North-build-and-operate-costs\\_PUBLICATION.pdf](https://static.pbo.vic.gov.au/files/PBO_Suburban-Rail-Loop-East-and-North-build-and-operate-costs_PUBLICATION.pdf) [accessed 31 May 2024].

8 Victorian Auditor-General's Office (VAGO), *Quality of Major Transport Infrastructure Project Business Cases*, VAGO, Melbourne, 2022, available from <https://www.audit.vic.gov.au/report/quality-major-transport-infrastructure-project-business-cases?section=> [accessed 31 May 2024].

1.8 The Australian Government included the \$2.2 billion commitment to SRL East in the October 2022–23 Federal Budget.<sup>9</sup> In the 2023–24 Mid-Year Economic and Fiscal Outlook (MYEFO), the funding profile was adjusted and rephased (refer to Table 1.1).

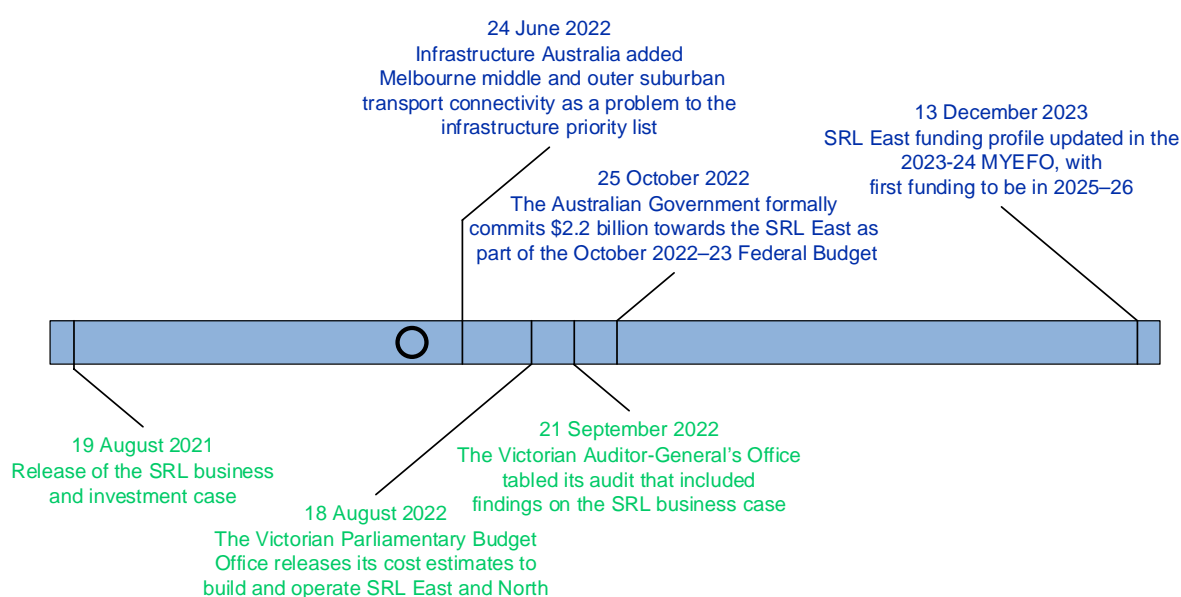
**Table 1.1: SRL East Australian Government funding profile — October 2022–23 Federal Budget and MYEFO 2023–24**

| Basis for funding decision     | 2022–23 | 2023–24 | 2024–25<br>(\$m) | 2025–26<br>(\$m) | 2026–27<br>(\$m) | 2027–28<br>(\$m) |
|--------------------------------|---------|---------|------------------|------------------|------------------|------------------|
| October 2022–23 Federal Budget | –       | –       | 400              | 1,000            | 800              | –                |
| MYEFO 2023–24                  | –       | –       | –                | 400              | 1,000            | 800              |

Source: ANAO analysis of Federal Budget documents and the Victorian schedule to the National Partnership Agreement on Land Transport Infrastructure Projects, October 2022–23 Federal Budget and MYEFO 2023–24.

1.9 Figure 1.2 provides a timeline of the Australian Government’s commitment towards the SRL East project, including related actions at the state level.

**Figure 1.2: Timeline of SRL announcements, reviews and decisions**



Key:

- Decisions made at the federal level
- Actions at the state level
- Election commitment for SRL East made by the Australian Labor Party on 10 May 2022

Source: ANAO analysis.

<sup>9</sup> The initial funding was under the ‘Building Better Future through considered Infrastructure Investment’ measure was part of the Infrastructure Investment Program. National partnership payments are also reported in Federal Budget Paper No.3, with the SRL East \$2.2 billion commitment captured in the rail component as part of the aggregate total for Victoria.

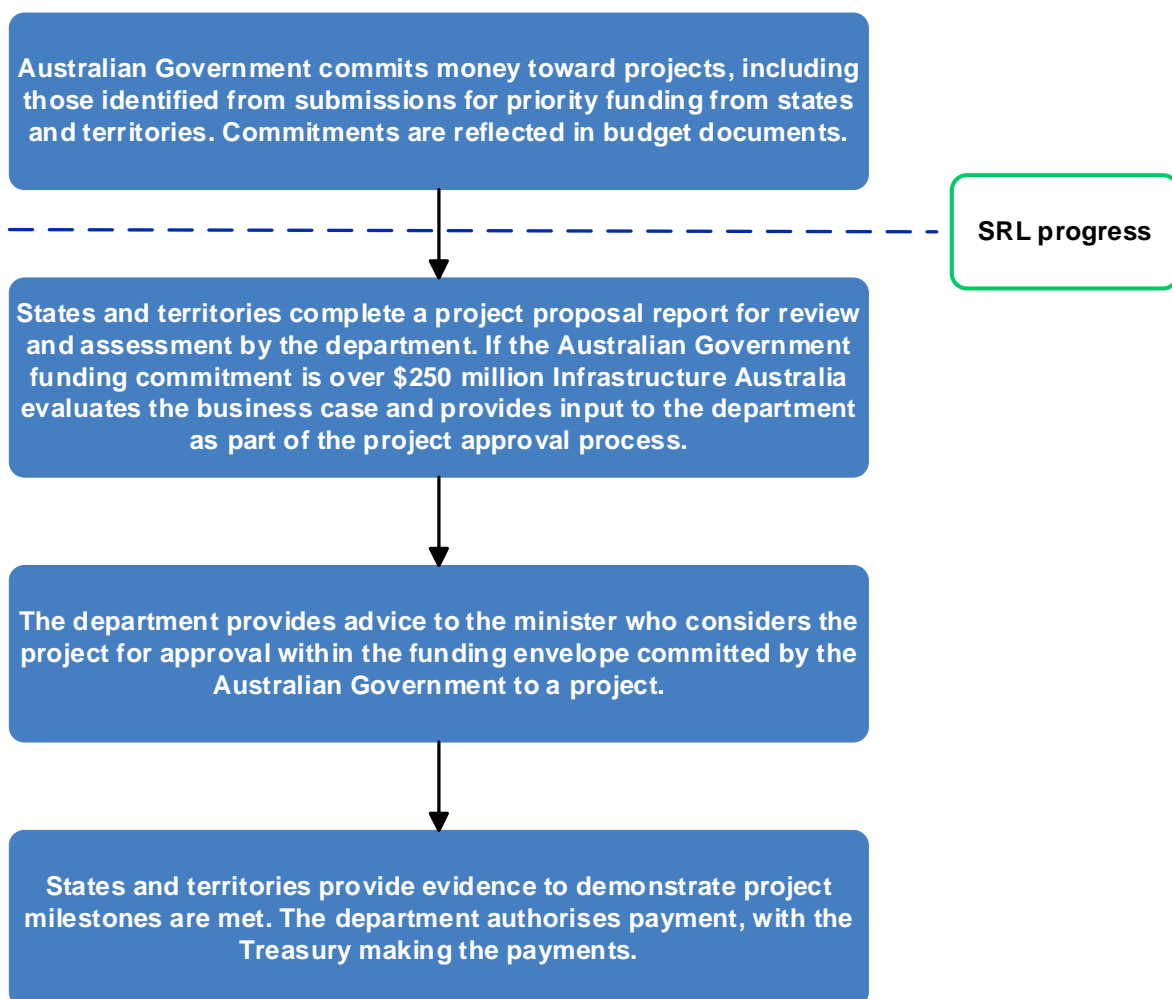
## Australian Government investment in infrastructure projects

1.10 The Australian Government invests in major land transport infrastructure throughout Australia in partnership with states and territories. Funding is governed by:

- legislation, policies, programs and processes that cover investment in land transport projects;
- legislation, financial frameworks and agreements that facilitate payments from the Australian Government to states and territories<sup>10</sup>; and
- the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

1.11 To give effect to the interrelated frameworks, infrastructure funding from the Australian Government is governed by an approval process (see Figure 1.3). As at June 2024, the SRL East project had progressed through the first stage of the process. The project had not been approved and no payments had been made.

**Figure 1.3: High-level process to approve land transport infrastructure projects**



Source: ANAO analysis of key frameworks and procedures.

<sup>10</sup> The Commonwealth Grant Rules and Guidelines cover that these payments are not considered grants and are not subject to the guidelines.



1.12 The process for project approval and administration is managed by:

- the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the department), with input from Infrastructure Australia; and
- the Department of the Treasury (Treasury) which facilitates payment arrangements to the states and territories.

## Rationale for undertaking the audit

1.13 The Australian Government provides significant investment in land transport infrastructure, in partnership with state and territory governments. This audit provides assurance to Parliament that Australian Government funding decisions for the SRL East project were supported by appropriate advice and consistent with the requirements for Australian Government infrastructure investment.

## Audit approach

### Audit objective, criteria and scope

1.14 The audit objective was to assess whether the department effectively managed the approval and administration of the Australian Government's \$2.2 billion funding commitment towards SRL East.

1.15 To form a conclusion against the objective, the ANAO examined the following criteria.

- Did the department provide appropriate advice to the Australian Government on allocation of funding to SRL East?
- Were established processes for allocating infrastructure funding to the states and territories followed to protect the Australian Government's interests and achieve value for money?

1.16 The scope of the audit covers the Australian Government commitment to SRL East. It does not cover Victorian Government infrastructure funding decisions or project delivery.

### Audit methodology

1.17 The audit methodology involved:

- examining advice provided to government on commitment of funding and project approval;
- reviewing relevant legislation, policies, agreements and guidelines;
- reviewing documentation that supported SRL East through the infrastructure investment process;
- examining entity records related to the funding and project; and
- meetings with the department, Infrastructure Australia and Treasury staff.

1.18 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately \$428,786.

1.19 The team members for this audit were Anne Rainger, Thea Ingold, Caitlin Williams, Maggie Lee, Deniss Cirulis, Renina Boyd and Michelle Page.

## 2. Advice to government on the Suburban Rail Loop East project

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### Areas examined

This chapter examines whether the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the department) provided appropriate advice to the Australian Government on allocation of funding to the Suburban Rail Loop (SRL) East project.

### Conclusion

The department provided largely appropriate advice to the Australian Government on the SRL East project, relative to its current status in the project approval process. The advice focused on including the \$2.2 billion election commitment in the October 2022–23 Federal Budget. Other advice provided on the SRL East commitment to the Minister for Infrastructure, Transport, Regional Development and Local Government (the minister) was primarily through email correspondence or verbal advice — for which limited records were kept.

2.1 The Notes on Administration for Land Transport Infrastructure Projects (notes on administration) are the administrative framework for land transport infrastructure projects. The 2021 notes on administration state that ‘the Australian Government may commit funding to a project at any time, for any phase based on information it deems appropriate’. The Australian Government approaches states and territories for potential projects, typically twice a year for the Federal Budget and Mid-Year Economic and Fiscal Outlook (MYEFO). Additionally, the Australian Government can support a project outside of this process, for example a previously announced election commitment.

### Did the department provide evidence-based advice to the government?

The department provided advice to the Australian Government on SRL East commitment as part of the October 2022–23 Federal Budget process. The department used the \$2.2 billion election commitment as the basis for the level of funding and provided high-level risks, relative to the current status of the project in the project approval process. Where information was provided verbally between the department and the minister’s office, there were limited records kept by the department.

### Victorian Government requests for SRL funding before initial commitment of funding to SRL East

2.2 On 29 March 2021, the Victorian Government requested funding from the Australian Government for SRL East as part of the 2021–22 Federal Budget process. The department advised the ANAO in May 2024 that the Minister for Infrastructure, Transport and Regional Development did not support funding for SRL East. The department was unable to provide the ANAO with evidence of this decision-making process.

2.3 On 19 August 2021, the Victorian Government published the SRL Business and Investment Case (business case), focusing on SRL East and North.

2.4 On 27 August 2021, Infrastructure Australia provided the department with a preliminary review of the business case.<sup>11</sup> Although the review was not a formal evaluation, Infrastructure Australia aligned the review with its Assessment Framework and covered areas of strategic fit, societal impacts and deliverability.<sup>12</sup> The review stated that the business case provided:

an overarching strategic rationale for the SRL program, with information on the case for investment in SRL East and North. The program will be delivered in stages, and we anticipate that detailed business cases for the component projects will be developed over time to identify specific requirements in terms of design, cost, risk etc. The business case does not provide detail consistent with beginning construction on SRL East in 2022, particularly in terms of design, risk and funding. The business case identified that separate funding submission would be developed as stage/project sections are completed over the construction timeframe.<sup>13</sup>

2.5 In September 2021, the department conducted an additional analysis on the SRL business case to determine whether investment in the project was reasonably justified based on information available at the time. The analysis stated the business case had a strong strategic rationale for SRL. It also identified gaps in information, lack of consideration of other options, and uncertainty on the methodology used to calculate possible benefits.<sup>14</sup> The analysis concluded ‘the business and investment case in its current form does not present a reasonable investment’.

2.6 The department engaged an external consultant, Shape Transport, in September 2021 at the request of the Minister for Communications, Urban Infrastructure, Cities and the Arts, to review the assumptions and the modelling in the business case and if the project would deliver sufficient long-term benefits. The analysis was provided to the department in November 2021, identifying issues such as uncertainty in the assumptions used in the business case and that further work was required to have confidence in the funding and rationale of the project.

2.7 In October 2021, the Victorian Government requested a funding contribution for SRL East as part of the MYEFO 2021–22 process. The department assessed the request and concluded that funding should not be committed to the project. The department advised the ANAO in May 2024 that it provided this advice to the Minister for Infrastructure, Transport and Regional Development through their office. The Australian Government did not commit any funding towards SRL East at that time.

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11 Infrastructure Australia advised the ANAO in July 2024 that this was at the request of the Minister for Communications, Urban Infrastructure, Cities and the Arts and the review was also provided to the minister through their office.

12 Infrastructure Australia, *Assessment Framework*, Infrastructure Australia, Sydney, 2021, available from <https://www.infrastructureaustralia.gov.au/publications/assessment-framework> [accessed 16 March 2024].

13 Key observations from the review included that the business case provided detailed information on the case for change, strategic alignment with stated goals and route selection. Infrastructure Australia raised issues around the business case’s transparency on economic outcomes, the need for more information on the program’s cost and benefits over time, and funding approach.

14 Examples of the gaps identified were: that it was unclear in the business case what stakeholders were engaged or expected to be engaged in each delivery phase; whether community sensitivities existed; and that delivery, procurement, cost and operational technology risks were not considered.

## Australian Government commitment to the SRL East project

### *Initial \$2.2 billion commitment*

2.8 On 10 May 2022, the Australian Labor Party published a media release stating that, if elected, it would ‘invest an initial \$2.2 billion in SRL East over the next five years’.

2.9 On 1 June 2022, the department provided an incoming government brief to the minister that covered information on the portfolio, including its structures, responsibilities and programs. Regarding the Infrastructure Investment Program (IIP), the brief included a high-level overview of the program, current issues within the program (for example, delivery capacity pressures) and a list of election commitments that would be implemented within the program — including a short description of next steps.

2.10 On the SRL East election commitment, the department advised in the brief that the next steps for the project were ‘negotiations with state and delivery agent required to confirm cost, scope, timeframe and funding arrangements’ and to ‘seek funding authority as part of next budget update’.

2.11 On 15 June 2022, the minister through their office provided the department with the final list of land transport infrastructure election commitments, which included the \$2.2 billion commitment to SRL East.<sup>15</sup>

## Advice to government for the October 2022–23 Federal Budget

2.12 The Australian Government determines the land transport infrastructure projects it is going to fund as part of the Federal Budget process. The department advised the ANAO in June 2024 that on 16 June 2022 it met with the minister to discuss Federal Budget strategy for the IIP including on infrastructure projects for Victoria. The department did not keep records of this meeting.

2.13 The department maintains a consolidated spreadsheet of all infrastructure projects to assist it in providing advice to government on funding decisions for the Federal Budget and MYEFO. The spreadsheet captures key project attributes for example: project description; line area recommendation/comments; origin of request; financial details; justification; benefits; risks and sensitivities; Infrastructure Australia’s evaluations; project details (such as progress status); and funding profile.

2.14 For the October 2022–23 Federal Budget, the spreadsheet contained information on SRL East including: identifying SRL East as an election commitment, risks and next steps at a high-level<sup>16</sup>, and that ‘Melbourne middle and outer suburban transport connectivity’ was a stage one (early stage) proposal on Infrastructure Australia’s priority list (see paragraphs 3.41 to 3.48). The content for justification and benefits of the project was left blank with an instruction within the spreadsheet which noted ‘information not necessary for election commitments’.

2.15 In September 2022, the department prepared advice for the minister’s consideration to take forward to government on the SRL East commitment. This advice contained a description of the

15 The department also tracked election commitments publicly announced during the election.

16 Risks were potential further funding requests, and potential for increase in total costs and delivery delays. Next steps for the department were to require SRL East to undergo further assessment by Infrastructure Australia and to engage with the Victorian Government on how the Australian Government contribution could be refined.

project, the proposed total funding consistent with the election commitment, the breakdown of the funding profile over three financial years, a rationale for the funding (to deliver on the election commitment and the opportunity to reshape Melbourne’s development) and information on risks — such as potential for cost overruns and the Victorian Government to seek further funding. The advice was provided to the minister on 14 September 2022. On 15 September 2022, the minister through her office advised the department not to proceed with SRL East-specific advice to government and instead instructed the department to include SRL East content in advice to government on infrastructure election commitments, which the department implemented.

2.16 As part of the October 2022–23 Federal Budget, the government agreed to a \$2.2 billion commitment to SRL East with a funding profile of: \$400 million in 2024–25; \$1 billion in 2025–26; and \$800 million in 2026–27.

2.17 The funding profile for SRL East was rephased as part of MYEFO 2023–24, with the timing for when the funding is to be released adjusted by one year — now \$400 million in 2025–26, \$1 billion in 2026–27 and \$800 million in 2027–28.

### Other information provided

2.18 On 13 July 2022, the minister stated in a media interview that the department would conduct a ‘merit review’ on all election commitments over \$5 million and that projects that ‘don’t stack up’ would not proceed.<sup>17</sup> There is no evidence of the approach the department planned to undertake for the merit review across election commitments.

2.19 On 25 August 2022, the department advised the minister through their office via email that ‘given the broad discretion within the IIP [Infrastructure Investment Program], at this early stage it is unlikely we could/would rule out any ECs [election commitments] on a merits basis given current info’. The department further advised that it had assessed projects against legislative eligibility criteria, was validating election commitment costs where sufficient information was available and that ‘there are multiple future check points (benefits cost assessment/PPR [project proposal report]) where scope is refined or a project could be cancelled based on merits assessment’. There is no evidence that this advice was formalised or a review of election commitments was provided to the minister.<sup>18</sup>

2.20 Departmental records indicated that the minister through their office followed up on the merit review for SRL East at a meeting with departmental staff on 26 August 2022. The department subsequently prepared a draft assessment outlining how SRL East aligned with government policy, discussion on the business case, risks, and an overall conclusion to engage Infrastructure Australia and consider whether the Australian Government should take an active role in where to invest its money. Departmental records from 17 October 2022 stated that the minister through their office

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17 Minister’s interview with *Guardian Australia*, 13 July 2022, available from <https://www.theguardian.com/australia-news/2022/jul/13/new-infrastructure-minister-says-some-coalition-projects-will-be-scrapped> [accessed 3 June 2024].

18 The Australian Public Service Commission’s publication *Working with Ministers* states: ‘The most common method of providing advice is through the Ministerial briefing processes. APS employees prepare written Ministerial briefs to provide Ministers with information, advice and decision points’. Australian Public Service Commission, *Working with Ministers*, APSC, Canberra, 2021, available from <https://www.apsc.gov.au/publication/working-ministers> [accessed 22 July 2024].

asked the department to ‘hold off on the minister’s requested audit for election commitments above \$5m in respect of the project — we will await the PPR [project proposal report]’.<sup>19</sup>

2.21 Departmental records dated 17 October 2022 also indicated that departmental staff had verbally briefed the minister through their office on the previous review of the business case by Infrastructure Australia and the department, the issues with the business case and previous decisions on SRL East funding (see paragraphs 2.4 to 2.7). The records do not state when these discussions took place.

2.22 The department prepared other operational information for the minister through their office that referenced SRL East:

- 24 August 2022 — talking points in response to the release of the Victorian Parliamentary Budget Office (VPBO) report on the SRL (see paragraph 1.5); and
- 21 September 2022 — a background brief in response to the Victorian Auditor-General’s report on the SRL business case (see paragraph 1.6).

2.23 As part of the 2023–24 Federal Budget process the Victorian Government requested additional funding for SRL East in March 2023. In the course of the budget process, the department advised the minister through their office via email that additional funding for SRL East was not supported, noting that SRL East had not yet received project approval and Infrastructure Australia was yet to receive a business case for formal evaluation. The Australian Government did not commit any further funding at that time.

2.24 As part of the 2024–25 Federal Budget process the Victorian Government again requested additional funding for SRL East in March 2024. Advice on the request was provided by the department to the minister as part of the budget process including advice from Infrastructure Australia.<sup>20</sup> On 14 May 2024, a letter was sent from the minister to their counterpart in the Victorian Government stating that:

The Australian Government has deferred consideration of some requests for new projects and cost pressure funding to a future Budget process. In the main, this was where further detail was needed prior to a decision being made or, for cost pressures, where it was unclear if the costs have been fully realised and reflect a definitive final cost for the project. In Victoria, this included funding requests for Suburban Rail Loop.

2.25 On 15 May 2024, the Australian Government Treasurer stated in a media interview that the Australian Government contribution of \$2.2 billion was a capped contribution and releasing the funding was ‘contingent on the project meeting the relevant conditions and working with Infrastructure Australia to make sure we’re getting value for money’.<sup>21</sup>

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19 The department provided a response in March 2023 to a Senate Rural and Regional Affairs and Transport Committee question on notice that stated that all individual projects in the infrastructure investment program underwent a merit-based review through the project proposal review process.

20 Following the Independent Review of Infrastructure Australia, Infrastructure Australia advises the Australian Government through the budget process, as referenced in paragraph 3.27.

21 Treasurer interview, 3AW, 15 May 2024, available from <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/transcripts/interview-tom-elliott-3aw> [accessed 3 June 2024].

## 3. Project approval process

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### Areas examined

This chapter examines whether established processes for allocating funding to states and territories were followed to protect Australian Government interests and achieve value for money.

### Conclusion

There are established processes in place to support land transport infrastructure investment by the Australian Government, which align with legislative requirements and have review mechanisms in place. For Suburban Rail Loop (SRL) East, the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the department) has followed the components of the process required to be undertaken as of June 2024. As at June 2024, the SRL East is yet to go through the formal project approval process, which must occur before funding can be expended.

### Area for improvement

The ANAO suggests that the department document the processes by which election commitments should be treated through the project approval and management process.

3.1 The Australian Government's investment in land transport infrastructure is supported by legislation, frameworks and agreements that define the approach to infrastructure investment as well as financial arrangements for payments to states and territories. The processes used by the department for project approval must align with legislation, Federal Budget processes, intergovernmental agreements and ministerial approval.

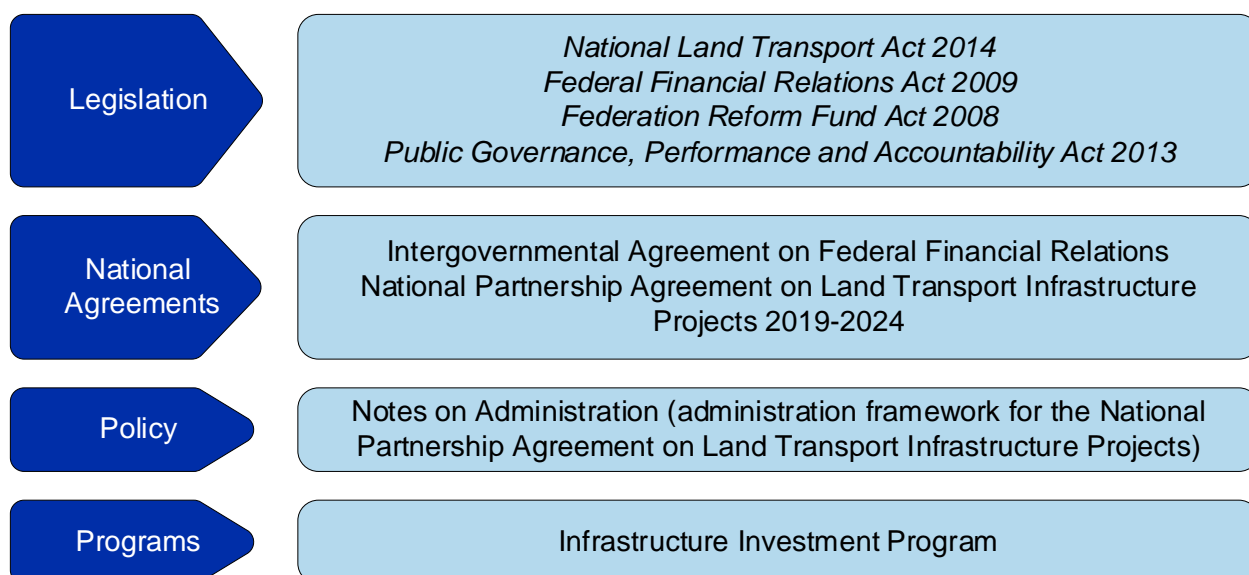
3.2 The department is administering the SRL East commitment through the existing framework for land transport infrastructure investment. The \$2.2 billion towards the SRL East project must go through the required process to support effective and transparent decision-making on land transport infrastructure investment.

### Is there a fit-for-purpose process that supports infrastructure investment that aligns with legislation?

The process for the Australian Government to approve and administer land transport infrastructure investment projects aligns with legislation and frameworks. There are changes underway to the frameworks based on findings and recommendations from three external reviews conducted since 2022.

3.3 Infrastructure investment is governed by legislation, policy, frameworks and administrative processes, as shown in Figure 3.1.



**Figure 3.1: Governance frameworks for infrastructure investment projects**

Note: The *Federation Reform Fund Act 2008* was formally the *COAG Reform Fund Act 2008*, see paragraph 3.6. The National Partnership Agreement on Land Transport Infrastructure Projects 2019–2024 has changed to a Federation Funding Agreement Schedule, see paragraph 3.9.

Source: ANAO analysis of key governance documentation.

### Legislation

3.4 The *National Land Transport Act 2014* (NLT Act) provides for ‘Commonwealth funding aimed at improving the performance of land transport infrastructure’. This includes the eligibility, approval process and funding authority for investment projects that cover land transport projects such as the SRL East project.<sup>22</sup>

3.5 Projects funded under the NLT Act are also governed by the *Federal Financial Relations Act 2009* (FFR Act), which sets the framework for payment to states and territories including national partnership payments to ‘support the delivery by the states of specified outputs or projects’.<sup>23</sup> Payments for projects, such as the SRL East project, are made as a national partnership payment and are captured under corresponding frameworks with states and territories such as the Intergovernmental Agreement on Federal Financial Relations.<sup>24</sup>

3.6 Under these frameworks, the Department of the Treasury (Treasury) is responsible for facilitating national partnership payments under a centralised model where Treasury is appropriated funds and makes payments to states and territories. National partnership payments

22 The NLT Act also provides for other funding streams such as black spot projects or the Road to Recovery program.

23 The FFR Act also covers other payments to states and territories such as the provision of GST revenue to be used by the states and territories. National partnership payments also cover payments to facilitate reforms by the states and reward states for nationally significant reforms.

24 The Intergovernmental Agreement on Federal Financial Relations provides the overarching framework for federal financial relations, including finances and collaboration on policy development and service delivery.

are paid through the Federation Reform Fund (set up by the *Federation Reform Fund Act 2008*), which facilitates grants of financial assistance to states and territories.<sup>25</sup>

3.7 Requirements under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) covering proper use of relevant money also apply to funding decisions and payments made for infrastructure investment projects.

### *National Partnership Agreement on Land Transport Infrastructure Projects*

3.8 The National Partnership Agreement on Land Transport Infrastructure Projects (national partnership agreement) was in place prior to August 2024 and was a funding agreement signed between the Australian Government and the states and territories to govern Commonwealth funding provided for land transport infrastructure projects administered under the NLT Act. The national partnership agreement set out the reporting and financial arrangements of the funding including objectives, outcomes, guidance on project milestones and roles and responsibilities. Key to this was the role of states and territories in the delivery of infrastructure projects, including procurement. The national partnership agreement covered July 2019 to 30 June 2024.

3.9 The national partnership agreement was replaced by a Federation Funding Agreement Schedule (FFAS) in August 2024.<sup>26</sup> A comparison of the national partnership agreement and the FFAS is at Appendix 3.

3.10 Schedules to the national partnership agreement outline the Australian Government funding intended to be provided to states and territories for each infrastructure investment project. The schedule includes both committed and approved investment projects.<sup>27</sup> The inclusion of projects in these schedules does not guarantee release of funding. The Minister for Infrastructure, Transport, Regional Development and Local Government (the minister) must approve funding by signing a project approval instrument in accordance with the NLT Act.<sup>28</sup>

3.11 Administrative detail to support the national partnership agreement is provided through the Notes on Administration for Land Transport Infrastructure Projects (notes on administration).<sup>29</sup> The notes on administration provide guidance on managing projects and information on project

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25 The *Federation Reform Fund Act 2008* was formally the *COAG Reform Fund Act 2008*. The COAG Legislation Amendment Bill 2023 was passed in July 2024, which made minor amendments to various Commonwealth Acts to update references to COAG after the cessation of the Council of Australian Governments (COAG).

26 FFASs are the next iteration of national partnership agreements and will perform the same function as the national partnership agreement. The change is part of the federation funding agreement framework introduced in August 2020, which sought to minimise overall administration and introduces sectoral federal funding agreements including for infrastructure. FFASs are the new agreements under these sectoral federation funding agreements. The new Federation Funding Agreement for Land Transport Infrastructure Projects (2024-2029) is available from <https://federalfinancialrelations.gov.au/agreements/land-transport-infrastructure-projects-2024-2029> [accessed 28 August 2024].

27 As per the 2021 Notes on Administration for Land Transport Infrastructure Projects (notes on administration) committed funding is defined as 'The funding available to a project listed in the national partnership agreement Schedule, subject to approval by the minister'. Approved funding is defined as 'The funding approved for a Project by the minister, under the appropriate legislation'.

28 A project approval instrument is the formal document signed by the minister to approve a project under the NLT Act.

29 The 2021 notes on administration are available from <https://investment.infrastructure.gov.au/sites/default/files/documents/notes-on-administration-january-2021.pdf> [accessed 15 May 2024].

approval, project administration and project completion. The department advised the ANAO in March 2024 that the notes on administration will be updated to support the new FFAS.

3.12 Projects that are funded under the NLT Act are collectively captured in the Infrastructure Investment Program. The infrastructure investment program includes investment in rail and road infrastructure projects and other sub-programs.<sup>30</sup>

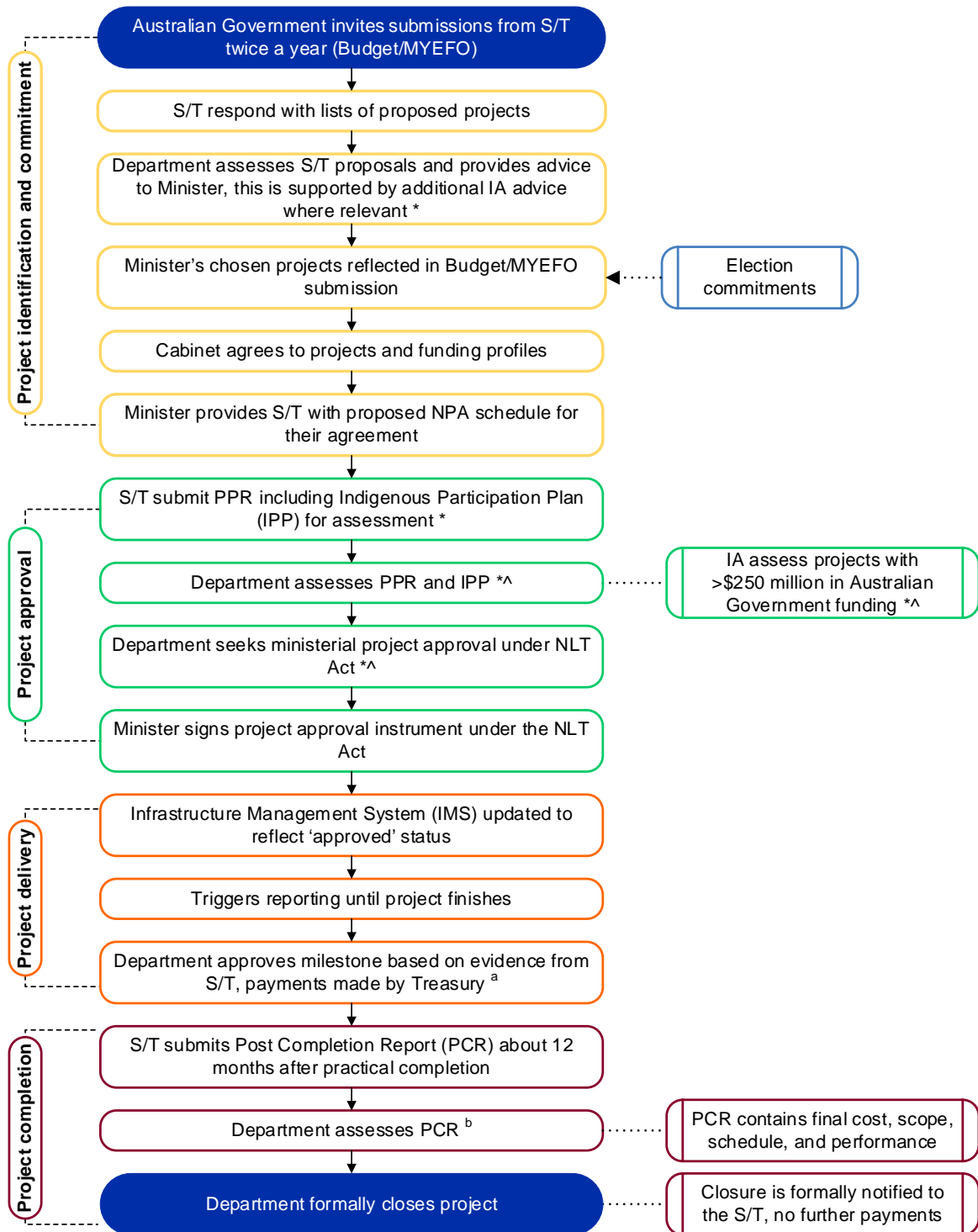
### **Current process to approve and administer land transport infrastructure projects**

3.13 The process that supports the selection and management of infrastructure investment projects consists of legislation, frameworks and administrative practices. Figure 3.2 sets out the process across the stages of project identification and commitment of funding, project approval, project delivery and project completion.

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30 The program is administered by the department under Outcome 1 Transport Connectivity — supporting an efficient, sustainable, competitive, accessible, safe and secure transport system through infrastructure investment.

**Figure 3.2: End-to-end process of infrastructure investment project approval and management**



Key: S/T — states and territories, PPR — Project Proposal Report, PCR — Project Completion Report, IPP — Indigenous Participation Plan, NPA — National Partnership Agreement, IMS — Infrastructure Management System, IA — Infrastructure Australia, \* Risk is considered, ^ Value for money is considered.

Note a: As outlined in the 2021 notes on administration there are 'between 2–4 milestone payments per annum, noting that the number of payments will vary between projects'.

Note b: Infrastructure Australia also assesses project completion in line with their Assessment Framework.

Source: ANAO analysis.

3.14 Subsection 12(1) of the NLT Act allows for the minister to seek submissions for projects for approval. To give effect to this, the department invites states and territories to submit projects for Australian Government funding to inform the Federal Budget and MYEFO processes. Funding can also be provided to projects that are identified as election commitments, or at any time if agreed to by the Australian Government.<sup>31</sup>

3.15 The department advised the ANAO in May 2024 that ‘it is common practice for election commitments to be considered at the first available budget of a new government’. As set out in Figure 3.2 above, election commitments such as the SRL East project come into the process at the step ‘Minister’s chosen projects reflected in Budget/MYEFO submission’. The national partnership agreement, the notes on administration and internal administrative documentation do not set out the process for project selection and commitment when a project is an election commitment. The delivery of the election commitments, however, must follow the full process for project approval.

#### Opportunity for improvement

3.16 A process is in place to support project selection for land transport infrastructure projects, however, this differs for election commitments. There is an opportunity for the department to document the process by which election commitments should be treated to support consistent and transparent administration and decision-making.

3.17 The process required to be followed by the department aligns with legislative requirements, as set out in Table 3.1.

**Table 3.1: Alignment of the process with legislation**

| Phase  | Legislation                             | Description of section  | ANAO analysis of process  |
|--|---|---|---|
| Project identification and commitment of funding | <i>National Land Transport Act 2014</i> | Section 12 — the minister can seek projects for consideration and also approve funding for projects (subject to other provisions) not requested via submissions | The minister invites submissions from states and territories for new investment projects. The Australian Government can also approve funding via other sources such as previously announced election commitments. |
| Project approval                                 | <i>National Land Transport Act 2014</i> | Section 10 — defines which projects are eligible for approval   | Project approval instrument is signed by the minister in accordance with section 10.  |
|  |   | Section 11 — defines whether a project is appropriate   | Determined when the project proposal report is assessed by the department as part of project approval.<br>Project approval instrument is signed by the minister in accordance with section 11.                    |

<sup>31</sup> Subsection 12(3) of the NLT Act covers that the minister may approve a project whether or not the project was via a submission. These commitments still need to be fed into the budget process to secure government decisions and to be reflected in Budget documents and appropriations.

| Phase | Legislation   | Description of section  | ANAO analysis of process  |
|-------|---|---|---|
|       |   | Section 17 — allows for the provisions of Australian Government funding   | The minister signs the project approval instrument to fund projects in accordance with section 17.  |
|       |   | Section 20 — requires Australian Government funding to only be spent on approved purposes in relation to the funded project   | Notes on administration outline examples of approved purposes.<br>Project approval process includes assessment of project costs and confirming what the Australian Government will be paying for.                     |
|       | <i>Public Governance, Performance and Accountability Act 2013</i> | Section 71 — outlines the requirements for the approval of proposed expenditure by a minister   | The minister must consider proper use of relevant money as part of approving projects.  |
|       | <i>Federal Financial Relations Act 2009</i>                       | Section 21 — the minister must have regard to the intergovernmental agreement on federal financial relations  | Australian Government funding arrangements for infrastructure projects are covered in the national partnership agreement, which is part of the intergovernmental agreement on federal financial relations framework.  |
|       | <i>Federation Reform Fund Act 2008</i>                            | Subsection 7(2) — requires that the terms and conditions of the financial assistance provided to states and territories be set out in writing   | National partnership agreement schedules capture projects to be funded and associated funding profile, as agreed between the Australian Government and states and territories.  |
|       | <i>Infrastructure Australia Act 2008</i>                          | Section 5B — outlines the functions of Infrastructure Australia and includes the evaluation of nationally significant infrastructure projects or other infrastructure projects determined by the minister | Infrastructure Australia evaluation is required when the Australian Government commits more than \$250 million towards an infrastructure project as outlined in Infrastructure Australia's Statement of Expectations. |

| Phase              | Legislation                                 | Description of section   | ANAO analysis of process  |
|--------------------|---|--|---|
| Project delivery   | <i>National Land Transport Act 2014</i>     | Division 3 — details the conditions that apply to Australian Government funding (funding approved purposes, providing audit statements and providing information on request) | States and territories provide project progress reports.<br>Process includes request for milestone payments when reached. |
|                    | <i>Federal Financial Relations Act 2009</i> | Section 16 — outlines that a determination may be made crediting amounts to the Federation Reform Fund to make payments  | Projects are paid out of the Federation Reform Fund when milestones are approved.   |
| Project completion | N/A   | N/A  | Final milestone payment is made, and post completion report completed by the department.                                  |

Source ANAO analysis.

### *Roles and responsibilities*

3.18 Two Australian Government departments, the responsible minister, states and territories and Infrastructure Australia administer the process described in Figure 3.2. The key roles and responsibilities are covered in legislation and policy and government agreements, as outlined in Table 3.2.

**Table 3.2: Infrastructure project approval and administration, roles and responsibilities**

| Entity/person role | Description  | Prescribed in                                |
|--------------------|--|--|
| Minister           | Brings forward projects for consideration by the Australian Government, agrees to the state and territory schedules of the national partnership agreement, and approves projects under the NLT Act.  | NLT Act<br>National partnership agreement    |
| Department         | Reviews project for funding and assess projects for approval and provides advice to the minister. Assess whether project milestones were achieved for payment and agrees payments should be made (delegated from the minister) and monitors projects through reporting, governance and engagement. | Notes on administration                      |
| Treasury           | Makes national partnership payments under a centralised model and is the policy owner of the federal financial model.  | Schedule D — Payment Arrangements of IGA FFR |

| Entity/person role       | Description   | Prescribed in   |
|--------------------------|---|---|
| Infrastructure Australia | Advises government on nationally significant infrastructure investment including, but not limited to, maintaining a priority list of unfunded and partly funded projects and reviews projects where the Australian Government has committed more than \$250 million for the project.                                    | <i>Infrastructure Australia Act 2008</i><br>Notes on administration<br>Infrastructure Australia's Statement of Expectations |
| States and territories   | Primary responsibility for the planning, delivery and construction of infrastructure. Provides project proposal reports and documentation to the department and Infrastructure Australia (where relevant), monitors project delivery and provides reports to the department, including updated project costs estimates. | National partnership agreement  |

Source: ANAO analysis.

## Guidance for project approval and administration

3.19 The department is responsible for the assessment of project proposals prior to project approval, with input from Infrastructure Australia when required. The department has developed templates and guidance to support the process.

3.20 Under section 28 of the national partnership agreement, states and territories must set out the information required for project approval in a project proposal report. The department has created a template for use by states and territories.<sup>32</sup> The template captures key areas for consideration, including:

- project scope;
- timeline;
- milestones;
- project costs;
- benefits (including benefits cost ratio);
- risks and sensitivities;
- stakeholder consultation; and
- compliance with relevant legislation and regulation.

3.21 A standard operating procedure (called a practice direction) for project proposal report assessment has been created by the department to guide staff on what to consider when assessing project proposal reports, including completing a project assessment report. The project assessment report is used to provide advice to the minister.<sup>33</sup> The practice direction is supported by additional

32 The department, *National Partnership Agreement project templates*, Canberra, 2022, available from <https://investment.infrastructure.gov.au/resources-funding-recipients/national-partnership-agreement/national-partnership-agreement-project-templates> [accessed 15 May 2024].

33 The project assessment report covers project scope, project risks and benefits, funding profile, existing financial commitments by the state or territory, and supporting rationale for project approval. The department attaches project assessment reports to the brief it submits to the minister when it seeks approval for individual projects.



documents — for example, guidance on departmental delegations<sup>34</sup>, project eligibility under the NLT Act, details to include in a project approval brief and setting milestones.

## Mechanisms to review the current process

3.22 Since 2022, there have been three reviews of the processes and programs that support the Australian Government's investment in land transport infrastructure.

### *Independent review of the National Partnership Agreement on Land Transport Infrastructure projects*

3.23 The review of the National Partnership Agreement on Land Transport Infrastructure projects (NPA review) aimed to assess the effectiveness of the current national partnership agreement, and to identify considerations to be included in the negotiation of a FFAS (the new national partnership agreement, see paragraph 3.9).<sup>35</sup> Section 72 of the national partnership agreement requires that an independent review of the national partnership agreement be completed approximately 12 months prior to the agreement expiring on 30 June 2024.

3.24 The final report of the NPA review was publicly released on 16 November 2023.<sup>36</sup> The NPA review found that the existing administrative arrangements of the national partnership agreement do not support the Australian Government to meet its infrastructure investment priorities and make informed decisions on infrastructure investment at the appropriate times. It also found that administrative arrangements are 'not efficient, are not risk-sensitive and lack flexibility'.

3.25 The review made 12 recommendations relating to governance, process improvement, strategic alignment and legislative changes. The Australian Government agreed in principle to all 12 recommendations. The implementation of these recommendations was in progress as of February 2024 with activities scheduled to occur throughout 2024. The department advised the ANAO in March 2024 that the new FFAS is a key mechanism to implement the recommendations.

### *Independent review of Infrastructure Australia*

3.26 On 22 July 2022, the minister announced a review of Infrastructure Australia.<sup>37</sup> The review aimed to assess Infrastructure Australia's role to provide expert, independent advice to the Australian Government. The review also sought to make recommendations on changes to Infrastructure Australia's functions, administration and legislation as necessary.

3.27 The Infrastructure Australia review was publicly released on 8 December 2022.<sup>38</sup> It found that Infrastructure Australia needed a stronger mandate, increased assurance and assessment responsibilities, and that Infrastructure Australia's products should be improved to support

34 The NLT Act allows for delegation of the minister's powers or functions to a permanent or acting Senior Executive Service employee by signed instrument, excluding the National Land Transport Network.

35 The NPA review was led by Professor Jane Halton AO PSM and was supported by Ms Dixie Crawford, the First Nations advisor for the NPA review.

36 J Halton and D Crawford, *Final Report of the Independent Review of the National Partnership Agreement on Land Transport Infrastructure Projects*, 2023, available from <https://www.infrastructure.gov.au/department/media/publications/final-report-independent-review-national-partnership-agreement-land-transport-infrastructure> [accessed 14 June 2024].

37 The Infrastructure Australia review was led by Ms Nicole Lockwood and Mr Mike Mrdak AO.

38 N Lockwood and M Mrdak AO, *Independent review of Infrastructure Australia*, Canberra, 2022, available from <https://www.infrastructure.gov.au/sites/default/files/documents/independent-review-of-infrastructure-australia-october2022.pdf> [accessed 12 June 2024].

Australian Government objectives and budget processes. The review made 16 recommendations related to governance, process improvement and legislative changes.

3.28 The Australian Government released its response to the Infrastructure Australia review on 8 December 2022.<sup>39</sup> The Australian Government supported seven recommendations, supported in principle five recommendations, and supported in part four recommendations. In December 2023 there were changes to Infrastructure Australia's legislation which were guided by the review recommendations and government response.<sup>40</sup> Infrastructure Australia and the department are currently implementing the recommendations made by the review, including implementing the legislative changes.

### *Strategic review of the Infrastructure Investment Program*

3.29 On 1 May 2023, the minister announced a review of the infrastructure investment program (IIP review).<sup>41</sup> The review evaluated in-scope projects in the infrastructure investment program and made recommendations for the program. The terms of reference stated that the review would neither consider projects already under construction nor consider the Australian Government's 2022 election commitments.

3.30 The terms of reference were approved by the Prime Minister on 11 May 2023 and published on 22 May 2023. The approved terms of reference excluded election commitments. The media release announcing the review stated that the government 'remain committed to delivering our election commitments'.

3.31 The executive summary of the review was released on 16 November 2023.<sup>42</sup> The executive summary outlined the findings of the review, including: the Australian Government cannot deliver the 10-year infrastructure pipeline in the current funding package; there is no financial capacity to add any new projects; and there is a high risk of cost pressures around land transport infrastructure projects.<sup>43</sup> It also found that the current governance and assurance frameworks are insufficient and cost pressures and delivery delays are addressed by the Australian Government in an ad hoc manner. The review made 15 recommendations which related to administration, governance, process improvement, funding, strategic alignment, and legislative changes.

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39 Australian Government, *Australian Government response to the independent review of Infrastructure Australia*, Canberra, 2022, available from <https://www.infrastructure.gov.au/sites/default/files/documents/australian-government-response-to-the-independent-review-of-infrastructure-australia.pdf> [accessed 12 June 2024].

40 The *Infrastructure Australia Amendment (Independent Review) Act 2023* made changes to the *Infrastructure Australia Act 2008*.

41 Ms Clare Gardiner-Barnes, Mr Reece Waldock AM, and Mr Mike Mrdak AO undertook the IIP review.

42 The IIP review executive summary has been publicly released, the full IIP review has not been released publicly. C Gardiner-Barnes, M Mrdak AO and R Waldock AM, *Independent Strategic Review of the Infrastructure Investment Program — Executive Summary*, Canberra, 2023, available from <https://www.infrastructure.gov.au/sites/default/files/documents/independent-strategic-review-iip%E2%80%93executive-summary.pdf> [accessed 4 June 2024].

43 The review report covers that states were asked to provide cost pressures and delivery risks for projects under construction and 2022 election commitments. The report states that the total for these cost pressures is \$18.6 billion, including \$9 billion for the SRL.

3.32 The Australian Government issued a media release on 16 November 2023, which indicated broad support for the review.<sup>44</sup> A list of projects that would continue to receive Australian Government funding, changes to existing funding or funding cancelled in response to the IIP review was also published on 16 November 2023.<sup>45</sup> The department provided advice to the minister in February 2024 on the implementation of the recommendations.

## Was the process for committing funding to the Suburban Rail Loop East project followed?

The SRL East project was identified as a land transport investment project by the department following the announcement of SRL East as a 2022 election commitment. The Australian Government's commitment of \$2.2 billion to the SRL East project was made through the usual Federal Budget processes. The \$2.2 billion has been added to the national partnership agreement schedule as required and updated to reflect the change to the funding profile agreed to by the Australian Government as part of MYEFO 2023–24.

### Project selection and commitment

3.33 On 20 July 2022, the department wrote to the Victorian Department of Transport advising that due to the cost pressures and infrastructure market conditions, the department was not seeking new projects from Victoria and the October 2022–23 Federal Budget would focus on election commitments.<sup>46</sup> On 28 July 2022, the minister similarly wrote to their Victorian Government counterpart indicating that they were not seeking advice on possible new projects or additional funding for existing projects at this time.

3.34 Funded commitments are listed in the national partnership agreement schedule as agreed to by both levels of government.<sup>47</sup> Following the October 2022–23 Federal Budget, the Victorian national partnership agreement schedule was updated in October 2022 and included the \$2.2 billion for the SRL East commitment, with no figures included for the total cost of the project or total of other funding.<sup>48</sup> The updated schedule was published on the Federal Financial Relations website on 2 December 2022.

44 Australian Government, *Government responds to Independent Strategic Review of the Infrastructure Investment Program*, Canberra, 2023, available from <https://www.infrastructure.gov.au/department/media/news/government-responds-independent-strategic-review-infrastructure-investment-program> [accessed 15 May 2024].

45 The list of projects is available at <https://www.infrastructure.gov.au/sites/default/files/documents/independent-strategic-review-iip-project-changes-summary.pdf> [accessed 4 June 2024].

46 This was the process for all states for the October 2022–23 Federal Budget.

47 Subsection 7(2) of the *Federation Reform Fund Act 2008* requires that the terms and conditions of the financial assistance provided to states and territories be set out in writing. The schedule is the practical implementation of that requirement.

48 Both levels of government agreed to the schedule through ministerial correspondence. The Australian Government minister wrote to their Victorian Government counterpart on 25 October 2022 with the updated schedule. The Victorian Government responded on 30 October 2022 agreeing to the new schedule.

3.35 The Victorian national partnership agreement schedule was updated following the changes to the funding profile after MYEFO 2023–24 (see paragraph 2.17).<sup>49</sup> The \$2.2 billion remained unchanged. The total budget cost and total other funding was not specified. Under project specific conditions it was stated that ‘The project will be administered under the terms and conditions of the National Partnership Agreement on Land Transport Infrastructure Projects and the associated Notes on Administration’. The updated Victorian national partnership agreement schedule was published on the Federal Financial Relations website on 18 March 2024.

## Was the process for seeking approval of the project followed?

A project proposal report from the Victorian Government is due to be submitted to the department by the end of 2024 to facilitate assessment of the project and consideration and approval by the minister. An updated SRL business case is also required to be submitted to Infrastructure Australia by the Victorian Government for a formal evaluation, which is required as part of project approval for any Australian Government contribution to infrastructure projects over \$250 million.

### Project approval

3.36 Project approval occurs after the funding commitment stage. The 2021 notes on administration state that the announcement of commitment to funding and inclusion in the national partnership agreement schedule ‘reflects the Australian Government’s commitment to the outcomes of the project but is not a guarantee of funding’ and that ‘funding must be subsequently approved by the minister in accordance with the relevant legislation’. This needs to occur for all projects, including election commitments.

3.37 The minister may approve the SRL East project as an investment project under Part 3 of the NLT Act if the minister is satisfied that the project is eligible for approval (in accordance with section 10) and considers that it is appropriate to approve the project (in accordance with section 11).<sup>50</sup> The minister approves the total project funding and may approve funding up to the limit of the Australian Government’s commitment.

3.38 The minister must also comply with section 71 of the PGPA Act, which states that ‘a minister must not approve a proposed expenditure of relevant money unless the minister is satisfied, after making reasonable inquiries, that the expenditure would be a proper use of relevant money’. The PGPA Act defines proper as efficient, effective, economical and ethical.

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49 The update was agreed to by both levels of government through ministerial correspondence. The Australian Government minister wrote to their Victorian Government counterpart on 13 December 2023 with the updated schedule. The Victorian Government responded on 11 January 2024 agreeing to the new schedule.

50 Section 10 of the NLT Act covers project eligibility. Paragraph (c) of section 10 covers the construction of an existing or proposed railway in a state or relevant external territory. Section 11 of the NLT Act covers what projects are considered appropriate. The minister may consider: whether the project is likely to improve the ability of industries and communities to compete in international, interstate or inter-regional trade and commerce; whether the project will improve the efficiency, integration, security or safety of transport options, the result of any assessment of the economic, environmental or social costs or benefits of the project; whether the project is likely to improve access for communities to services and employment; any transport or land use plans that are relevant to the project; and the extent to which persons other than the Commonwealth propose to contribute funding to the project.

3.39 The Victorian Government is required to submit a project proposal report and the department advised the ANAO in February 2024 that the report is due by the end of 2024. Once this has been received, the department will commence the project assessment and approval phase of the process, which will include Infrastructure Australia's evaluation (see paragraph 3.48). The department advised the ANAO in May 2024 that project approval must occur in order for any funding to be paid.

3.40 The department is part of a working group, chaired by the Victorian Government on the delivery of SRL East, with the frequency of meetings yet to be determined. The department advised the ANAO in July 2024 that the working group was established in December 2023. The working group has met once on 21 December 2023. At that meeting the working group discussed the status of review recommendations and an update on the SRL business case and project proposal report.<sup>51</sup>

### Infrastructure Australia evaluation

3.41 Infrastructure Australia is an independent advisor to the Australian Government on nationally significant infrastructure investment planning and project prioritisation.<sup>52</sup> This is performed through certain functions including maintaining the infrastructure priority list, developing the Australian infrastructure plan, and evaluating business cases for infrastructure projects.

3.42 Infrastructure Australia assess projects for two reasons: either for the project to be included on the infrastructure priority list; or where more than \$250 million in Australian Government funding has been committed to an infrastructure project. Projects can be on the priority list and require a mandatory business case evaluation over the course of the project, as is the case with SRL East.

3.43 The infrastructure priority list covers nationally significant infrastructure proposals that are seeking funding.<sup>53</sup> Proposals are assessed under an Assessment Framework and as at June 2024, are categorised by four project development stages.<sup>54</sup>

- Early-stage (stage one) — used to identify and define current or emerging infrastructure problems and opportunities to be considered for inclusion on the priority list.
- Potential investment options (stage two) — presents options to address the problem outlined in a stage one proposal. The proposal should demonstrate robust analysis used to shortlist suitable options to address the proposed problem.

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51 The department advised the ANAO in May 2024 that the working group meetings had been put on hold due to personnel changes in the Victorian Department of Transport and Planning.

52 The *Infrastructure Australia Act 2008* defines the term 'nationally significant infrastructure' to include transport infrastructure, energy infrastructure, communications infrastructure, water infrastructure and social infrastructure in which investment or further investment will materially improve national productivity.

53 The priority list is updated to reflect the inclusion of assessed proposals, progression through development stages or removal of projects after projects are funded. For the most recent version of the Infrastructure priority list see Infrastructure Australia, *Infrastructure Priority List*, Infrastructure Australia, Sydney, 2024, available from [https://www.infrastructureaustralia.gov.au/sites/default/files/2024-01/current\\_priority\\_list.pdf](https://www.infrastructureaustralia.gov.au/sites/default/files/2024-01/current_priority_list.pdf) [accessed 13 June 2024].

54 Following amendments to the *Infrastructure Australia Act 2008*, work is being undertaken to reform the infrastructure priority list to create a more targeted list aligned to the priority outcomes of the Australian Government.

- Investment-ready proposals (stage three) — builds upon previous proposals by providing a preferred option from the shortlisted options in stage two, documented in a business case. The proposal should demonstrate the analysis conducted to select the preferred option.
- Post completion review (stage four) — reviews the planning and delivery of the project once completed. The review focuses on benefits realisation, the outcomes of the stage three business case and captures lessons learnt for future projects.

3.44 Infrastructure Australia also assesses business cases where the project has Australian Government funding committed, including mandatory evaluations for infrastructure projects that have over \$250 million committed by the Australian Government. In these instances, Infrastructure Australia will use the Assessment Framework to assess the business case and focus on identifying delivery risks, realising project benefits, and highlighting opportunities for improved project outcomes.

3.45 As at June 2024, Infrastructure Australia had undertaken a stage one assessment on the broader Melbourne transport connectivity problem and added it to the priority list (discussed further at paragraphs 3.46 to 3.47 below) which occurred prior to the commitment of funding to SRL East. A formal evaluation of a business case is now required as part of the project approval process following the commitment of funding in the October 2022–23 Federal Budget. This is expected to be equivalent to a stage three assessment under the Assessment Framework.<sup>55</sup>

*Inclusion of Victorian land transport proposal on infrastructure priority list (stage one assessment)*

3.46 In September 2021, Infrastructure Australia received a stage one proposal from the Suburban Rail Loop Authority under the proposal name ‘Planning for Melbourne’s future growth’.<sup>56</sup> The proposal provided analysis of the problem associated with Melbourne’s urban transport connectivity and high-level costs of the project and value of the problem.

3.47 Infrastructure Australia evaluated the proposal in line with Infrastructure Australia’s internal guidance and framework documentation for assessing a stage one proposal — which assesses whether a nationally significant problem or opportunity exists. Infrastructure Australia’s board agreed to list the proposal as a stage one proposal in April 2022. It published the stage one proposal on the infrastructure priority list in June 2022 as ‘Melbourne middle and outer suburban transport connectivity’. This is not directly related to the SRL East commitment but part of a broader opportunity for infrastructure investment.

*Formal business case evaluation by Infrastructure Australia*

3.48 Infrastructure Australia has not yet formally assessed a business case for SRL East, as required as part of project approval. Infrastructure Australia’s Assessment Framework requires states and territories to submit a detailed submission and business case, which includes project cost report, capital cost estimate, operational cost estimate, cost–benefit analysis modelling, funding and financing models, risk assessment and project schedule. This is different from the preliminary

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55 Infrastructure investment projects are not required to go through all stages of the Assessment Framework. SRL East is not expected to go through a stage 2 assessment prior to a business case assessment as the project has moved past what a stage two assessment would review.

56 Suburban Rail Loop Authority (SRLA) is responsible for planning and delivering the Suburban Rail Loop project.

review of the publicly available business case conducted in August 2021 (discussed at paragraph 2.4).<sup>57</sup> Infrastructure Australia advised the ANAO in March 2024 it had not been advised of a timeframe for when the Victorian Government will submit its business case for assessment.

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Rona Mellor PSM  
Acting Auditor-General

Canberra ACT  
18 September 2024

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<sup>57</sup> The preliminary review was to provide early advice to the government whereas the stage three assessment of the business case is required to support formal project approval.





# Appendices

## Appendix 1 Entity responses

### Department of Infrastructure, Transport, Regional Development, Communications and the Arts



**Australian Government**  
**Department of Infrastructure,  
Transport, Regional Development,  
Communications and the Arts**

Rona Mellor PSM  
Acting Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Ms Mellor

**Auditor-General Proposed Audit Report on the *Australian Government commitment to the Melbourne Suburban Rail Loop project***

Thank you for providing the Department of Infrastructure, Transport, Regional Development, Communication and the Arts (the department) with the opportunity to comment on the proposed audit report on the *Australian Government's commitment to the Melbourne Suburban Rail Loop project*.

The department welcomes the proposed report and the report's overall conclusion that the department was largely effective in managing the approval and administration of the Australian Government's \$2.2 billion commitment to Suburban Rail Loop East (SRL East), noting the current project status within the project approval process.

As noted in the report, SRL East is yet to go through the formal project approval process, which must occur before Australian Government funding can be approved. Following receipt and assessment of a project proposal report from the Victorian Government, and having regard to the formal assessment provided by Infrastructure Australia, the department will provide advice to the Minister for Infrastructure, Transport, Regional Development and Local Government, in regards to approval of the SRL East project, in accordance with the *Public Governance, Performance and Accountability Act 2013* and the *National Land Transport Act 2014*.

The department's summary response is enclosed. I note that the department will be provided an opportunity to consider and make comments on any substantive amendments prior to the final report being tabled in Parliament.

Please contact Ms Jessica Hall, Deputy Secretary, Infrastructure Group, by email to [Jessica.Hall@infrastructure.gov.au](mailto:Jessica.Hall@infrastructure.gov.au), if you would like to discuss this response. I would like to thank the Australian National Audit Office for the professional manner in which the audit was conducted.

Yours sincerely

A handwritten signature in blue ink that reads "Jim Betts".

Jim Betts  
Secretary

26 August 2024

GPO Box 594, Canberra ACT 2601, Australia  
• (02) 6274 7111 • [infrastructure.gov.au](http://infrastructure.gov.au)

## The Department of the Treasury



**Australian Government**  
**The Treasury**

EC24-002332

**Secretary**  
**Dr Steven Kennedy PSM**

Ms Rona Mellor PSM  
Acting Auditor-General  
Australian National Audit Office  
38 Sydney Avenue  
FORREST ACT 2603

Dear Ms Mellor *Rona*

**Response to the Australian National Audit Office (ANAO) proposed report on the *Australian Government commitment to the Melbourne Suburban Rail Loop project***

Thank you for providing the Department of the Treasury (Treasury) with the opportunity to comment on the ANAO's proposed report on the *Australian Government commitment to the Melbourne Suburban Rail Loop project*.

Treasury welcomes the key messages in the report, in particular those regarding the approval and administration of the project. Although there are no recommendations or findings specifically directed to Treasury, I note and accept the report's key message for all Australian Government entities, regarding the importance of appropriate records management and providing advice through formal ministerial briefings.

I would like to thank the ANAO for its professional and collaborative approach during this audit.

Yours sincerely

Steven Kennedy

*21* August 2024

## Appendix 2 Improvements observed by the ANAO

1. The existence of independent external audit, and the accompanying potential for scrutiny improves performance. Improvements in administrative and management practices usually occur: in anticipation of ANAO audit activity; during an audit engagement; as interim findings are made; and/or after the audit has been completed and formal findings are communicated.
2. The Joint Committee of Public Accounts and Audit (JCPAA) has encouraged the ANAO to consider ways in which the ANAO could capture and describe some of these impacts. The ANAO's Corporate Plan states that the ANAO's annual performance statements will provide a narrative that will consider, amongst other matters, analysis of key improvements made by entities during a performance audit process based on information included in tabled performance audit reports.
3. Performance audits involve close engagement between the ANAO and the audited entity as well as other stakeholders involved in the program or activity being audited. Throughout the audit engagement, the ANAO outlines to the entity the preliminary audit findings, conclusions and potential audit recommendations. This ensures that final recommendations are appropriately targeted and encourages entities to take early remedial action on any identified matters during the course of an audit. Remedial actions entities may take during the audit include:
  - strengthening governance arrangements;
  - introducing or revising policies, strategies, guidelines or administrative processes; and
  - initiating reviews or investigations.
4. During the course of the audit, the ANAO did not observe changes in the department's approach to managing the Australian Government commitment towards the SRL East project.

### Appendix 3 Comparison between the National Partnership Agreement on Land Transport Infrastructure Projects against the new Federation Funding Agreement (Infrastructure Schedule)

| Section                          | National Partnership Agreement  | FFAS   |
|----------------------------------|---|--|
| Parties                          | <ul style="list-style-type: none"> <li>The Commonwealth</li> <li>States and territories</li> </ul>  | <ul style="list-style-type: none"> <li>The Commonwealth</li> <li>States and territories</li> </ul>   |
| Length of agreement              | 2019 – 2024   | 2024 – 2029  |
| Objectives, outcomes and outputs | <p>Objectives — the agreement provides the administrative and governance arrangements for the delivery of projects outlined in the schedules. Through a joint partnership the parties aim to deliver a national transport system consistent with the objective of the NLT Act.</p> <p>Outcomes — agreement will facilitate efficient and effective delivery of infrastructure projects identified in the schedules including new and upgraded road and rail infrastructure, encourage innovation and promote a competitive infrastructure market.</p> <p>Outputs — successful delivery of transport infrastructure and planning projects outlined in the state schedules.</p> | <p>Largely the same, with additional outcomes and an additional objective to leverage joint investment to deliver broader outcomes.</p> <p>A new section on alignment to shared strategic objectives has been added. This includes:</p> <ul style="list-style-type: none"> <li>projects will align with shared strategic themes and demonstrate alignment to the Commonwealth’s Infrastructure Policy Statement;</li> <li>projects considered for co-investment will be informed by States’ annual infrastructure plans and Infrastructure Australia’s priority list;</li> <li>projects will be subject to due diligence processes, including ‘as best as possible’ ensuring Commonwealth funding for delivery is not committed until a business case has been completed and considered by all relevant parties;</li> <li>prior to committing funding for project delivery, projects will be assessed for confidence in proposed costings and delivery timeframes; and</li> <li>‘as best as possible’, funding for project delivery should only be announced where there is sufficient confidence in the costings and delivery schedule.</li> </ul> <p>Reference is made to development of the schedule in accordance with the FFA principles and the recommendations made in the review of the National Partnership Agreement on Land Transport Infrastructure Project 2019–2024.</p> |

| Section                              | National Partnership Agreement   | FFAS   |
|--------------------------------------|--|--|
| Roles and responsibilities           | <p>Outlines the roles and responsibilities for:</p> <ul style="list-style-type: none"> <li>the Commonwealth</li> <li>the states and territories</li> <li>shared roles and responsibilities.</li> </ul>   | <p>Largely the same. Additions are:</p> <ul style="list-style-type: none"> <li>described the role of the department under the Commonwealth's role</li> <li>identified and defined the role of Infrastructure Australia</li> <li>new responsibilities for the states, for example: <ul style="list-style-type: none"> <li><i>11(e). ensuring any allegations or instances of criminal behaviour or corruption are reviewed and reported to the appropriate regulator</i></li> </ul> </li> <li>new shared responsibilities, for example: <ul style="list-style-type: none"> <li><i>12(b). improving the management of projects to promote better accountability and minimise cost overruns in order to guarantee the best use of taxpayers' funds</i></li> </ul> </li> </ul> |
| Performance indicators and reporting | <p>Includes details on:</p> <ul style="list-style-type: none"> <li>performance indicators to measure the objectives and outcomes of the agreements</li> <li>project milestones: jointly agreed project milestones</li> <li>reporting arrangements: includes monthly reporting on projects, project milestone payments, annual financial statement and audit report, post completion report.</li> </ul> | <p>Changes include the removal of monthly reporting for projects, increased detail on road safety data to be reported and a new model for reporting of performance milestones.</p> <p>New tables for states and territories have been created for performance requirements and reporting. The tables outline the output, performance milestones and reporting due dates. The output will be an annual report on progress against bilateral indicators due by 30 August each year the schedule is in effect. Indicators include:</p> <ul style="list-style-type: none"> <li>First Nations outcomes</li> <li>supporting Australian industry indicators</li> <li>skills and training</li> <li>women's participation in construction</li> <li>decarbonisation.</li> </ul>      |
| Risk management                      | <p>Details financial risk management, including:</p> <ul style="list-style-type: none"> <li>project cost savings</li> <li>interest earned on payments in advance</li> <li>increases in project costs.</li> </ul>   | <p>Changed to include a new section for project and risk management. The section provides more detail on what will be covered in the new notes on administration. This will include a risk management framework, project-level governance, commitment to gateway reviews and other independent assurance processes.</p>  |

| Section                | National Partnership Agreement  | FFAS   |
|------------------------|---|--|
| Financial arrangements | <p>Details information on financial contributions including:</p> <ul style="list-style-type: none"> <li>• the parties' financial contributions to projects are outlined in the schedules</li> <li>• Commonwealth contributions are calculated at P90 level where known</li> <li>• cost estimate details</li> <li>• reallocation of funds approval and details</li> <li>• funding is provided upon the achievement of project milestones of states and territories</li> <li>• funding must be used for approved purposes.</li> </ul> | <p>Largely the same. Additions are:</p> <p><i>Financial arrangements</i></p> <p>The Commonwealth may make funding available for multi-year rolling programs.</p> <p><i>Financial contributions</i></p> <p>Project funding splits will be determined at the time of funding commitment. The Commonwealth and States will maintain a consistent funding split on projects as cost pressures arise, where appropriate governance, assurance and reporting has been demonstrated and mutually agreed.</p> <p>The information on National Land Transport Network Maintenance has moved under a new heading Asset management, maintenance and network performance.</p> |
| Project arrangements   | <p>Details information on potential changes to projects arrangements, including:</p> <ul style="list-style-type: none"> <li>• variations</li> <li>• funding withdrawals</li> <li>• cancellations.</li> </ul>  | Same as NPA.   |
| Delegations            | <p>Outlines the delegations for:</p> <ul style="list-style-type: none"> <li>• Commonwealth minister(s) with portfolio responsibility</li> <li>• state and territory ministers with portfolio responsibility</li> <li>• senior Commonwealth and state officials</li> <li>• Commonwealth minister delegation of project assessment, performance benchmarks or milestones.</li> </ul>  | This section is removed.   |
| Breaches               | <p>Outlines details on breaches based on:</p> <ul style="list-style-type: none"> <li>• conditions in the NLT Act</li> <li>• variations without written consent from the Commonwealth</li> <li>• the terms of the agreement.</li> </ul>  | This section is removed.   |

Source: ANAO analysis.