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Performance Audit

# **The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland**

Department of Infrastructure and Regional Development

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Canberra ACT  
6 November 2013

Dear Mr President  
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Infrastructure and Regional Development in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament. The report is titled *The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland*.

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 'Ian McPhee'.

Ian McPhee  
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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# Abbreviations

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AGD	Attorney-General's Department
ANAO	Australian National Audit Office
CDO	Counter Disaster Operation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMA	Cumulative Monetary Amount
DIRD	Department of Infrastructure and Regional Development (which includes relevant functions from the former Department of Regional Australia, Local Government, Arts and Sport)
DIT	Department of Infrastructure and Transport
DTMR	Department of Transport and Main Roads (Queensland)
EMA	Emergency Management Australia
Finance	Department of Finance (formerly Department of Finance and Deregulation)
Inspectorate	Australian Government Reconstruction Inspectorate
LGA	Local Government Authority
LGIS	Local Government Infrastructure Services Pty Ltd
NDRRA	Natural Disaster Relief and Recovery Arrangements
NPA	National Partnership Agreement
QRA	Queensland Reconstruction Authority



QTC	Queensland Treasury Corporation
Regional Australia	Department of Regional Australia, Local Government, Arts and Sport (now Department of Infrastructure and Regional Development)
REPA	Restoration of Essential Public Assets
SDA	State Departments and Agencies
Taskforce	National Disaster Recovery Taskforce
TNRP	Transport Network Reconstruction Program
VfM	Value for Money



# Summary and Recommendations



# Summary

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## Introduction

1. During the 2010–11 Australian spring and summer seasons, the eastern states were subject to widespread flooding and Queensland was also impacted by a number of tropical cyclones. The then Prime Minister announced on 27 January 2011 that preliminary estimates indicated that the Australian Government would need to contribute \$5.6 billion to the rebuilding of flood-affected regions, to be funded under the existing Natural Disaster Relief and Recovery Arrangements (NDRRA). The majority of expenditure was expected to be on rebuilding essential infrastructure.

2. The Prime Minister subsequently announced new oversight and accountability measures to ensure value for money would be obtained in the rebuilding of flood affected regions. Features of the new governance arrangements included an Australian Government Reconstruction Inspectorate to provide assurance to the Australian Government concerning value for money, a Secretaries' Steering Committee and the National Disaster Recovery Cabinet Sub-committee, the appointment of the Minister Assisting on Queensland Floods Recovery and, for Victoria, the Minister for Regional Australia, Regional Development and Local Government having an oversight role in respect of recovery. In addition, Queensland established the Queensland Reconstruction Authority (QRA, with two Commonwealth appointments to its Board<sup>1</sup>), with the primary objective of delivering the reconstruction program within timeframes.<sup>2</sup> These various governance arrangements are in addition to the existing oversight, acquittal and audit requirements of NDRRA, and they do not alter States' obligations under those arrangements.

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1 Legal advice obtained by the Taskforce in March 2011 was that the responsibilities of the Commonwealth appointees are no different to those of the other Board members.

2 Reconstruction projects are delivered by state departments and agencies and councils, not by the Authority.

3. Separate National Partnership Agreements<sup>3</sup> (NPAs) were signed with the Queensland and Victorian state governments in February and May 2011 respectively.<sup>4</sup> The NPAs outline that the Inspectorate had been established to oversee reconstruction activity to provide assurance that value for money is being achieved in the expenditure of funds during the reconstruction phase. This was principally to be achieved by the Inspectorate undertaking value for money reviews of reconstruction projects.<sup>5</sup> In February 2013, a new NPA was signed by the Australian and Queensland Governments, which covers Queensland flood and cyclone events that occurred between November 2010 and January 2013.

4. The Inspectorate is supported by the National Disaster Recovery Taskforce (the Taskforce) located within the Department of Infrastructure and Regional Development (DIRD, formerly within the Department of Regional Australia, Local Government, Arts and Sport, or Regional Australia). The Taskforce is responsible for Commonwealth engagement with Queensland and Victorian reconstruction agencies and for the implementation of the additional oversight requirements contained in the NPAs.

5. Value for money review processes are undertaken by both state and Australian Government agencies – such reviews had not previously been adopted for disaster recovery and reconstruction projects either in Queensland or by the Commonwealth. For its part, QRA reviews all project submissions from local government and state delivery agencies for eligibility and/or value for money, as part of its progressive review of projects as they proceed from initial estimates to delivery and acquittal. By the end of March 2013 (the latest information available at the time of the audit fieldwork), QRA had approved 1553 project submissions with a combined approval value of \$4.31 billion.<sup>6</sup>

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3 The NPA with Queensland relates to the reconstruction of communities that were affected by the 2010–11 floods and Tropical Cyclone Yasi. The NPA with Victoria relates to the early 2011 flooding in Victoria. NDRRA continues to apply to those natural disasters covered by the NPAs, with payments to the states authorised by Emergency Management Australia (EMA) within the Attorney-General's Department (which administers NDRRA).

4 The existing NDRRA arrangements continue to apply to expenditure covered by the NPAs. These arrangements include the states and territories providing audited financial statements to acquit expenditure, including expenditure of advance payments.

5 The Inspectorate is chaired by former Federal Finance Minister, the Hon. John Fahey AC, assisted by Mr Martin Albrecht AC, the former Managing Director and Chair of Thiess, Ms Robyn Cooper, Principal at Crowe Horwath, and Mr David Tune PSM, Secretary of the Department of Finance.

6 In October 2013, QRA advised the ANAO that, in addition to the disaster events that form the scope of this audit, delivery agents in Queensland are undertaking \$2.7 billion of works for disasters prior to 2011 and a further \$4.3 billion for events in 2012 and 2013.

Once QRA has approved project submissions, the Taskforce examines (on behalf of the Inspectorate) a sample of projects using a three-tiered review process (see Figure S.1). The reviews are structured so as not to delay the normal progress of reconstruction projects.

### Figure S.1: Three tier review process

#### **Tier One: desktop review**

Where a project has been selected for a Tier One review, the project analysis may include:

- comparison of projects against benchmarks (calculated using industry standards and other similar projects);
- examination of the project file provided by the state reconstruction authority;
- comparison of estimated and actual expenditure (where projects have commenced); and
- stakeholder surveys.<sup>7</sup>

In instances where, in the Inspectorate's view, it is unclear or unlikely that a project will achieve value for money, it will be transitioned to the next tier. Some projects will progress to Tier Two and Tier Three even where they have been assessed as value for money at Tier One.

#### **Tier Two: secondary review**

Projects that progress to a Tier Two review will be the subject of a comprehensive review by external experts. Tier Two analysis may include:

- an expert cost opinion;
- a site visit, which may incorporate meetings with delivery agents and funding recipients; and
- examination of all key documentation including project plans and tender documents;

#### **Tier Three: Inspectorate on-site review**

Approximately three to five projects per quarter will be subject to an on-site review by the Inspectorate members. Tier Three analysis may include:

- site visits by the Inspectorate;
- meetings between the Inspectorate and relevant stakeholders; and
- discussions with the state reconstruction bodies.

In instances where a project is assessed by the Inspectorate as not achieving value for money, the process agreed with Emergency Management Australia (EMA) for non-value for money projects will be triggered (see paragraphs 2.67–2.68).

Source: Australian National Audit Office (ANAO) analysis of Taskforce documentation and August 2011 correspondence from the Chair of the Inspectorate to the ANAO.

<sup>7</sup> No stakeholder surveys have been conducted for any Queensland reconstruction projects.

## Audit objective and scope

6. The ANAO has undertaken three audits of key aspects of the NPAs signed with Queensland and Victoria in relation to natural disasters over the 2010–11 Australian spring and summer seasons.

7. The objective of the first audit (ANAO Audit Report No.24 2012–13) was to assess the extent to which the disaster recovery work plans for Queensland and Victoria were prepared, and appropriate monitoring reports provided, in accordance with the relevant NPA.

8. Against the background that the Australian Government will meet up to 75 per cent of eligible reconstruction expenditure, the objective of the second audit (ANAO Audit Report No.23 2012–13) was to assess the effectiveness of the Inspectorate, supported by the Taskforce, in providing assurance that value for money is being achieved in recovery and reconstruction expenditure in Victoria. The report on that audit was tabled in February 2013, in conjunction with the report of the first audit.

9. The objective of the third audit (the subject of this report) was to examine the effectiveness of the Inspectorate, supported by the Taskforce, in providing assurance that value for money is being achieved in respect to Queensland reconstruction projects.

## Overall conclusion

10. The flooding that occurred in Queensland during the spring and summer of 2010–11 was widespread. Reconstruction was expected to be expensive, with the latest (February 2013) data available estimating the cost of the resulting damage to be more than \$7 billion. A significant proportion of reconstruction expenditure is expected to be paid for through the Natural Disaster Relief and Recovery Arrangements (NDRRA), which provide for the Australian Government to meet up to 75 per cent of the cost of reconstruction.

11. Value for money review processes were an important element of the additional oversight and accountability mechanisms introduced, given the significant financial assistance that was expected to be provided to Queensland under NDRRA. In this respect, a reasonable start has been made on the Inspectorate's planned program of 129 project reviews, with 81 projects



selected for review and 70 Tier One reviews<sup>8</sup> completed by the Taskforce as at the end of March 2013.<sup>9</sup> However, many of the completed reviews are provisional assessments based on early project estimates, and further assessment will be required once tender results and project progress reports are available and/or projects are completed.

12. In addition, progress with the reviews has been slower than planned (as the aim had been to select the projects and complete all 129 reviews by 31 December 2012<sup>10</sup>). This situation reflects some delays with the delivery of the reconstruction program by state and local government agencies, challenges that have been experienced by the Taskforce in obtaining and analysing project information, as well as some shortcomings in the Taskforce's sampling procedures.<sup>11</sup>

13. The purpose of the value for money project assessments was to compile a representative sample that could be used to make judgements about the reconstruction program as a whole. Reporting by QRA and the Inspectorate has outlined that there has been significant reconstruction progress but the project level information obtained by the Taskforce has indicated delays across the reconstruction program. Queensland has been granted a 12 month extension to the allowable period under NDRRA in which to complete reconstruction work. There has also been little in the way of project progress reports provided to the Taskforce to enable it to monitor the delivery of the individual projects it has sampled. In these circumstances, and given the situation with the planned program of project reviews, it is too early to reliably extrapolate the findings to the reconstruction program.

14. Notwithstanding this situation, it is evident that, for a relatively modest investment given the expected cost to the Australian Government of

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8 Comprising 45 within the sample and 25 selected in addition to the sample.

9 In addition, 11 of these projects had proceeded to a Tier Two review as a result of the Tier One review findings, and two projects had been designated to undergo Tier Three reviews.

10 In August 2013, Regional Australia advised the ANAO that, in May 2013, the Inspectorate endorsed a revised work plan under which all project assessments for the 2010–11 events are to be completed by the October 2013 Inspectorate report to the Prime Minister.

11 For example, projects being undertaken by state departments and agencies and some types of reconstruction work have been under-represented in the sample selected by the Taskforce.

reconstruction activity<sup>12</sup>, the establishment of the Inspectorate with the support of the Taskforce to conduct value for money reviews has been effective in providing the Australian Government with greater visibility and more timely assurance concerning reconstruction expenditure than would have occurred under NDRRA. This is because NDRRA generally operates on a reimbursement basis, with the Australian Government having little oversight of reconstruction as it occurs as there is no reporting from the states until such time as they seek reimbursement, which is commonly some years after the disasters occur. In addition, limited Australian Government oversight at the conclusion of reconstruction is afforded by the audited claims submitted by states and territories, with no project level information provided in these claims. In this context, the experience to date of the project level scrutiny provided by the Inspectorate and the Taskforce (which have identified potential reductions in NDRRA claims from Queensland totalling more than \$100 million<sup>13</sup>) is likely to be beneficial in informing the approach adopted by Emergency Management Australia in its ongoing administration of NDRRA in respect to natural disasters that occur in other states and territories.<sup>14</sup> It also underlines for other Commonwealth agencies the potential benefits of closely considering arrangements for assuring information provided by the states and territories, where this information determines the amount of Commonwealth payments.

15. In addition to providing greater insights into the nature and estimated cost of reconstruction work, the Inspectorate's value for money reviews have identified issues concerning the eligibility of estimated expenditure in a number of the projects that have been examined. In this respect, in July 2012 a process was agreed on the actions to be taken where the Inspectorate determines that a project does not represent value for money. Specifically, the

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12 Initially, the Taskforce was funded \$11.5 million to operate until the end of 2012. The May 2012 Budget included additional funding of \$2.6 million to extend the operation of the Taskforce by one year. This was in response to the increased time granted to the Queensland Government for the completion of reconstruction projects. In February 2013, the then Government announced that the Taskforce would continue until 30 June 2015. Additional funding of \$8.9 million was included in the May 2013 Budget.

13 This figure includes potential savings for 23 of the 70 projects reviewed by the Taskforce as at March 2013 (see paragraph 22) as well as potential savings related to ineligible profit-related fees (see paragraph 29).

14 Until December 2012, NDRRA did not include value for money assurance arrangements but the current Determination now provides that, for disasters that occur after December 2012, EMA can conduct assurance activities prior to or after a state submits a claim or acquittal.

Inspectorate may recommend to the Attorney-General that the Commonwealth's reimbursement under NDRRA reflect the likely cost of the project had value for money been achieved, rather than the actual project costs incurred. As at the time of completing the audit fieldwork, there have been no projects that the Inspectorate has determined do not represent value for money although, for a number of projects, the Inspectorate has written to QRA identifying items of estimated expenditure that it considered should not be claimed under NDRRA. In addition, in March 2013 the Inspectorate wrote to QRA, the Auditor-General of Queensland, and EMA recommending that the state not be reimbursed for profit margins in respect to reconstruction projects undertaken by RoadTek, a state government entity.<sup>15</sup>

16. To increase the benefits that are derived from the program of value for money reviews, the ANAO has made four recommendations. The first two recommendations are aimed at the Taskforce obtaining information that allows the project reviews to examine the scope and cost of works actually being delivered (rather than early estimates) and improvements to the application of the sampling approach to make it more representative of the reconstruction program. The remaining two recommendations relate, respectively, to improvements in the approach taken by the Taskforce to: scrutinising the cost of delivering reconstruction projects; and stronger oversight of the timeliness of the delivery of reconstruction work.

## Key findings by Chapter

### Benefits from the Value for Money Review Processes (Chapter 2)

17. Value for money review processes are undertaken by both state and Australian Government agencies. In this respect, the Taskforce examines a sample of projects using a three-tiered review process, after the projects have been approved by the Queensland Reconstruction Authority. For its part, the Authority reviews all project submissions from local government and state delivery agencies, in accordance with a value for money strategy endorsed by the Inspectorate in July 2011 (although some practices set out in the strategy

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15 See paragraph 29.

were subsequently modified by QRA).<sup>16</sup> By the end of March 2013 (the latest information available at the time of the audit fieldwork), QRA had approved 1553 projects with a combined approval value of \$4.31 billion.

18. Overall, QRA applies greater scrutiny to projects being delivered by local government than it does to state-delivered projects. Of particular note in this respect is that QRA employs a two-phase approval process for state-delivered projects<sup>17</sup> with 30 per cent of the submission value approved at Phase 1 where a phased approval is being undertaken. Under the phased approval process, QRA conducts a review of project eligibility but defers consideration as to whether the project represents value for money until such time as an updated submission with details of the tendered results is provided by the delivery agency (to inform the second phase review).

19. This situation has placed the Inspectorate and Taskforce in a difficult position of either having to delay a significant number of reviews until state-delivered projects have passed both approval phases, or undertake reviews of projects that QRA has not yet approved as complying with the NDRRA provisions and as representing value for money. The latter approach has been adopted. Otherwise, the Taskforce would have fallen even further behind in its planned program of reviews, and there would have been little Australian Government scrutiny to date of state-delivered projects if the Taskforce had delayed its work until second phase approvals had been given.

20. The phased approval approach has also reduced the likelihood that state-delivered projects will be selected for Taskforce review, as the Taskforce samples on the basis of the initially approved project values (discussed further at paragraphs 3.5 and 3.41 to 3.45). Further reducing the oversight of state-delivered projects, the Taskforce has not requested, or otherwise been provided with information on the timing, number or value of Phase 2 approvals, other than for some (but not all) of the projects that have been selected by the Taskforce for review. In addition:

- very few works contracts have been obtained by the Taskforce, notwithstanding that the review of these contracts (after they are

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16 Including the introduction by QRA of the two-phased approval process after the Inspectorate had endorsed the QRA value for money strategy (which did not countenance phased approvals), the lack of project-specific risk assessments for DTMR projects, and the lack of defined and regular project reporting schedules.

17 Only three relatively large local government projects have received phased approvals.

signed) was one of two standard risk treatments identified by QRA where a risk assessment was undertaken in respect to a local government project;

- funding recipients were to be required to report against an agreed reporting program, including project progress (time) and financial performance but there was only one instance in the project documentation provided by QRA to the Taskforce where a reporting program had been specified;
- no value for money outcomes reports have been obtained by the Taskforce, although these reports are required under the state value for money framework endorsed by the Inspectorate; and
- the Taskforce is not routinely provided with copies of the assurance reviews undertaken by QRA for those local government projects that have been selected by the Taskforce for review, and as at 30 June 2013, only one assurance review had been commenced in respect of a single state-delivered project.

21. In August 2013, Regional Australia advised the ANAO that it would increase the number of projects being selected from state agencies, such as the Queensland Department of Transport and Main Roads (DTMR), given the level of risk presented in these projects. The department also advised that QRA decided in late-April 2013 to cease any further phased approvals of NDRRA project submissions.

#### *Estimated savings from value for money reviews*

22. The Taskforce has not yet reported on the savings that have resulted from its project reviews identifying estimated expenditure that is ineligible under NDRRA or otherwise does not represent value for money. Nevertheless, it is evident that, notwithstanding the predecessor state review process, a significant proportion of approved projects have included expenditure that is ineligible under NDRRA as well as instances where the project estimates did not represent value for money. As at March 2013, 23 of the 70 projects reviewed by the Taskforce had potential savings estimated at \$41.0 million.<sup>18</sup> Almost two thirds (15) of these were state-delivered projects. The Taskforce

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18 This figure includes \$23.4 million that is also included in the estimate of \$93 million discussed in paragraph 29.

had identified (but not yet quantified) possible savings (or further potential savings) in relation to nine projects (six of which were included in the 23 projects mentioned above).

23. Overall, present indications based on the results of the Taskforce reviews completed at the time of the audit fieldwork are that one in three (and potentially almost one in every two) projects in the population will contain errors adversely impacting on the value for money delivered by the project. However, as noted at paragraph 15, there have been no projects that the Inspectorate has determined do not represent value for money.

### **Project Sampling Approach (Chapter 3)**

24. Given the scale of the reconstruction task, the Inspectorate decided to review a sample of projects rather than examine all projects. The planned Cumulative Monetary Amount (CMA) sampling approach was robust, in that it:

- was to provide a 95 per cent level of confidence that the sample results could be extrapolated across all reconstruction projects in Queensland; and
- favoured the selection of higher value projects over lower value projects.

25. Consistent with the expected focus of the Inspectorate's work on complex or high value projects, the value of the 116 projects selected for review by March 2013 represented some 39 per cent of the total value of projects approved as at 1 March 2013. However, the sample is not fully representative of the population of reconstruction projects. In particular:

- the sampling approach has reduced the level of oversight of state-delivered projects, and these projects are under-represented in the sample<sup>19</sup>;
- the Taskforce decided to exclude all State Departments and Agencies (SDAs) except the Department of Transport and Main Roads from being sampled;

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19 As noted at paragraph 21, in August 2013 Regional Australia advised the ANAO that it would increase the number of projects being selected from state agencies given the level of risk presented in these projects.

- the Taskforce has not examined any Counter Disaster Operations (CDO) projects and, after initially examining a small number of restoration projects described by the state as 'Emergent Works'<sup>20</sup>, has ceased examining any more of these projects. This was notwithstanding that it was recognised that some major reconstruction activities had been incorrectly categorised as Emergent Works, there was evidence of issues with the NDRRA eligibility of expenditure included in this category, and the significant funds involved—some \$595 million in expenditure under this category has been approved for delivery by the state; and
- the Taskforce usually reviews only a proportion of each project notwithstanding that it was intended that projects would be reviewed in their entirety (it is common for a 'project' to include works at different locations involving a variety of reconstruction activities).

26. The aim was to select the projects and complete all 129 reviews by 31 December 2012. However, the Taskforce had selected only 81 projects as at March 2013 (a shortfall of 48 projects or some 37 per cent of the intended sample). A key contributing factor to this situation were various decisions taken by the Taskforce as to how to go about sampling projects from the data provided by QRA.<sup>21</sup>

27. There has also been slow progress in the conduct of reviews of sampled projects. Although the Taskforce planned to complete reviews of 129 projects by December 2012 (this work plan had been endorsed by the Inspectorate), it had completed only 45 reviews by March 2013. The majority of these are

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20 Emergent Works are required by the state to be completed within 60 days of the date of the declared disaster event. They include works necessary during the course of a disaster to protect eligible public assets or to restore essential services and maintain public safety, and immediate post-disaster repairs to an eligible asset to enable it to operate/be operated at a reasonable level of efficiency (for example, clean up costs, removal of silt and debris, and so on, and temporary repairs).

21 One particularly significant factor was that shortly after it commenced the process of selecting projects for review, the Taskforce switched from using the submission value of approved projects to using the approved value. In doing so, however, the Taskforce did not adjust the 'running total' for the CMA sample where QRA subsequently withdrew project approval, or reduced or increased the previously advised approved amount of a project, including for Phase 2 approvals. This meant that only 30 per cent of the value of projects subject to phased approvals was included in the 'running total'. It also meant that potentially up to \$2.475 billion would be excluded from sampling consideration (or up to \$3.85 billion based on the latest DTMR total estimate of \$5.5 billion). In this respect, it should have been evident from the outset that the number of projects available to be selected under the CMA sample would fall well short of the 129 required by the Inspectorate if the Taskforce adopted a practice of only including the Phase 1 approved values of projects.

provisional assessments based on information (including estimates) made available to the Taskforce at a point in time. Further assessment is required when tender results, progress reports and completion reports become available. In August 2013, Regional Australia advised the ANAO that the intention is to complete assessments for the 2010–11 events by the next Inspectorate report to the Prime Minister (due in October 2013), but this amended timeframe will remain challenging for the Taskforce to meet. In September 2013, Regional Australia was requested to advise the ANAO whether the Taskforce was on track to meet this timeframe. However, a response to this request was not provided.

#### **Cost of Reconstruction Work (Chapter 4)**

28. Cost is the largest single factor taken into consideration by the Taskforce and Inspectorate when reviewing the value for money of sampled reconstruction projects. Through these reviews, the planned cost is examined (including by comparison to benchmark costs, where available), intermediate cost assessments are undertaken when tender results and/or progress reports become available for the project, and the actual total outturn cost can be assessed when the project is completed.

29. Demonstrating the benefit of the Australian Government having visibility, through value for money reviews, of the reconstruction projects being funded under NDRRA, the Taskforce and Inspectorate have identified a number of significant issues in relation to the cost of reconstruction projects, particularly in relation to whether estimated expenditure is eligible for NDRRA reimbursement. For example, an estimated \$93 million related to NDRRA-ineligible profit-related fees have been included in the estimated costs of projects being delivered by the state-government owned entity RoadTek.<sup>22</sup> In March 2013 the Inspectorate wrote to QRA, the Queensland Auditor-General and the Attorney-General's Department (AGD), advising that the RoadTek profit margin 'does not represent a state expenditure for the purposes' of the NDRRA determination.

30. EMA advised the ANAO in July 2013 that it was assessing Queensland NDRRA claims for the periods 2009–10 to 2011–12 and that it was writing to

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22 As a government-owned organisation, any profits made by RoadTek are paid to the Queensland Government as dividends.



Queensland seeking confirmation that 'RoadTek profits margins for pre-2010–11 summer floods and Tropical Cyclone Yasi have not been included in these claims'. However, this advice did not address the extent to which such profit margins were included in claims from earlier natural disasters that had already been paid by EMA.

31. It is also evident that there remain opportunities for further benefits to be derived from the project reviews being undertaken by the Taskforce and Inspectorate. This includes more careful scrutiny being applied to expenditure being claimed as NDRRA eligible.<sup>23</sup>

32. There has also been a high incidence where the information provided to the Taskforce for assessment affords insufficient visibility over the nature of costs for the sampled projects. A key area of risk relates to the frequency with which DTMR projects (and to a lesser extent Local Government Authority projects) include large and often vaguely described non-transparent 'lump sums', providing no visibility as to whether the amounts they represent are NDRRA eligible. Another area where there would be benefits from greater scrutiny relates to the development and application of benchmarking of costs. With the anticipated increasing availability of data on actual costs, there would be benefits in the Taskforce adopting a more pro-active approach to the systematic collection of appropriate benchmarking data, including by creating its own database with suitable cohorts, thereby reducing the reliance it places on QRA.

## Quality of Reconstruction Work (Chapter 5)

33. Reflecting the importance of quality reconstruction in providing value for money outcomes, an assessment of work is an important element of the Inspectorate's project review process. The project reviews undertaken to date have identified some significant issues in respect to the nature and scope of reconstruction work in respect to the 2010–11 Queensland flooding that is being funded through NDRRA.

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23 For example, the Taskforce has examined a number of projects that have involved significant realignment of roads but has not been consistent in examining whether such works have enhanced the relevant assets beyond their pre-existing standard such that the costs are not eligible for NDRRA funding unless and until a 'betterment' application is received and then approved by EMA. The NDRRA determination requires that betterment applications only be approved where the Commonwealth is satisfied with the cost-effectiveness of the proposal and that the increased disaster-resistance of the asset will mitigate the impact of future natural disasters.

34. In particular, issues with ineligible road widening works have been identified in a high proportion (around one quarter) of value for money reviews endorsed by the Inspectorate. Taskforce project reviews have also highlighted instances where the works proposed or undertaken are more extensive and expensive than that required to address the damage directly resulting from the disaster.

35. Claiming NDRRA funding to restore or replace assets that were in poor condition prior to the disaster events, either because of a lack of routine maintenance or unrepaired normal wear and tear, has also been a common finding of Taskforce value for money reviews. In cases where the Taskforce considered it likely that roads were in a poor condition before the disaster event occurred, it has requested details of the maintenance histories for the relevant assets (for 11 projects). However, there have been few instances where the requested information has been provided. More broadly, the Taskforce has advised the Inspectorate that QRA has requested a contribution from some councils for works on roads for which the eligibility of the damage for NDRRA funding is disputed due to possible pre-existing damage, but this same process has not been applied to DTMR projects, where similar issues have been identified.

### **Timeliness of Reconstruction Progress (Chapter 6)**

36. The Taskforce's value for money project reviews have assessed the timeframe of 58 of the sampled projects. In all but one instance, the Taskforce's assessment has been based on the suitability of the planned project timeframe rather than actual start and completion dates. Further in this respect, although more than two years have passed since the disaster events occurred, there has been little in the way of project progress reports provided to the Taskforce to enable it to monitor actual progress with the projects it has sampled. Specifically:

- reports had been received for 22 of the 46 Local Government Authority projects with tier review reports issued as at March 2013. Progress reports had also been received for a further nine projects out of the 46 projects where tier reviews were underway, on hold or not started; and
- only one progress report had been provided to the Taskforce in respect to any DTMR projects. This progress report, received by QRA in August 2012, was of limited utility as it contained aggregated costs for

four DTMR projects, two of which were being reviewed by the Taskforce. None of the supporting documentation stated to be required by QRA was provided to the Taskforce (such as tax invoices, receipts or transaction reports extracted from DTMR's general ledger). In October 2013, DIRD advised the ANAO that 'The Taskforce has not received a disaggregated report'.

37. This situation contrasts with other data (mainly in relation to council projects) reported by QRA on the overall reconstruction program which indicates that projects have been completed but without progress reports being provided to the Taskforce to update its value for money assessments. Specifically, in relation to the 108 restoration projects<sup>24</sup> being reviewed by the Taskforce, there were 68 projects where information was available (as at March 2013) to enable an assessment of the extent of any slippages in project completion timeframes. In respect to these 68 projects:

- only 15 of the 37 projects (less than 41 per cent) initially scheduled for completion by March 2013 had been reported as completed. Further, six of these 15 projects were not completed on schedule; and
- 43 of the remaining 53 projects (81 per cent) in progress as at March 2013 had already reported an extension in the expected timeframe for project completion. By way of comparison, only two projects had been reported as being expected to be completed earlier than initially scheduled.

38. This broader reporting has also included various anomalies in relation to the reported start and completion dates (such as sizeable projects starting and completing on the same date). There would be considerable benefits in the Taskforce more closely monitoring revisions to scheduled project completion dates, and raising issues and anomalies with QRA. This could be undertaken through conducting time-series analysis of QRA reports or QRA could be requested to highlight changes in project start and completion dates against the originally approved baseline dates for each project.

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24 This analysis excludes projects defined by QRA as 'Emergent Works'.

## Summary of agency responses

39. The proposed audit report was provided to (the then) Regional Australia; the Chair of the Inspectorate; the Attorney-General's Department; and (the then) Department of Finance and Deregulation. Extracts of the report were also provided to QRA; the Queensland Department of Transport and Main Roads; Local Government Infrastructure Services Pty Ltd; a consultant engaged by the Taskforce on behalf of the Inspectorate; and 24 Queensland Local Government Authorities (LGAs).

40. Formal comments on the proposed report were provided by the Department of Infrastructure and Regional Development<sup>25</sup>; the Chair of the Inspectorate; the Attorney-General's Department; and the Department of Finance, and are included at Appendix 1. Australian Government agencies indicated their acceptance of the findings of the report and agreement or agreement in principle to the recommendations made by the ANAO.<sup>26</sup>

41. Formal comments on the proposed report were also provided by QRA; the Queensland Department of Transport and Main Roads; Local Government Infrastructure Services; and 14 LGAs. These are also included at Appendix 2. In a number of respects, the comments provided indicate a lack of support for the review approach taken by the Taskforce and Inspectorate (particularly in relation to reviews being undertaken based on preliminary estimates<sup>27</sup>) and/or disagreement with the findings of the Inspectorate's and Taskforce's value for money reviews. In this context, and having regard to the significant amount of Australian Government funding involved and that the benefits from the value for money reviews will not be fully evident until 2014–15, when final claims for the 2011 disaster events are due for acquittal to EMA, the ANAO will consider scheduling a further performance audit in this area to commence in 2014–15.

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25 Which includes relevant functions from the former Regional Australia.

26 AGD 'noted' the report recommendations.

27 As noted at paragraphs 11, 12 and 19, reviews have been primarily based on early project estimates, and this reflects some delays with the delivery of reconstruction projects, and challenges experienced by the Taskforce in obtaining information on projects that have proceeded to tender (where tendered) and delivery.

# Recommendations

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*Set out below are the ANAO's recommendations and the responding agencies' abbreviated responses. More detailed responses are shown in the body of the report immediately after each recommendation.*

**Recommendation No.1**  
**Paragraph 2.78**

The ANAO recommends that the Australian Government Reconstruction Inspectorate and the National Disaster Recovery Taskforce seek to maximise the benefits from their value for money review activities by obtaining more timely and comprehensive information on project progress and completion from the Queensland Reconstruction Authority, to enable the preliminary value for money assessments to be finalised based on the scope and cost of works that were actually delivered (rather than estimates).

**DIRD's response:** Agreed in principle.

**Inspectorate's response:** Agreed.

**AGD's response:** Noted.

**Finance's response:** Agreed.

**Recommendation No.2**  
**Paragraph 3.70**

In order to maximise the envisaged benefits from the Inspectorate's program of value for money reviews, the ANAO recommends that the National Disaster Recovery Taskforce improve the application of the sampling approach to make it more representative of the population of projects within the Inspectorate's remit.

**DIRD's response:** Agreed.

**Inspectorate's response:** Agreed.

**AGD's response:** Noted.

**Finance's response:** Agreed.

**Recommendation  
No.3  
Paragraph 4.85**

In order to further build on the value for money review work being undertaken by the National Disaster Recovery Taskforce (on behalf of the Australian Government Reconstruction Inspectorate), the ANAO recommends that the Taskforce:

- (a) apply greater scrutiny to project cost data, particularly in circumstances where the data provided for review includes lump sums; and
- (b) develop the capacity to independently benchmark actual cost data for Queensland reconstruction projects.

**DIRD's response:** Agreed in principle.

**Inspectorate's response:** Agreed.

**AGD's response:** Noted.

**Finance's response:** Agreed.

**Recommendation  
No.4  
Paragraph 6.47**

To strengthen its oversight of Queensland reconstruction progress, the ANAO recommends that the National Disaster Recovery Taskforce:

- (a) monitor revisions to scheduled project completion dates, and raise with the Queensland Reconstruction Authority any issues and anomalies, as appropriate; and
- (b) adopt a more pro-active approach to requesting timely progress and completion reporting documentation from the Queensland Reconstruction Authority according to planned and reported actual completion dates.

**DIRD's response:** Agreed.

**Inspectorate's response:** Agreed.

**AGD's response:** Noted.

**Finance's response:** Agreed.

# Audit Findings





# 1. Introduction

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*This chapter provides an overview of the assistance provided by the Australian Government under the Natural Disaster Relief and Recovery Arrangements. It also outlines the additional oversight and accountability mechanisms introduced in respect to the significant financial assistance being provided to Queensland and Victoria in response to widespread flooding in those states during the spring and summer of 2010–11. It also sets out the audit objective, scope and criteria.*

## Background

**1.1** Prime responsibility for the response to a disaster rests with state and territory governments. Nevertheless, as natural disasters often result in substantial expenditure by state governments in the form of disaster relief and recovery payments and infrastructure restoration, the Commonwealth has established arrangements to provide financial assistance to the states in certain circumstances.

**1.2** The key mechanism for providing financial assistance is the Natural Disaster Relief and Recovery Arrangements (NDRRA), which is a Commonwealth ministerial determination. NDRRA assistance takes account of a state's/territory's capacity to fund disaster recovery and is usually in the form of partial reimbursement of actual state expenditure. Advance payments may be provided through NDRRA if the relevant Minister is satisfied that exceptional circumstances exist. States are required to provide audited financial statements to acquit expenditure, including expenditure of advance payments, and repay to the Commonwealth amounts not properly spent.

**1.3** The determination defines those natural disasters that are covered by NDRRA, and identifies those measures that are eligible for NDRRA funding. Subject to administrative rules set out in the determination, upon notification of the natural disaster to the Commonwealth Attorney-General by the affected state, Commonwealth assistance will be provided in respect to eligible measures. In this context, there are four categories of assistance:

- Category A – emergency assistance provided to individuals;
- Category B – restoration of essential public assets, concessional loans and counter disaster operations (CDOs);

- Category C – community recovery (for community facilities) and clean-up and recovery grants for small businesses and primary producers; and
- Category D – exceptional circumstances assistance.

## Oversight and accountability measures

1.4 During the 2010–11 spring and summer seasons, the eastern Australian states were subject to widespread flooding and Queensland was also impacted by Tropical Cyclones Tasha, Anthony and Yasi. The then Prime Minister announced on 27 January 2011 that preliminary estimates<sup>28</sup>, following consultation with the Queensland Government, indicated that the Australian Government would need to contribute \$5.6 billion to the rebuilding of flood-affected regions, with the vast majority going on rebuilding essential infrastructure. The Prime Minister also announced that, to ensure recovery and rebuilding could start as soon as possible, and to provide certainty to the Queensland Government and local authorities, the Australian Government had agreed to make an advance payment of \$2 billion to Queensland.

1.5 Subsequently, on 7 February 2011 the Prime Minister announced new oversight and accountability measures with the objective of ensuring value for money would be obtained in the rebuilding of flood affected regions. Accordingly, under National Partnership Agreements<sup>29</sup> (NPAs) signed with the Queensland and Victorian state governments in February and May 2011 respectively:

- a Recovery Work Plan was required to be developed by each state, outlining a set of projects to assist with reconstruction and/or recovery, with each work plan to be agreed between the relevant state and the Australian Government; and
- the Australian Government Reconstruction Inspectorate was established with the objective of providing assurance that value for money was received in the recovery effort.

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28 Excluding the effects of Tropical Cyclone Yasi, which reached the mainland in the early hours of 3 February 2011.

29 NDRRA continues to apply to those natural disasters covered by the NPAs, with payments to the states authorised by the Attorney-General's Department (which administers NDRRA). The stated intention of each NPA was to strengthen and complement the NDRRA governance and accountability provisions.

**1.6** Advance payments of \$2.256 billion for Queensland and \$500 million for Victoria were made after finalisation of the respective NPAs. A temporary income tax flood levy was also introduced (for 2011–12 only) that was expected to fund about one-third of the then-estimated total Commonwealth contribution towards the recovery and reconstruction costs. Further advance payments of \$1.9 billion were also made to Queensland in February 2012.

**1.7** The Inspectorate is supported by the National Disaster Recovery Taskforce located within the Department of Infrastructure and Regional Development (DIRD, formerly within the Department of Regional Australia, Local Government, Arts and Sport, or Regional Australia). The Taskforce is responsible for Commonwealth engagement with Queensland and Victorian reconstruction agencies during the recovery phase and is responsible for the implementation of the additional oversight requirements contained in the NPAs. It was also the lead Australian Government agency in terms of developing the work plans with Queensland and Victoria. As specified in its terms of reference and the Queensland NPA, the Taskforce is also responsible for:

- providing secretariat support to the Inspectorate;
- reporting to relevant Ministers and providing the National Disaster Recovery Cabinet Sub-Committee with monthly progress reports on state plans for recovery, including updated estimates of the Commonwealth's liability under NDRRA;
- assessing spending on recovery and reconstruction efforts arising from the flooding and cyclone events so as to ensure consistency with NDRRA;
- assessing requests for Commonwealth funding assistance outside of those automatically triggered by a NDRRA declaration; and
- ensuring that a strategic approach is taken to reconstruction and recovery efforts.

**1.8** In November 2012, Regional Australia provided the Australian National Audit Office (ANAO) with its perspective on the operation of NDRRA, prior to the introduction of the additional oversight and accountability measures. Specifically, the department advised that:

Prior to 2011, Commonwealth support for disaster reconstruction was managed primarily by Emergency Management Australia under the terms of

the Natural Disaster Relief and Recovery Arrangements. ... NDRRA operates on a reimbursement basis, with the Commonwealth having little oversight of reconstruction as it occurs. Limited Commonwealth oversight at the conclusion of reconstruction is afforded by audited claims submitted by states and territories. No project level information is provided in these claims.

## **Coverage of the National Partnership Agreements**

**1.9** The NPA with Queensland relates to the reconstruction of communities that were affected by the 2010–11 floods and Tropical Cyclone Yasi. The NPA with Victoria relates to the early 2011 flooding in Victoria. Both NPAs: outlined the three priority areas each work plan was to target; and required that they build on the planning work undertaken by Regional Development Australia committees and local governments (so as to ensure a strategic approach to reconstruction and recovery efforts, incorporating the principles of local input and leverage). In addition, the Queensland NPA required that the work plan for that state be developed consistently with principles outlined in a schedule to the NPA (including various requirements as to the information needed to support proposals).

## **Reviews of National Partnership Agreements**

**1.10** During 2012, reviews of the Queensland and Victorian NPAs were undertaken by the Taskforce and the relevant state body (the Queensland Reconstruction Authority and representatives of the Victorian Secretaries' Flood Recovery Group respectively). The reviews found that the new arrangements were largely effective at coordinating and overseeing reconstruction activity and did not recommend any changes to either NPA. A second review of each NPA was scheduled for 2013.<sup>30</sup> A review of the Queensland NPA was not undertaken, with Regional Australia advising the ANAO in August 2013 that a review of the 2011 Queensland NPA was:

... rendered unnecessary by the signing ... of a new NPA. Learnings from the operation of the 2011 NPA were taken into account during the drafting of the new NPA.

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30 At the time of preparing this audit report, the Victorian NPA review was still underway.

## **New Queensland National Partnership Agreement**

**1.11** On 8 February 2013, a new NPA (the 2013 NPA) was signed by the Australian and Queensland Governments. The 2013 NPA supersedes the 2011 NPA and extends the coverage of the agreement to include Queensland flood and cyclone events that occurred between November 2010 and January 2013.

### **Audit objective, scope and criteria**

**1.12** The ANAO has undertaken three audits of key aspects of the NPAs signed with Queensland and Victoria in relation to natural disasters over the 2010–11 Australian spring and summer seasons.

**1.13** The objective of the first audit (ANAO Audit Report No.24 2012–13) was to assess the extent to which the disaster recovery work plans for Queensland and Victoria were prepared, and appropriate monitoring reports provided, in accordance with the relevant NPA.

**1.14** Against the background that the Australian Government will meet up to 75 per cent of eligible reconstruction expenditure, the objective of the second audit (ANAO Audit Report No.23 2012–13) was to assess the effectiveness of the Inspectorate, supported by the Taskforce, in providing assurance that value for money is being achieved in recovery and reconstruction expenditure in Victoria. The report on that audit was tabled in February 2013, in conjunction with the report of the first audit.

**1.15** The third audit (the subject of this report) examines the effectiveness of the Inspectorate, supported by the Taskforce, in providing assurance that value for money is being achieved in respect to Queensland reconstruction projects.

**1.16** These audits focus on the performance of the relevant Australian Government entities in discharging their responsibilities following agreements reached with the Queensland and Victorian governments by the Australian Government.

### **Audit scope and criteria**

**1.17** The audit focused on the activities undertaken by the Inspectorate, supported by the Taskforce, specifically in relation to its oversight of the cyclone and flood recovery and reconstruction effort in Queensland. The audit criteria were based on the role of the Inspectorate as announced by the Prime Minister in February 2011 and subsequently reflected in the

Inspectorate’s terms of reference<sup>31</sup> and the original (2011) Queensland NPA (as outlined in paragraph 1.7). In this regard, the audit also examined the development and operation of the protocols with Queensland for Inspectorate review of recovery and reconstruction projects (under the 2011 NPA).

**1.18** The additional role taken on by the Inspectorate in August 2011, in relation to monitoring project scope to guard against scope expansion (following a twelve-month extension granted to Queensland for the allowable expenditure period under NDRRA), was also reviewed. In addition, the audit took into consideration the changes arising from the 2013 NPA, where relevant to this audit, but did not examine the development or implementation of the 2013 NPA (including development of the Taskforce’s 2013 protocol with QRA).

**1.19** The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$503 000.

## Report structure

**1.20** The audit findings are reported in the following chapters.

Chapter	Chapter overview
2. Benefits from the value for money review processes	Examines the benefits identified to date from the value for money review processes applied to Queensland reconstruction projects.
3. Project sampling and review	Examines the development and implementation of the Taskforce’s value for money review methodology and sample selection processes.
4. Cost of reconstruction work	Examines the costs of the reconstruction work in the projects reviewed by the Taskforce.
5. Quality of reconstruction work	Examines the emerging results of the value for money reviews undertaken by the Taskforce in relation to the quality of the reconstruction work being undertaken in Queensland.
6. Timeliness of reconstruction progress	Examines the timeliness of the reconstruction work being undertaken in Queensland and the arrangements for reporting individual project progress and completion.

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31 The Inspectorate’s terms of reference were being reviewed in April 2013. Regional Australia was requested to provide an update to the ANAO in September 2013, but a response to this request was not provided.

## 2. Benefits from the Value for Money Review Processes

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*This chapter examines the benefits identified to date from the value for money review processes applied to Queensland reconstruction projects.*

### Introduction

**2.1** Conducting project reviews is a primary component of the strategy adopted by the Inspectorate and the Taskforce for providing assurance that value for money (VfM) is being achieved in recovery and reconstruction expenditure in Queensland.<sup>32</sup> The overall importance of independently reviewing a selection of the actual recovery and reconstruction projects was recognised early on, including as one of the key lessons learned from the Building the Education Revolution Implementation Taskforce.<sup>33</sup> The main benefit of reviewing individual projects is the insight and evidence-based assurance it can provide into how well the NDRRA requirements, contracting and procurement frameworks and other associated policies and procedures are being applied by Local Government Authorities (LGAs, also referred to as councils) and State Departments and Agencies (SDAs) across the reconstruction period.

**2.2** Against this background, the ANAO examined the three tier value for money project review process implemented by the Taskforce, including the Queensland value for money assurance framework on which the Inspectorate places reliance. A particular focus was the extent to which state value for money reviews and the reviews undertaken for the Inspectorate by the Taskforce have identified expected savings in NDRRA expenditure.<sup>34</sup>

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32 Other elements of the strategy include more generalised reviews of contractual, procurement and project management frameworks and investigation of complaints made to the Inspectorate.

33 Building the Education Revolution Implementation Taskforce: Interim Report, August 2010; First Report, December 2010; and Final Report, July 2011.

34 In August 2013, QRA advised the ANAO that its primary objective is the delivery of the reconstruction program within timeframes, using VfM assurance.

## Three tier project review process

**2.3** The methodology for conducting project reviews was developed by the Taskforce in mid-2011<sup>35</sup> and endorsed by the Inspectorate on 26 July 2011. Pilot testing was conducted on two Queensland reconstruction projects in August 2011 and some refinements were made based on this experience.

**2.4** A protocol for handling the Inspectorate's NDRRA submission requests was developed by QRA and reviews of the first three Queensland projects commenced in early September 2011. An evaluation of the Inspectorate's project review procedures was subsequently undertaken by a consultant in December 2011.

**2.5** The Inspectorate's three tier review process (see Figure 2.1) is to be applied to projects only after QRA has completed its own compliance and value for money assessments and approved the project. However, projects subject to QRA's two-phase approvals process do not undergo a VfM assessment at the time of the project's Phase 1 approval (discussed further at paragraphs 2.15 to 2.19).

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35 This was modeled on the methodology, scoring system and reporting templates used by the Building the Education Revolution Implementation Taskforce.



**Figure 2.1: Three tier review process****Tier One: desktop review**

Where a project has been selected for a Tier One review, the project analysis may include:

- comparison of projects against benchmarks (calculated using industry standards and other similar projects);
- examination of the project file provided by the state reconstruction authority;
- comparison of estimated and actual expenditure (where projects have commenced); and
- stakeholder surveys.<sup>36</sup>

In instances where, in the Inspectorate's view, it is unclear or unlikely that a project will achieve value for money, it will be transitioned to the next tier. Some projects will progress to Tier Two and Tier Three even where they have been assessed as value for money at Tier One.

**Tier Two: secondary review**

Projects that progress to a Tier Two review will be the subject of a comprehensive review by external experts. Tier Two analysis may include:

- an expert cost opinion;
- a site visit, which may incorporate meetings with delivery agents and funding recipients; and
- examination of all key documentation including project plans and tender documents.

**Tier Three: Inspectorate on-site review**

Approximately three to five projects per quarter will be subject to an on-site review by the Inspectorate members. Tier Three analysis may include:

- site visits by the Inspectorate;
- meetings between the Inspectorate and relevant stakeholders; and
- discussions with the state reconstruction bodies.

In instances where a project is assessed by the Inspectorate as not achieving value for money, the process agreed with Emergency Management Australia (EMA) for non-value for money projects will be triggered (see paragraphs 2.67–2.68).

Source: ANAO analysis of Taskforce documentation and August 2011 correspondence from the Chair of the Inspectorate to the ANAO.

**Assessment criteria**

**2.6** The Taskforce's project review process involves four criteria: cost (scored out of 10); quality (scored out of 6); time (scored out of 2); and local engagement (scored out of 2).

36 No stakeholder surveys have been conducted for any Queensland reconstruction projects. Local governments are one of a number of stakeholders and, in August 2013, Regional Australia advised the ANAO that 'stakeholder surveys were included as a possible part of Tier One analysis to measure community engagement/consultation. It was agreed with QRA that the Taskforce would not directly engage with local governments for such consultation and therefore the Taskforce uses available information to assess this criterion.' Taskforce records indicate that QRA would not agree to direct engagement by the Inspectorate and Taskforce with delivery agents.

**2.7** The Taskforce initially recommended to the Inspectorate that projects be scored out of a maximum of 25 points, comprising the same four criteria of cost (10 points), quality (eight points), time (four points) and local engagement (three points). In August 2011, the Inspectorate decided that there should be a 'stronger weighting towards cost and quality'. The subsequent revision of the scoring allocations to provide for a maximum score of 20 points increased the weighting for cost (from 40 per cent to 50 per cent), but decreased the weighting for quality (from 32 per cent to 30 per cent). In August 2013, Regional Australia advised the ANAO that:

This was not a formal decision of the Inspectorate, but was an explanation of the proposed stronger weighting of the cost and quality criteria, as opposed to time and local engagement. The stronger weighting on the former criteria was maintained.

**2.8** In relation to Tier One reviews, the Inspectorate endorsed a pass mark of 65 per cent. Projects scoring between 55 and 65 per cent were to receive a 'marginal' value for money rating. A 'fail' rating (below 55 per cent) was to result in the project progressing to the next tier of review. If a project received a score of zero for either the 'cost' or 'quality' criteria, that project was to be deemed not to be value for money and would automatically receive a 'fail' rating.<sup>37</sup>

**2.9** Compared with the approach endorsed by the Inspectorate, the Taskforce's draft 'Value for Money (VfM) Assessment Procedures Manual' states that project scores of 'less than 65 per cent fail the VfM assessment and are referred to a Tier 2 VfM assessment'. The Procedures Manual was drafted during the latter half of 2011 and has not been submitted for approval by the head of the Taskforce for subsequent endorsement by the Inspectorate. It contains a number of inconsistencies with current Taskforce practices and Inspectorate decisions or approvals. The Taskforce advised the ANAO in December 2012 that the manual was being updated. In August 2013, Regional Australia advised that the manual was being finalised in consultation with a consultant. DIRD subsequently advised the ANAO that the updated procedures manual was endorsed by the Inspectorate in its meeting on 17 September 2013.

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<sup>37</sup> To date, no projects have received a score of zero for cost or quality.

**2.10** The Taskforce produces internal reports for the Inspectorate at the completion of each review. In addition to these tier review reports, in June 2011, the Inspectorate was advised that a 'lessons learnt' report would be issued by the Taskforce each quarter as part of the endorsed value for money review process. However, this has not occurred.

**2.11** Where a project has been assessed as representing, or likely to represent, value for money<sup>38</sup> the results are reported to the Prime Minister. One-page summaries for 47 projects were included in the Inspectorate's fourth, fifth and sixth reports to the then Prime Minister.

**2.12** In February 2013, the Taskforce advised the ANAO that where its reviews identify ineligible costs and items included in project submissions, these are notified to QRA, which then liaises with the relevant delivery agent (LGA or SDA). The Taskforce expects that QRA will report back to it on the agreed actions, with the Taskforce monitoring all projects through to the submission of project completion reports to ensure that ineligible items are removed.

## Queensland value for money assurance framework

**2.13** The Inspectorate's project review process developed by the Taskforce places reliance on there being a soundly based pre-approval review of the project against value for money criteria by QRA. As noted in paragraph 2.5, the Taskforce applies its three-tiered review process only after projects have been reviewed and approved by QRA.

**2.14** The Taskforce received a value for money strategy from QRA in April 2011. After Inspectorate members agreed that they needed to be more involved in the crucial stages of defining the value for money concept, QRA convened a workshop with the Inspectorate and Taskforce on 20 April 2011 to work through a number of issues in relation to the strategy. Following the engagement of consultants with construction and procurement expertise to assist in reviewing the strategy, on 25 May 2011 the Inspectorate wrote to QRA outlining proposed enhancements and areas requiring further information on

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38 For example, in many cases the Taskforce's review is based on costing estimates not actual costs as the project has not started, has not gone to tender or is underway at the time of the Tier One review. A project may be assessed to be likely to represent value for money based on the project submission, assuming that the scope of works and actual costs do not change during the implementation phase.

the implementation of the strategy. The Inspectorate subsequently endorsed the Queensland VfM strategy on 26 July 2011.

## **QRA phased approval process**

**2.15** The QRA two-phase approval process was not part of the VfM strategy endorsed by the Inspectorate in mid-2011. The first phased approvals of projects occurred in August 2011. The process was subsequently outlined by QRA in the September 2011 Chief Financial Officer (CFO) report<sup>39</sup>, as follows:

Generally for larger contracts, the Authority is utilising a two phase approval process. Phase 1 involves confirmation around the eligibility of a project. The detailed assessment of eligibility by the Authority gives greater certainty to both industry and the delivery agent (that is, the LGA or SDA) to allow the commencement of procurement. On completion of the procurement process the Authority will then complete a value for money assessment (that is, Phase 2) to allow the project to commence construction.

**2.16** The QRA documentation did not quantify or define what constituted a 'larger contract'. In this context, there were 183 Department of Transport and Main Roads (DTMR) projects with Phase 1 approvals to 31 December 2012, with a submission value of \$2.52 billion for projects ranging in size from under \$138 000 up to \$141.87 million. Some 21 per cent of these projects had a submission value that was less than \$1 million and 81 per cent were less than \$20 million.<sup>40</sup> Notwithstanding this situation and the stated intention that phased approvals only apply to larger contracts, phased approvals became the standard approach for DTMR projects, irrespective of project size.

**2.17** In all but six cases, QRA approved 30 per cent of the submission value at Phase 1. However, the phased approval process has had no practical effect on the flow of funding to delivery agents. QRA advances the full approved value (that is, 30 per cent of the submission value) for Phase 1 approvals, whereas it advances 30 per cent of the total approved value at the time of approval for all other projects (that is, for the remaining 88 per cent of all

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39 Each month QRA produces a series of reports to inform its Board, Minister, Queensland Cabinet, federal ministers and the public of progress on recovery and reconstruction. In addition to a high level, public Chief Executive Officer (CEO) report, QRA provides further detail in Chief Financial Officer (CFO) reports to government. The CFO reports include an outline of NDRRA payments and financial reports for internal budgeting.

40 In August 2013, QRA advised the ANAO that 'DTMR generally rolled multiple submissions into larger works packages. Whilst individual submission values may have varied in size, the ultimate contract values were often larger'.

projects, primarily for LGAs, which did not receive phased approvals). Only three relatively large LGA projects being reviewed by the Taskforce have received phased approvals.<sup>41</sup> The Taskforce has not requested, or otherwise been provided with, information on the timing, number or value of Phase 2 approvals, other than for some (but not all) of the projects that have been selected by the Taskforce for review.

**2.18** The primary effect of the phased approval process is that QRA defers the conduct of its VfM reviews of projects until such time as an updated submission with details of the tendered results is provided by the delivery agency. As discussed further in paragraphs 2.22 to 2.27, the evidence is that DTMR has made relatively slow progress in arranging and finalising the tendering of works to the market, and there have also been significant delays in QRA providing requested Phase 2 documentation to the Taskforce for selected reviews. In this respect, in August 2013, QRA advised the ANAO that:

The risk of works being undertaken that are ineligible remains with the delivery agent (that is, DTMR). Furthermore, the QRA is not able to provide requested information that it has not yet received from the delivery agent.

**2.19** The Taskforce has not explored the basis for QRA being able to routinely complete VfM assessments upon receipt of submissions for LGA projects that were based on estimates (that is, projects that had not yet been put out for tender), but not assessing VfM upon receipt of submissions for DTMR projects that are in the same situation. In addition, the Taskforce has not requested, or otherwise been provided with, information on whether QRA's completed VfM assessments were based on estimates, tendered results or actual expenditure, except where the project has been selected for review by the Taskforce. However, as would be expected, none of the LGA projects selected for review by the Taskforce had tendered results available at the time QRA conducted its VfM assessments and approved the projects.<sup>42</sup> There is also a different perspective between QRA and the Taskforce concerning the value in the Taskforce examining the value for money of projects that have not yet proceeded to delivery. Specifically, in August 2013:

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41 Two Category D projects for the Brisbane River Walk \$75 million and Brisbane River Ferry Terminals \$70 million respectively, and one Category B project for the Blackall-Tambo Regional Council with a submission value of \$31.56 million.

42 Around 20 projects (four per cent of all LGA restoration projects arising from the 2011 events) had a submission value that was over \$20 million. Another 50 LGA projects (about 10 per cent) had a submission value between \$10 million and \$20 million.

- Regional Australia advised the ANAO that the Taskforce had highlighted to QRA ‘the benefits in undertaking VfM assessments on estimates submissions so that early feedback on eligibility can be provided, prior to works being tendered’; whereas
- QRA advised the ANAO that Taskforce reviews conducted after Phase 1 approval are ‘occurring prematurely and contrary to both its stated process and the BER (Building the Education Revolution) Taskforce methodology on which it is stated to be based’.

## **Effectiveness of QRA Phase 1 ‘compliance’ reviews**

**2.20** As outlined in paragraph 2.15, the Phase 1 approvals by QRA were intended to include a ‘detailed assessment’ of the eligibility of a project. However, the Taskforce has found a considerable incidence of ineligible activities and expenditure during its Tier One and Tier Two reviews of projects that have progressed through a QRA compliance review. For example, 18 DTMR projects where road widening had been identified were listed in a spreadsheet prepared by the Taskforce in early 2013.<sup>43</sup> In respect to this issue, the Chair of the Inspectorate wrote to QRA in October 2012 stating that:

From the projects that have been assessed to date, the Inspectorate is concerned that a number of projects with significant eligibility issues have been approved by (QRA). This is particularly the case with projects managed by the Department of Transport and Main Roads. While the Inspectorate understands that (QRA) operates a two-phase approvals process, the frequency of the identification of potentially ineligible activities in projects which have received Phase 1 approval is of concern.

**2.21** A response was provided by QRA in December 2012, but it did not address the Inspectorate’s concerns about the identification of significant eligibility issues in QRA-approved projects. There was no follow-up by the Taskforce or the Inspectorate. QRA subsequently advised the Taskforce in late-April 2013 that it will no longer assess DTMR’s estimates submissions for approval, as the cost and scope of DTMR projects had been found to vary significantly between the estimates and the tendered submission. It further

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<sup>43</sup> Chapters 4, 5 and 6 provide a more detailed discussion of the ineligible expenditures identified by the Taskforce and/or the ANAO in projects that had been approved by QRA after a compliance review.

advised that, henceforth, only tendered DTMR submissions would be assessed by QRA.

## Delays in Phase 2 documentation

**2.22** As indicated in paragraph 2.19, QRA reporting does not provide full transparency in relation to the progress of projects involving Phase 2 approvals. In particular, based on the limited information provided by QRA to the Taskforce, it is difficult to ascertain the overall level of progress made to date in this significant group of projects, or to gain an insight into the number and expected timeframes of the tenders and Phase 2 approvals that remain to be completed.<sup>44</sup>

**2.23** Further in this respect, in January 2013, the Taskforce requested information from QRA on the expected timing of Phase 2 documentation for the sample of DTMR projects being reviewed by the Taskforce (where this had not already been provided). However, this information was not sought for projects that had not been selected for review.

**2.24** In relation to the 49 DTMR projects selected for review by the Taskforce that involve a phased approval by QRA, some two years after the relevant disaster events, the Phase 2 VFM review documentation had been provided to the Taskforce for only 12 projects (24 per cent).<sup>45</sup> In this regard, on 6 March 2013 the Chair of the Inspectorate wrote to QRA in relation to a number of recently reviewed projects, including that in respect of one DTMR project:

The Inspectorate is further concerned that tender documents have not been provided for this project, even though the tender was awarded [some nine months earlier] in June 2012. The lack of appropriate documentation in a timely manner is preventing the Inspectorate from determining the value for money of this project. The Inspectorate therefore requests that the tender documents be provided to the Taskforce immediately.

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44 In August 2013, QRA advised the ANAO that: 'QRA provided reference to the status of phased assessment in its monthly Reconstruction and Governance Report. The documentation provided to the Taskforce gave limited information on timeframes and tenders as this would be included in the Phase 2 documentation. The Taskforce continually developed its conclusions based on preliminary and incomplete information.'

45 Partial value for money review documentation had been provided for a further four projects. In one of the 12 projects the Phase 2 value for money review was undertaken on estimated costs (that is, before tenders had been issued).

**2.25** QRA advised the ANAO in October 2013 that it received the Phase 2 documentation in March 2013. No explanation was provided for the delay by DTMR in submitting this material. In August 2013, Regional Australia advised the ANAO that the tender documentation had been received by the Taskforce in May 2013.

**2.26** Similarly, the tendered results for another DTMR project involving more than \$42 million in road works at nine sites along approximately 48 kilometres of the Bruce Highway between Benaraby and Rockhampton, were not provided to the Taskforce until 13 August 2012. This project had commenced almost a year earlier (on 1 September 2011) and was reported by QRA<sup>46</sup> as having been completed by 31 May 2012.

**2.27** In an initiative aimed at expediting the completion of reviews, in early 2013 the Taskforce and QRA commenced undertaking 'parallel' value for money assessments of a number of DTMR projects for which tendered results were available.<sup>47</sup> For example, the Tier One report for the \$7.9 million project to restore road pavement at two sites on the Ingham-Abergowrie Road in the Hinchinbrook local government area completed in mid-February 2013 indicated that a parallel review was undertaken by QRA and the Taskforce. However, in August 2013, Regional Australia advised the ANAO that the parallel assessment of Phase 2 submissions was cancelled by QRA in late-April 2013. It also advised that QRA decided at this time to cease conducting any further phased approvals of NDRRA project submissions.

## **QRA project and delivery agent risk assessments**

**2.28** A key part of the VfM assurance framework developed by QRA and endorsed by the Inspectorate is the assessment by QRA of the risk that value for money will not be delivered. Under the framework, these risk assessments (also referred to by QRA as VfM readiness assessments) were to be undertaken firstly, in respect of each delivery agency and secondly, for each project. The

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46 The status of this project as being 100 per cent physically complete as of 31 May 2012 was reported by QRA in its monthly CFO reports. However, in August 2013, QRA advised the ANAO that 'practical completion of the project has not yet occurred' but is 'scheduled for September 2013. Phase 2 approval occurred in February 2013. The Taskforce review of this submission at Phase 1 stage was outside of the Inspectorate's stated sequence of assessment.' In October 2013, DTMR advised the ANAO that the Phase 2 submission was lodged with QRA on 20 January 2012 (which indicates that QRA took more than 12 months to approve the submission).

47 That is, the Taskforce was reviewing the Phase 2 submission at the same time as it was being reviewed by QRA, rather than after QRA had completed its value for money assessment.



delivery agency and project-specific risk assessments are provided to the Taskforce for the projects it selects for review. Summary risk ratings were also included in QRA CFO reports for a period but this was discontinued after the May 2012 report.

**2.29** As a delivery agency, DTMR was rated by QRA as ‘low risk’. However, contrary to the framework endorsed by the Inspectorate, no risk assessments were conducted by QRA on any DTMR projects. As has become increasingly evident as the work of the Taskforce has progressed, the risks in relation to DTMR projects not representing value for money appear to have been under-rated. In this respect, in August 2013, Regional Australia advised the ANAO that the Taskforce disagrees with QRA that DTMR is a low-risk delivery agent.<sup>48</sup> Further, Regional Australia advised the ANAO that it would increase the number of projects being selected from state agencies, such as DTMR, given the level of risk presented in these projects.

**2.30** The QRA risk assessments for the LGA projects selected for review by the Taskforce are summarised in Table 2.1. No project risk rating was available for around 17 per cent of the 64 LGA projects selected by the Taskforce for review.<sup>49</sup>

**Table 2.1: LGA delivery agency and project risk ratings for projects selected by the Taskforce for review**

Delivery Agency Risk			Project Risk			
High	Medium	Low	High	Medium	Low	Not Rated
12	11	7	11	32	10	11

Source: ANAO analysis of Taskforce information.

48 In August 2013, QRA advised the ANAO that ‘DTMR is a road authority with appropriate skills and resources to manage major roadworks projects and has the capacity and technical capability to take on scope risk which is supportive of QRA’s assessment of DTMR as a delivery agent. This risk assessment extends to projects which DTMR undertake which, for the most part, fall within DTMR’s normal business of road construction. Project level risk on DTMR projects is continually monitored through QRA’s DTMR liaison team and through organisation-wide meetings and more formally under QRA’s “quarterly review” process’.

49 In October 2013, QRA advised the ANAO that ‘In May 2012, risk assessments were completed on all delivery agents by QRA’ and that ‘project risk was a component of these assessments’. Nevertheless, as noted by the ANAO, in a number of cases the intended individual project risk assessments (as set out in the VfM assurance framework endorsed by the Inspectorate) were either not conducted by QRA or not provided to the Taskforce.

**2.31** Notwithstanding that they had been assessed as representing differing levels of risk, all projects had the same proposed risk mitigation treatments set out in the funding approvals signed by the QRA CEO. Specifically, these were:

- review of works contract (after signing); and
- completion inspection.<sup>50</sup>

**2.32** Very few works contracts have been provided to the Taskforce, which does not provide the Taskforce with the necessary assurance that QRA has been systematically implementing the risk treatments that underpin the CEO's funding approval of each project. Further, the Taskforce has not raised this issue with QRA, nor has it queried why the specified risk mitigation treatments do not vary according to the assessed level of risk. In this respect, in August 2013, QRA advised the ANAO that:

The risk mitigation measures in funding approval briefing notes are not intended to be an explicit requirement but a preservation of the right to undertake the activity should the risk of the project warrant it.

**2.33** Project funding arrangements have also not been developed having regard to the assessed level of risk. In particular, all except one LGA's Category B projects being reviewed by the Taskforce had the same payment schedule set out in the funding approvals signed by the QRA CEO, irrespective of the delivery agent and project risk ratings (that is, 30 per cent on approval; 60 per cent on submission of progress claims; and 10 per cent on project completion).

### **QRA project progress and completion reporting regime**

**2.34** The QRA VfM strategy approved by the Inspectorate states that regular progress monitoring and reporting is an essential feature of achieving value for money across the state. A diagram depicting the VFM assurance framework also shows that there was to be regular VfM reporting by agencies during the delivery phase of the project.

**2.35** However, there was only one instance in the project documentation provided by QRA to the Taskforce where a reporting program had been specified. This instance related to a Category D project which was requested to

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50 QRA has been reporting that its 'core activities' include conducting site inspections when projects reach 50 per cent and 100 per cent completion. (See further at paragraph 2.38).

provide monthly project updates. For the remaining projects, the funding approval advices sent by QRA were silent on reporting requirements. The funding agreements signed by delivery agents simply state (at clause 4.5.1) that 'Reporting requirements will be confirmed by the Authority'. As discussed at paragraphs 6.32 to 6.36, a number of the reviews being undertaken by the Taskforce are awaiting progress and/or completion reports.

**2.36** The QRA VfM framework also states that:

When the project has been finalised, the funding recipient will be responsible for completing a VfM Outcomes Report, reconciling the approved VfM Statement with the project outcome. The VfM Outcomes Report will require a statement certifying that the project met its approved VfM objectives.

**2.37** No VfM outcomes reports have been provided to the Taskforce.

### **QRA mid-project and project completion assurance reviews**

**2.38** QRA 'core activities' include reviews of general ledger transactions as part of the validation of progress payments. They also include 50 per cent completion reviews and 100 per cent completion reviews. These are assurance reviews which QRA states validate the scope versus spend versus delivery of projects.<sup>51</sup> QRA reporting has aggregated numbers of these reviews by LGA but it has not reported which projects have been reviewed, nor has this data been requested by the Taskforce.

**2.39** In total, 96 of the 50 per cent reviews and 155 final reviews were reported as either completed or in progress as at 30 June 2013. These figures suggest that only a small proportion of all approved projects (approximately 1600 in respect of the disaster events covered by the 2011 NPA) are subject to these reviews. Further, a completion review was underway as at 30 June 2013 for only one DTMR project (and no projects from other SDAs).<sup>52</sup>

**2.40** The Taskforce is not routinely provided with copies of the assurance reviews undertaken by QRA for those projects that have been selected by the Taskforce for review. Until recently, this information had not been sought from QRA. The Taskforce has also not sought clarification from QRA in relation to

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51 The QRA documentation does not state whether the 50 per cent and 100 per cent reviews are based on physical progress, financial expenditure or elapsed time.

52 Information provided to the ANAO by QRA in October 2013 indicates that, as at July 2013, only \$180 million of projects have proceeded to 'close out' and acquittal.

whether projects undertaken by SDAs (other than DTMR) are subject to an inspection regime. In August 2013, QRA advised the ANAO that it had undertaken inspections of DTMR projects from 54 NPA submissions (but inspection reports have not been requested by or provided to the Taskforce). In October 2013, QRA further advised the ANAO that 'Inspection reports are available to the Taskforce on TRIM'.

## Estimated savings from value for money reviews

### QRA approvals process

**2.41** In the context of the ANAO's earlier audit report on the preparation of the disaster recovery work plans for Queensland and Victoria (see paragraph 1.13), in January 2013 the Taskforce commented to the ANAO on the achievements that had come about as a result of the new oversight arrangements. In respect to QRA's VfM strategy, the Taskforce advised that:

While much of the reconstruction in Queensland is still underway and final costs are not yet known, more than \$1 billion (representing more than \$750 million to the Commonwealth) in value has been generated as a result of the QRA's robust value for money and eligibility assessment processes, which were developed in conjunction with the Inspectorate.

**2.42** In this context, since August 2011 QRA has been reporting on the value of project submissions it has assessed as ineligible or otherwise returned to the relevant delivery agency, as this has been viewed as an indicator of the value that has been derived from the state project review process. These figures have been relied upon by the Taskforce and Inspectorate, but the reported figures included some submissions that have been returned on more than one occasion (thereby overstating the extent of any costs avoided) and that, in some instances, submissions initially returned are later approved. In August 2013, QRA provided the following figures to the ANAO in relation to 2010–11 events covered by the original Queensland NPA:

- \$5.31 billion in NDRRA submissions had been approved;
- \$1.17 billion in submissions had been assessed as not eligible; and
- \$638.3 million in submissions had been returned and a further \$194.8 million in submissions had been withdrawn.

**2.43** Subsequently, \$331.7 million in submissions were resubmitted.<sup>53</sup> Of those where QRA has completed its review, \$151 million were approved and \$29.6 million were assessed as not eligible.

**2.44** On the above basis, QRA has advised the ANAO that to date, the net value of costs avoided through its assessment processes is in the order of \$1.7 billion. This figure, unlike QRA's public reporting<sup>54</sup>, excludes amounts that were later approved after initially not being approved.

**2.45** Overall, this situation raises significant issues concerning the understanding of, and compliance with, NDRRA in relation to NDRRA claims for earlier natural disasters. There is also a risk that a similar level of understanding may exist in other states and territories.

**2.46** In this respect, in July 2012 the ANAO requested from EMA an outline of the application of the NDRRA determination as it has interpreted it over time. EMA advised the ANAO that it has records of advices provided to states and territories regarding the eligibility of particular measures under NDRRA and had recently commenced compiling an 'eligibility bank' of all advices provided by topic. It further advised that EMA generally responds directly to the state that has an enquiry regarding eligibility, however, if a query is likely to be applicable to other states 'we may send eligibility advice to all our contact officers in the jurisdictions to confirm the policy position'. However, in July 2012 EMA advised the ANAO that the eligibility bank was not comprehensive in that it did not contain all the advices provided to states.

**2.47** Selected extracts were provided by EMA to the ANAO in July and September 2012. In December 2012, the ANAO requested that a further update of the eligibility bank be provided, given the passage of time since the earlier partial extracts, the understanding that EMA was continuing to add current and previous eligibility advices, and the conduct over this period of ongoing meetings between the Taskforce and EMA in which various eligibility issues in relation to Queensland reconstruction projects were being determined.<sup>55</sup> However, notwithstanding follow up by the ANAO, EMA did not provide any updated eligibility information. In July 2013, EMA advised the ANAO that this

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53 QRA advised the ANAO that, in most cases, submissions are only resubmitted once.

54 By way of comparison, by March 2013 QRA had been reporting costs avoided of \$2.08 billion.

55 On the basis that clarity on these eligibility issues would assist in the ANAO's examination of the projects being reviewed by the Taskforce.

request may have been inadvertently overlooked in changeover of staff. EMA subsequently provided some updated eligibility information in October 2013.

*QRA main reasons for reductions in approved value over submission value*

**2.48** In November 2012, QRA provided the Taskforce with a breakdown of the main reasons why project submissions have been found to be ineligible during its compliance and VfM assessments (see Table 2.2). QRA also indicated that, of the total amount assessed as ineligible, around 56 per cent was as a result of compliance reviews and 44 per cent resulted from VfM assessments.<sup>56</sup>

**Table 2.2: QRA main reasons for ineligible amounts in project submissions**

Compliance reviews	VfM reviews
Lack of supporting evidence for damage by the event, such as photographs	Overestimation of required quantities
Restoration to above pre-disaster standard, particularly in relation to the treatment type and rates	Benchmarking
Betterment	Over-design of pavement
Scope greater than that damaged	Calculation errors
Not an essential public asset	Over-engineering of solutions
Other ineligible expenditure, such as overheads, training, and so on.	Pre-existing damage

Source: Taskforce records, Inspectorate Meeting 28 November 2012.

**Potential savings identified by the Taskforce**

**2.49** In general, the Taskforce and Inspectorate have identified similar issues in the project reviews they have been undertaking as those identified by QRA. In this context, in January 2013, the Taskforce advised the ANAO that ‘potentially hundreds of millions of dollars’ in savings had been identified by the Inspectorate and the Taskforce. The Taskforce further advised the ANAO (in February 2013) that this figure included \$93 million in profits that the Taskforce has advised the Inspectorate had been earned in respect to

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56 In June 2011, the Inspectorate noted ‘the tendency of local governments to throw everything into applications with the common result of QRA having to send applications back’.

Queensland reconstruction projects sole-sourced for delivery by RoadTek (a state government entity) which were not eligible under NDRRA<sup>57</sup> as well as:

... the identification during value-for-money assessments of ineligible items included in the project submissions of local councils and DTMR. To date, this has included instances of betterment, enhancement and double costing of items. Ineligible costs and items are progressed with QRA, which then liaises with the councils and with DTMR. QRA reports back to the Taskforce on the agreed actions. The Taskforce monitors all projects through to the submission of project completion reports to ensure that ineligible items are removed. We have not currently extrapolated the findings from the sample to the population or estimated the financial benefit that is expected to result. We anticipate undertaking this analysis in future reports to the Prime Minister as more actual costs are available for projects.

### *Savings identified in initial Tier One reviews*

**2.50** The 70 initial Tier One reviews undertaken by the Taskforce to March 2013 identified potential savings of approximately \$71 million in 19 projects (where there was at least some level of quantification by the Taskforce). RoadTek profit margins were identified by the Taskforce in three of these projects. The ANAO also identified that a further three of these 19 projects, plus another nine projects reviewed by the Taskforce (where no potential savings were quantified) are likely to include an ineligible RoadTek profit component.<sup>58</sup> Using the methodology adopted by the Taskforce, the RoadTek profit margins (for the projects where this was not quantified by the Taskforce) are estimated to total \$19.09 million.<sup>59</sup> Accordingly, 28 of the initial Tier One reviews can be attributed with identifying potential savings of \$90.13 million.

**2.51** There were also five projects where no potential savings were quantified during the initial Tier One reviews but were subsequently quantified as totalling

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57 See further at paragraphs 4.8 to 4.13.

58 There is also one further DTMR project with an identified RoadTek profit component (estimated by the ANAO at \$5.19 million). However, as at March 2013 the Taskforce's Tier One review for this project had not been completed. The project is for the restoration of 14 state-controlled roads in the Mackay and Isaac local government areas of the Central Queensland region, with a submission value of \$55.85 million and a Phase 1 approved value of \$16.75 million.

59 This figure is indicative of potential savings. RoadTek profit margins were calculated based on 9.3 per cent of the total project costs (a methodology identified by the Taskforce in correspondence to EMA, which was based on the profit representing a 12.9 per cent markup on direct project costs). As the proportion of direct to indirect costs varies from project to project, the actual profit may also be higher or lower than 9.3 per cent of the total cost of each project.

\$5.2 million. One was quantified in subsequent correspondence to QRA (\$200 000), one was quantified by QRA in subsequent correspondence to the Taskforce (\$638 000), and three were quantified during Tier Two reviews, (\$216 114, \$1.43 million and \$2.75 million, respectively). Taking these into consideration, there were 33 reviewed projects with quantified potential savings totalling \$95.36 million.

**2.52** On this basis, almost half of the projects reviewed by the Taskforce (33 of 70 projects or 47 per cent) have identified potential savings arising from initial Tier One reviews that equate to approximately 7.3 per cent of the current expected value of these projects. That is, the current approved value of the 70 projects plus the expected value of Phase 2 approvals yet to occur, where applicable, is \$1.05 billion.

#### *Revisions to quantified potential savings*

**2.53** There were four projects where potential savings of \$10.23 million identified in an initial Tier One review were removed when the reviews were revised by the Taskforce.

**2.54** For example, a DTMR pavement restoration project in the Southern Queensland region (Caboolture, Landsborough and Nambour areas) with an approved value of \$25.08 million had approximately \$13 million in direct costs for one road in the project (road 498 Woombye-Montville Road) but the specific works for this site identified the total direct costs as approximately \$5 million. The difference of approximately \$8 million was not clarified in the Phase 1 submission documentation. QRA subsequently advised the Taskforce that the extent of damage to Road 498 'was grossly understated in the original submission'. This was discovered by DTMR during preliminary pavement testing after the Phase 1 submission and was subsequently included in the Phase 2 (tendered results) submission for \$13.04 million (before the addition of indirect costs). The Taskforce took this updated information into consideration and provided a revised Tier One report to the Inspectorate. In October 2013, QRA advised the ANAO that 'dialogue with DTMR indicates actual costs in relation to the road referred to may be further reduced'.

**2.55** A further example is a pavement and pathway restoration project with an approved value of \$18.6 million undertaken by the Banana Shire Council in the Central Queensland region. The initial Tier One review reported to the Taskforce in June 2012 identified as ineligible the costs of upgrading two gravel pathways to concrete (see, for example, Figure 2.2). The submission



included estimated costs of \$424 150 for replacing the gravel pathways (the submission documentation incorrectly described the works in both cases as 'restoration concrete pathway'). The Taskforce reported that replacement with gravel to reinstate the pathways to their pre-existing condition would have cost \$79 079 (meaning the cost of the betterment of the assets was \$345 071).<sup>60</sup> QRA was informed of the betterment issue during the conduct of the Tier One review and subsequently advised the Taskforce in late-April 2012 that the works had already been completed. It further advised that the actual difference in costs for the upgraded footpaths was \$118 000. The Inspectorate wrote to QRA on 20 July 2012 advising that betterment funding under NDRRA requires a business case to be submitted to the Commonwealth for consideration.

**2.56** The Taskforce provided the Inspectorate with a revised Tier One report in mid-November 2012. It concluded that the betterment issue had been resolved as Council had agreed to contribute \$47 088, which the Taskforce reported is 'the full cost of the betterment portion and represents the cost difference between replacing gravel pathways and concrete pathways'. There was no explanation provided in the tier review report regarding the reduction in the expected contribution by Council.

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60 The Taskforce did not inform the Inspectorate that this was the estimate of the construction cost of both pathways included by Council in Form 6 of the submission, not the cost of restoring the pathways to their pre-disaster condition (which would be expected to be considerably less than the costs of constructing full pathways).

**Figure 2.2: Photograph of Taroom pathway, Banana Shire Council local government area**



Source: Banana Shire Council submission to QRA.

**2.57** There were also four projects where \$31.42 million in initially identified potential savings were modified as a result of Tier Two reviews (in one project involving approximately \$1 million), or following the receipt of tendered results (in three projects involving \$28.83 million).

**2.58** In the Tier One review completed in October 2012 for a Tablelands Regional Council project with an approved value of \$2.94 million involving the restoration of rural roads in the Mareeba area of the Far North Queensland region, the Taskforce found that the proposed replacement of pavement to a depth of 300mm was excessive and recommended that unless further justification is provided, only a depth of 150mm was eligible under NDRRA. The Taskforce estimated that, combined with a reduced unit rate from \$138.80 to \$50–\$60 per square metre, the cost of this part of the works should be reduced by 71 per cent or by a total value of \$1.03 million.

**2.59** A Tier Two review was recommended to further investigate these costs, as well as the eligibility of some road widening activities and pre-existing damage (potential reductions in costs for these two issues were not quantified in the Tier One report). The Tier Two review report was submitted to the Inspectorate in January 2013. It found that the actual costs for pavement restoration as reported by Council in December 2012 (between \$50 and \$55 per square metre) were in line with the restoration costs for similar activities in nearby regions. However, the Tier Two review also quantified the road widening activities as costing an estimated \$216 114. A Tier Three review was recommended. In May 2013, the Tier Three review report recommended that, due to the widening of roads beyond the pre-existing width, an amount of funding be excluded from the claim before it is submitted by the Queensland Government to the Attorney-General's Department. It stated that this amount will be determined when actual costs are provided; and was estimated at \$155 711, less any complementary funding provided by Council.

**2.60** Another example related to the Tier One review report for a DTMR pavement restoration project with a submitted value of \$47.06 million and a Phase 1 approved value of \$14.12 million for works in the Blackall-Tambo and Barcardine areas of the Central Queensland region. The Tier One report was completed in March 2012 based on estimates provided in the Phase 1 submission. The Taskforce found that the estimates used several very high material and plant rates, especially for gravel. The project included ineligible widening activities and high (but not clearly defined) indirect costs. Benchmarking indicated that the project was potentially over-priced by up to 48 per cent (\$22.4 million). It was expected that this would be adjusted at Phase 2 when tendered results were received.

**2.61** A Tier Two review was recommended. However, the Taskforce subsequently decided to reassess the project when tendered results become available. These were provided in June 2012, but were in relation to only one of the four packages of works in the submission for this project. (QRA advised the Taskforce in November 2012 that one package had been deleted and another package was on hold). As at July 2013, a revised assessment had not been undertaken in relation to the available Phase 2 documentation. However, QRA acknowledged to the Taskforce in late-March 2013 that road widening had been identified in the submission. It further advised that the costs apportionable to widening were under investigation. In August 2013, Regional Australia advised the ANAO that the Taskforce intends to directly select for

review two other sections of the project that are being moved to a different submission. It also advised that the Taskforce was waiting for further approved Phase 2 documentation and QRA's quantification of road widening.

**2.62** Potential savings of \$6.56 million in respect of a further two projects were also removed on the basis of advice provided to the Taskforce by QRA.

#### *Current estimate of potential savings*

**2.63** As at March 2013, 23 of the 70 projects reviewed by the Taskforce had potential savings estimated at \$41.0 million. Almost two thirds (15) of these were RoadTek projects, with an estimated profit component of \$23.4 million. Five projects had road widening or other enhancements estimated at \$3.85 million, one project had unexplained cost estimates of \$6.68 million, one project had pre-existing damage of \$3.12 million and one small project had unnecessary works of \$117 322.

**2.64** The average potential saving identified in the 23 reviewed projects that were found by the Taskforce to contain quantifiable errors was \$1.78 million. The potential savings ranged from \$47 088 to \$6.6 million (0.3 per cent to 54.1 per cent of the approved value of the individual projects).

**2.65** There are also seven projects where possible savings (or further potential savings) have been identified (but not yet quantified). These are primarily a mix of projects where road widening, pre-existing damage, and potentially excessive works have been identified. In addition, at the time of the audit fieldwork, eligibility was still being determined in one project involving a rock seawall (initially costed at \$9.6 million but subsequently increased to \$11.6 million, plus indirect costs). Issues in relation to one other project with high estimates may also be resolved when tendered results are received. The Taskforce's Tier One review for this project anticipated a reduction of about \$1.65 million from the high estimates in the original submission, based on reductions in another of that council's projects being reviewed by the Taskforce. Further potential savings may also be identified in the 62 restoration projects as the Taskforce monitors the subsequent reporting of these projects through to their completion (noting that the Taskforce does not propose to revisit its completed tier reviews of eight Emergent Works<sup>61</sup> projects).

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61 Emergent Works are defined in the QRA *Submission Guide for NDRRA Funding Applicants* as:  
Footnote continued on the next page...

**2.66** Overall, present indications based on the results of the Taskforce reviews completed up to the time of the audit fieldwork are that one in three (and potentially almost one in every two) projects in the population will contain errors adversely impacting on the value for money delivered by the project. However, it is still too early to reliably extrapolate the potential dollar savings that may result from the value for money review work undertaken to date by the Taskforce and the Inspectorate.

### **Advice to QRA on review findings**

**2.67** In early May 2012, the Taskforce wrote to QRA outlining actions to be taken where the Inspectorate determines that a project does not represent value for money. In mid-May 2012, the then Minister Assisting on Queensland Floods Recovery wrote to the then Attorney-General (as Minister for Emergency Management) on this matter, and a process was agreed by the then Attorney-General in late-July 2012.

**2.68** Under that process, the Inspectorate may recommend to the Attorney-General that the Commonwealth's reimbursement under NDRRA reflect the likely cost of the project had value for money been achieved, rather than the actual project costs incurred. The process also includes provision by QRA of project identification information to EMA at the time of NDRRA acquittal, to prevent the full reimbursement of funds for these projects. The pre-claim audit undertaken by the state Auditor-General is expected to consider the Inspectorate's recommendation regarding value for money. Queensland has also agreed that the project or part of a project not representing value for money would be excluded from the claim submitted to EMA in the first instance, thus negating the need to recoup funds from the state.<sup>62</sup>

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- (a) necessary during the course of a disaster to protect eligible public assets or to restore essential services and maintain public safety. This could include earthmoving, rock placing, sand-bagging, installation of tarpaulins, erection of warning signs/barriers, pothole patching, removal of silt and debris, cleaning and removal of an asset or stores to prevent damage; or
  - (b) immediate post-disaster repairs to an eligible asset to enable it to operate/be operated at a reasonable level of efficiency - this would include clean up costs, removal of silt and debris, etcetera, and temporary repairs.

Emergent Works are required to be completed within 60 days of the date of the declared disaster event.

62 However, this does not reflect that considerable funds were paid to Queensland in advance.

**2.69** By way of comparison with the process adopted for the review of Queensland projects, the protocol agreed with Victoria in respect to reviews of projects in that state requires that the Taskforce provide the state with a progress report at the conclusion of each tier of the assessment process, and to consult the state where a project is deemed to require progression to a next tier review. The process agreed in respect to Queensland provides the Inspectorate with a comparatively greater degree of independence as, at the time of ANAO audit fieldwork, review reports were not being provided to the state<sup>63</sup> and decisions about whether to progress projects to the next tier of review do not involve consultation with QRA.<sup>64</sup> Nevertheless, it remains important that there be clear communication to QRA on the results of completed reviews.

**2.70** During the conduct of tier reviews, the Taskforce has made several hundred requests to QRA for additional information on the projects being reviewed. The Taskforce also meets frequently with QRA (at no set interval but usually around three or four times per quarter) to discuss progress with its requests and matters arising during reviews.

**2.71** The Inspectorate has also written to QRA in relation to clarification of project information on six occasions between July 2012 and March 2013, specifically in relation to 42 projects. Two of these requests for information also included more general requests involving an unspecified number of projects. In this correspondence, which primarily outlines the outcomes of the preceding Inspectorate meeting's consideration of tier review reports submitted by the Taskforce, on 82 occasions the Inspectorate has also advised QRA regarding the results of completed, partially completed or revised value for money assessments in respect of the 70 projects that have been reviewed.

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63 However, the Taskforce provided drafts of the one-page summaries of its tier review reports to QRA for clearance before publication in the Inspectorate's fourth, fifth and sixth reports to the Prime Minister. The ANAO also understands that QRA has been provided with some or all of the experts' reports commissioned by the Taskforce (which are taken into consideration when the Taskforce prepares its Tier Two review report for the Inspectorate). In addition, in August 2013, Regional Australia advised the ANAO that the Taskforce 'now provides completed reports to QRA of Tier One reviews that have determined value for money at that stage of assessment, as well as the findings for projects for which a Tier Two may be recommended due to concerns over the value for money of a particular project'.

64 Except that in an early April 2013 letter to QRA, the Inspectorate advised that it will delay escalation of two projects to a Tier Two review providing QRA was able to provide the necessary information (to answer the outstanding issues outlined in the letter) within 30 working days. In October 2013, DIRD advised the ANAO that 'The Taskforce did not receive sufficient information from QRA to address its concerns and these projects have now been escalated to Tier Two'.

**2.72** Although at the time of the audit fieldwork there were no projects that the Inspectorate had determined do not represent value for money, on 6 March 2013, the Inspectorate wrote to QRA, the Auditor-General of Queensland, and EMA concerning the application of a profit margin to reconstruction projects undertaken by RoadTek. In the advice to EMA, the Inspectorate did not identify specific projects, but recommended that this fee not be reimbursed by EMA if claimed by the Queensland Government under the Natural Disaster Relief and Recovery Arrangements (see further at paragraphs 4.8 to 4.13).

## Conclusion

**2.73** Value for money review processes were an important element of the additional oversight and accountability mechanisms introduced in respect to the significant financial assistance being provided to Queensland in response to widespread flooding during the spring and summer of 2010–11. These review processes are undertaken by both state and Australian Government agencies, as follows:

- the Queensland Reconstruction Authority reviews all project submissions from local government and state delivery agencies, in accordance with a value for money strategy endorsed by the Inspectorate in July 2011 (although some practices set out in the strategy were subsequently modified by QRA).<sup>65</sup> By the end of March 2013, (the latest information available at the time of the audit fieldwork) QRA had approved 1553 projects with a combined approval value of \$4.31 billion<sup>66</sup>; and
- the Taskforce then examines a sample of projects approved by QRA, using a three-tiered review process. By the end of March 2013, the Taskforce had completed 70 Tier One reviews of projects with a current

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65 Including the introduction by QRA of the two-phased approval process after the Inspectorate had endorsed the QRA VfM strategy (which did not countenance phased approvals), the lack of project-specific risk assessments for DTMR projects, and the lack of defined and regular project reporting schedules.

66 In August 2013, Regional Australia advised the ANAO that a number of previously approved DTMR projects have been removed from the approvals list due to the change in QRA processing of DTMR submissions. Further, following further damage during the floods in early 2013, some reconstruction activities have been reclassified into the 2012–13 reconstruction program, rather than 2010–11. The number and value of affected projects was not quantified in the advice from the department. In September 2013, Regional Australia was requested to provide this data, but it was not included in DIRD's response to the proposed audit report received in October 2013.

QRA approved value of \$1.05 billion. By this date, 11 projects had proceeded to a Tier Two review as a result of the Tier One review findings, and two projects had been designated to undergo Tier Three reviews (one as a result of a Tier Two review and the other as a result of a revised Tier One review, in which the Taskforce considered the project represented value for money but the Inspectorate did not agree).

**2.74** Overall, QRA applies greater scrutiny to projects being delivered by local government than it does to state-delivered projects. Of particular note in this respect is that QRA employs a two-phase approval process for state-delivered projects<sup>67</sup> with 30 per cent of the submission value at Phase 1 where a phased approval is being undertaken.<sup>68</sup> The primary effect of the phased approval process is that QRA conducts a review of project eligibility but defers consideration as to whether the project represents value for money until such time as an updated submission with details of the tendered results is provided by the delivery agency (to inform the second phase review).

**2.75** This situation has placed the Inspectorate and Taskforce in a difficult position of either having to delay a significant number of reviews until state-delivered projects have passed both approval phases, or undertake reviews of projects that QRA has not yet approved as complying with the NDRRA provisions and as representing full value for money. The latter approach has been adopted. Otherwise, the Taskforce would have fallen even further behind in its planned program of reviews, and there would have been little Australian Government scrutiny to date of state-delivered projects if the Taskforce had delayed its work until second phase approvals had been given. Through this work, the Taskforce has identified a variety of submission errors that, under the framework endorsed by the Inspectorate, would be expected to have been detected by QRA and excluded from NDRRA funding. The Inspectorate has raised with QRA its concerns in this regard.<sup>69</sup>

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67 Only three relatively large local government projects have received phased approvals (Brisbane River Walk \$75 million, Brisbane River Ferry Terminals \$70 million and a Blackall-Tambo Regional Council project, primarily for roads restoration, with a submitted value of \$31.56 million).

68 In addition, contrary to the framework endorsed by the Inspectorate, no risk assessments have been conducted by QRA on any Department of Transport and Main Roads projects.

69 In October 2012, the Inspectorate advised QRA that 'the frequency of the identification of potentially ineligible activities in projects which have received Phase 1 approval is of concern'.



**2.76** The phased approval approach has also reduced the likelihood that state-delivered projects will be selected for Taskforce review, as the Taskforce samples on the basis of the initially approved project values (discussed further at paragraphs 3.5 and 3.41 to 3.45). Further reducing the oversight of state-delivered projects, the Taskforce has not requested, or been provided with information on the timing, number or value of Phase 2 approvals, other than for some (but not all) of the projects that have been selected by the Taskforce for review. In addition:

- very few works contracts have been obtained by the Taskforce, notwithstanding that the review of these contracts (after they are signed) was one of two standard risk treatments identified by QRA where a risk assessment was undertaken in respect to a local government project;
- funding recipients were to be required to report against an agreed reporting program, including project progress (time) and financial performance but there was only one instance in the project documentation provided by QRA to the Taskforce where a reporting program had been specified;
- no value for money outcomes reports have been obtained by the Taskforce, although these reports are required under the state value for money framework endorsed by the Inspectorate<sup>70</sup>; and
- the Taskforce is not routinely provided with copies of the assurance reviews undertaken by QRA for those local government projects that have been selected by the Taskforce for review, and as at 30 June 2013, only one assurance review had been commenced in respect of a single state-delivered project.<sup>71</sup>

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70 In October 2013, QRA advised the ANAO that 'Value for money outcomes reports are undertaken on completion of projects, however, these have not been requested by the Taskforce. These are available on TRIM'.

71 In October 2013, QRA advised the ANAO that 'Inspection reports and reviews are available to the Taskforce on TRIM, or otherwise on request under its Operating Protocol with QRA'. The ANAO is aware that on 18 April 2013, the Taskforce requested that QRA provide access to all 'completion/site inspection reports and assurance reviews' for 113 projects (54 DTMR and 59 LGA projects—it is unclear why the Taskforce did not include three other projects that were also being reviewed by the Inspectorate).

2.77 In August 2013, Regional Australia advised the ANAO that it would increase the number of projects being selected from state agencies, such as DTMR, given the level of risk presented in these projects.

## Recommendation No.1

2.78 The ANAO recommends that the Australian Government Reconstruction Inspectorate and the National Disaster Recovery Taskforce seek to maximise the benefits from their value for money review activities by obtaining more timely and comprehensive information on project progress and completion from the Queensland Reconstruction Authority, to enable the preliminary value for money assessments to be finalised based on the scope and cost of works that were actually delivered (rather than estimates).

### **DIRD's response:**

2.79 *Agreed-in-principle. Access to timely and complete information on reconstruction projects, including final costs and completion reports, is essential to conducting value for money assessments. The Taskforce has spent considerable time working with the Authority to access this information, however it remains a challenge. As noted in the proposed report, the Taskforce has made hundreds of requests for information to the Authority and has escalated matters to the Inspectorate on at least six occasions.*

2.80 *The Taskforce's experiences in accessing information on the reconstruction programme from the Queensland Government will be used to inform reforms to the NDRRA and the use of National Partnership Agreements for future disasters.*

### **Inspectorate's response:**

2.81 *Agreed.*

### **AGD's response:**

2.82 *Noted.*

### **Finance's response:**

2.83 *Agreed.*

## **Estimated savings from value for money reviews**

2.84 Since August 2011, QRA has been reporting on the value of project submissions it has assessed as ineligible or otherwise returned to the relevant delivery agency, as this has been viewed as an indicator of the value that has

been derived from the state project review process. However, the figures reported by QRA overstate any costs that are being avoided as they include submissions that have been returned on more than one occasion (thereby double counting any benefits) and that, in some instances, submissions initially returned are later approved. Against this background, QRA has advised that to date, the net value of costs avoided through its assessment processes is in the order of \$1.7 billion.

**2.85** The Taskforce has not yet reported on the savings that have resulted from its project reviews identifying estimated expenditure that is ineligible under NDRRA or otherwise does not represent value for money. Nevertheless, it is evident that, notwithstanding the predecessor state review process, a significant proportion of approved projects have included expenditure that is ineligible under NDRRA as well as instances where the project estimates did not represent value for money. As at March 2013, 23 of the 70 projects reviewed by the Taskforce had potential savings estimated at \$41.0 million. Almost two thirds (15) of these were state-delivered projects, with an estimated ineligible profit component in respect of projects undertaken for DTMR by its commercialised business unit (RoadTek) of \$23.4 million. The Taskforce had identified (but as at March 2013 not yet quantified) possible savings (or further potential savings) in relation to nine projects (six of which were included in the 23 projects mentioned above).

**2.86** Overall, present indications based on the results of the Taskforce reviews completed to date are that one in three (and potentially almost one in every two) projects in the population will contain errors adversely impacting on the value for money delivered by the project. However, as noted at paragraph 2.72, to date, there have been no projects that the Inspectorate has determined do not represent value for money. In this respect, on a number of occasions the Inspectorate has written to QRA advising it of the results of completed, partially completed or revised value for money assessments. In addition, in March 2013 the Inspectorate wrote to QRA, the Auditor-General of Queensland, and EMA recommending that the state not be reimbursed for profit margins in respect to reconstruction projects undertaken by RoadTek, a state government entity.

## 3. Project Sampling Approach

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*This chapter outlines the development and application of the Taskforce's value for money review sample selection processes.*

### Introduction

**3.1** Given the scale of the reconstruction task, the Inspectorate decided to review a sample of projects rather than examine all projects. In August 2011, the Inspectorate advised the ANAO that the approach being taken would:

... see a representative sample of projects examined and scrutinised on a quarterly basis. Due to the fact that project submissions will occur over an elapsed time period, the work program will be based on a monetary unit sampling methodology.<sup>72</sup> Projects will be selected from those that have been approved under the value for money framework, and may be assessed at any point in their project life cycle. Projects that have been referred to the Inspectorate by state or local government bodies or as a complaint by a member of the public may also be examined. These projects will be in addition to those captured under the sampling methodology.

The Inspectorate has agreed to adopt actuarial advice which recommends a sample size of 129 projects. This sample assumes that there is a total of 2000 projects (our current upper estimate), to achieve a 95 per cent level of confidence that the population failure rate will be 10 per cent with an error estimate of plus or minus 5 per cent.

**3.2** At the time the sampling methodology was decided upon, the Inspectorate expected that all 129 reviews, as well as the reviews of any directly selected or otherwise referred projects, would be completed by 31 December 2012.

**3.3** Against this background, the ANAO examined the:

- Taskforce's approach to identifying projects for review;
- sample exclusions and limitations;
- planned review timetable;

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<sup>72</sup> Under Cumulative Monetary Amount (CMA) sampling (also known as Monetary Unit Sampling), the projects are listed in the order in which they were approved, a running total of the cumulative total value of the projects is maintained, and projects that cross a predetermined threshold are selected.

- time taken to undertake project reviews; and
- extrapolation of the Taskforce project review sample results.

## Taskforce approach to identifying projects for review

**3.4** As outlined in the Inspectorate's second report to the then Prime Minister, the primary reason for adopting the sampling methodology was that it would 'provide a 95 per cent level of confidence that the sample results can be extrapolated across all reconstruction projects' in Queensland. A further consideration was that the methodology favoured the selection of higher value projects over lower value projects.

**3.5** However, as outlined in paragraph 2.76 and discussed further in paragraphs 3.41 to 3.45, the phased approval by QRA of state-delivered projects has reduced the likelihood of high value state-delivered projects being sampled. Specifically, projects have not been selected for review under the Taskforce's application of the CMA sampling methodology because only their approved values were taken into consideration. For example, the following two projects would have been selected if the submission values were used as the basis for summation of the cumulative total value (instead of the Phase 1 approved values), as the submission values exceeded the (then) sampling threshold of \$41.86 million:<sup>73</sup>

- a DTMR project for road reconstruction to repair pavement failure, rutting, cracking, flushing, pavement deformation, potholing and pavement edge subsidence to table drains in the Mackay and Isaac local government areas of the Central Queensland region that was granted a Phase 1 approval of \$27.3 million by QRA in December 2011 (comprising 30 per cent of the submission value of \$91.05 million); and
- an earlier DTMR project for road reconstruction to repair various types of damage including rutting, cracking, shoving of pavement, subsidence, and minor loss of pavement in the Morven and Murweh areas in the Maranoa local government area within the Southern Queensland region was granted a Phase 1 approval of \$25.33 million by

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73 Both these projects were retrospectively directly selected by the Taskforce on 29 October 2012. Reviews were underway (as at August 2013).

QRA in August 2011 (comprising 30 per cent of the submission value of \$84.43 million).

**3.6** The CMA sample is supplemented by projects directly selected by the Taskforce or the Inspectorate. The Taskforce has stated that the reasons for direct selection include that the project:

- represents particular interest or risk to the Commonwealth<sup>74</sup>;
- provides greater stratification of location or delivery agent;
- has been identified through the complaints process<sup>75</sup>; or
- has been identified by QRA as representing high risk.

**3.7** The process for selecting projects has involved QRA providing an updated list of approved projects to the Taskforce approximately monthly. The Taskforce then requests access to the project files in the QRA database for the projects it had selected (using the CMA sampling methodology or by direct selection) and then downloads the relevant documentation.

**3.8** By 31 December 2012, QRA had approved 1580 projects with a combined approval value of \$4.6 billion. As illustrated by Table 3.1, nearly half of the number of approved projects (involving 76 per cent of approved value) has related to restoration works. The other significant areas of approved expenditure have related to projects described by the state as 'emergent works' (see further at paragraphs 3.13 and 3.20 to 3.28) and expenditure under NDRRA categories A and C.

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74 Such as: high value projects (over \$20 million); delivery agents that have been identified as high risk from previous projects/programs; delivery agents operating significantly beyond their capital expenditure (three times greater than usual); projects that have or are likely to attract significant media attention; and Category D projects.

75 However, as at the time of preparing this audit report no projects have been selected on the basis of complaints.

**Table 3.1: Characteristics of the population of approved projects**

Claim Type	Number	% Population Number by Claim Type	Submission Value \$m	% Total Submission Value	Approved Value \$m	Approved Value % by Claim Type	% Total Approved Value
Category A and Category C	34	2	343.66	5	308.75	90	7
Counter Disaster Operation	331	21	107.94	2	84.53	78	2
Category D	26	2	201.88	3	99.68	49	2
Emergent Works	401	25	651.98	9	595.24	91	13
Restoration	788	50	5772.08	82	3515.57	61	76
<b>TOTAL</b>	<b>1580</b>	<b>100</b>	<b>7077.54</b>	<b>100</b>	<b>4603.77</b>	<b>65</b>	<b>100</b>

Note: Some percentages have been rounded.

Source: ANAO analysis of Taskforce information.

**3.9** As at March 2013, the Taskforce had selected 116 Queensland projects<sup>76</sup> for value for money reviews and intended to select at least another 30 projects. The estimated total cost of the 116 projects at the time they were selected was \$2.998 billion and their approved value was \$1.628 billion. There were 52 DTMR projects (covering all 12 DTMR regions) and 64 LGA projects covering 31 out of the 61 LGAs that had been approved for NDRRA funding assistance as at December 2012.

**3.10** Table 3.2 provides further details on key characteristics of the Taskforce sample. It highlights that the sample has been predominantly focused on restoration works (88 per cent of the sample, by approved value compared with 76 per cent of the population of projects).

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76 Including 18 projects directly selected outside the CMA sample (as per paragraph 3.6).

**Table 3.2: Key characteristics of 116 projects reviewed by the Taskforce as at March 2013 (CMA sample plus directly selected projects)**

Claim Type	Number	% Population Number by Claim Type	% Sample	Submission Value \$m	% Population Value by Claim Type	% Sample	Approved Value \$m	% Population Approved Value by Claim Type	% Sample
Category A and Category C	0	0	0	0	0	0	0	0	0
Counter Disaster Operation	0	0	0	0	0	0	0	0	0
Category D	10	38	9	175.52	87	6	73.86	74	4
Emergent works	8	2	7	131.23	20	4	126.40	21	7
Restoration	98	12	84	2752.20	48	90	1497.83	43	88
<b>TOTAL</b>	<b>116</b>	<b>7</b>	<b>100</b>	<b>3058.95</b>	<b>43</b>	<b>100</b>	<b>1698.09</b>	<b>37</b>	<b>100</b>

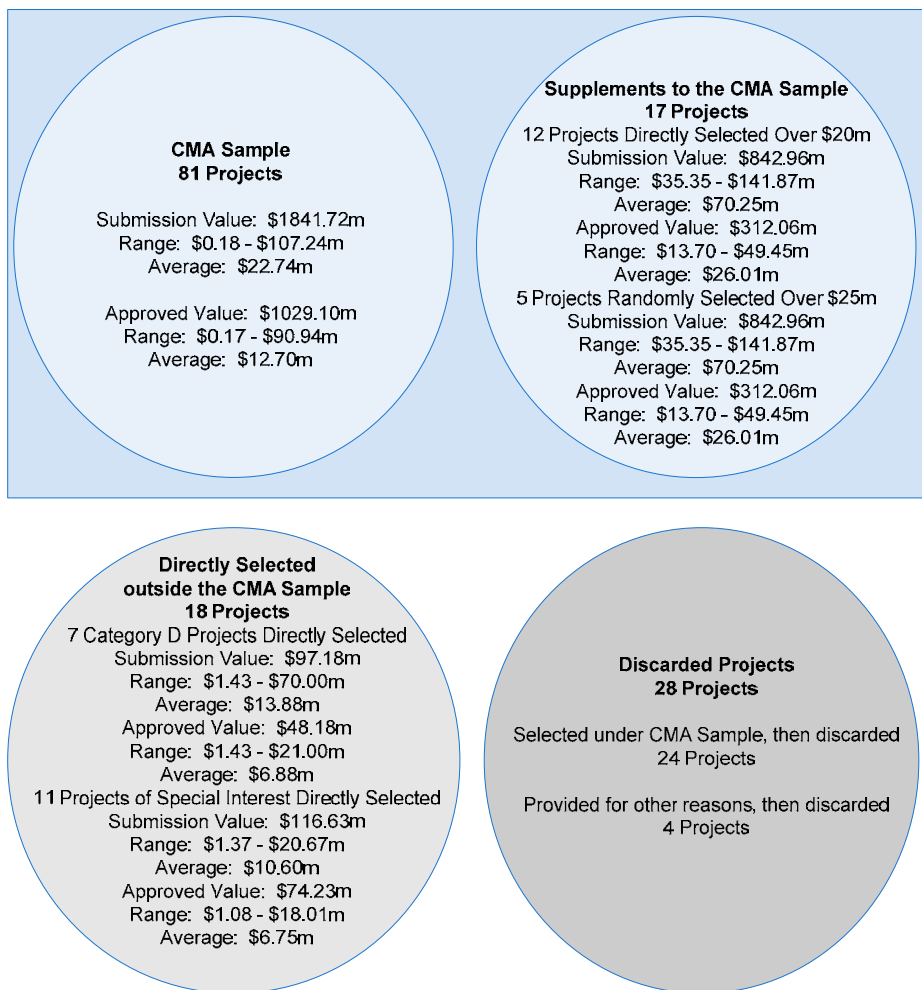
Note: Some percentages have been rounded.

Source: ANAO analysis of Taskforce information.



**3.11** Figure 3.1 provides an overview of the way in which the projects were selected for review. In this respect, although the Taskforce selected 17 projects by direct and random selections to supplement the CMA sample, actuarial advice provided in early 2013 to the Taskforce was that it would not be appropriate to include five of the 12 directly selected projects. Specifically, the advice stated that the directly sampled projects with a submitted value of less than \$55.4 million (the sampling interval adopted by the Taskforce from January 2012—see further at paragraph 3.38) ‘should not be used in estimating the proportion of dollars spent in the population that were value for money’.

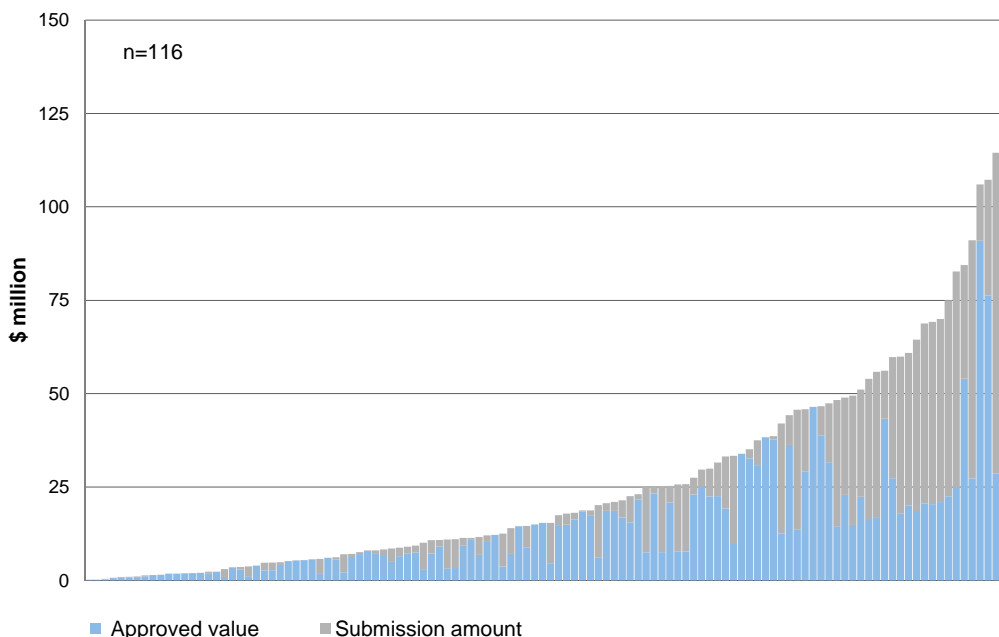
**Figure 3.1: Projects selected for Taskforce review (116 projects as at March 2013)**



Source: ANAO analysis of Taskforce information. See further at paragraph 3.13.

**3.12** Consistent with the expected focus of the Inspectorate’s work on complex or high value projects, the value of the 116 projects selected for review by March 2013 represented 38.8 per cent of the total value of projects approved as at 1 March 2013. Reflecting the importance of the project review population being representative, the projects selected ranged in approved value from \$170 000 to \$90.9 million<sup>77</sup>, with 34 projects (about one in every three projects selected) having an approved value that was less than \$5 million (see Figure 3.2).

**Figure 3.2: Submission and approved values of projects in Taskforce sample (as at March 2013)**



Source: ANAO analysis of Taskforce information.

### Efficiency of project selection and documentation request process

**3.13** For much of the period since the sampling began, the process of selecting projects for review and obtaining the relevant documentation from QRA has been slower and less efficient than optimal. Although it was agreed in the Protocol with QRA that the listing of approved projects would be ‘as per

<sup>77</sup> The highest submission value was \$141.87 million.

the Submissions Register', the listings provided to the Taskforce excluded details of the project submission type. Accordingly, the Taskforce selected projects that crossed the CMA threshold, in many cases only to find when the documentation was provided by QRA that the project type was either a Counter Disaster Operation (CDO) or Emergent Works that it had been decided would not be reviewed. In such situations, the Taskforce discarded the project and repeated the selection process (taking the next project on the list) until a restoration project was encountered (hence the 24 discarded projects referenced in Figure 3.1). In July 2012, the Taskforce explained to the ANAO that:

When the Taskforce selects projects through the sampling methodology, we cannot identify the type of project (for example, emergent works). It is only after we have selected the project and the files made available to the Taskforce through QRA Citrix system that we can see the type of project.

**3.14** In this regard, it was not until mid-November 2012 that QRA provided the Taskforce with a copy of the Submissions Register that included details of the project type. There would have been benefits in the Taskforce requesting that this information be included by QRA from the outset when the first project approvals data was provided in August 2011.<sup>78</sup>

### **Errors in applying the CMA project selection methodology**

**3.15** Although the consultants noted in mid-2011 that 'sufficient controls are needed around the order in which projects and related costs are entered into the Projects Register', the Taskforce frequently re-sorted the projects alphabetically by approval date before summation. This meant that different projects were selected than those that would have been selected had the Taskforce retained the original order of project approvals as advised by QRA. In addition, there were errors, omissions and duplications in the spreadsheet used by the Taskforce to select the CMA sample that also resulted in different projects being selected than the projects that would otherwise have been selected.

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<sup>78</sup> In August 2013, Regional Australia provided the ANAO with an October 2011 Taskforce advice to QRA stating that 'it would be useful' if the spreadsheet provided by QRA could indicate which projects are restoration and which are CDO/Emergent Works. Regional Australia also advised that 'These details were regularly requested' by the Taskforce in meetings with QRA 'in 2011 and 2012'.

**3.16** There was also one occasion during the initial implementation phase where the Taskforce changed the sample selection. Specifically, a Gympie Regional Council project approved by QRA on 12 July 2011 with an approved value of \$9.25 million crossed the CMA threshold, but the Taskforce decided to choose the preceding project on the list instead. This was a Western Downs Regional Council project with an approved value at that time of \$1.43 million.<sup>79</sup> The next project on the list (after the project that crossed the CMA threshold) had also been submitted by Gympie Regional Council and approved on 12 July 2011.

**3.17** The Taskforce advised the ANAO that the project that crossed the CMA threshold was not selected because ‘the Taskforce recognised the higher level of scrutiny at the time on Gympie Regional Council’. This was because a previous Council project (a much smaller project approved on 4 May 2011 with an approved value of \$0.49 million) had been one of the two pilot projects during the development of the Taskforce’s VfM review methodology.<sup>80</sup> In the context of the sampling approach, this was not a sound reason for excluding the selected project that crossed the CMA threshold from the CMA sample.<sup>81</sup>

## Sample exclusions and limitations

### Delivery agencies excluded from the CMA sample

**3.18** The Taskforce decided to exclude all State Departments and Agencies (SDAs) except DTMR from its sample, on the basis that SDA projects do not involve reconstruction. However, SDA submissions for restoration projects (other than DTMR) total around \$70 million. For example:

- the three largest approved (non-DTMR) SDA restoration projects were submitted by the Department of Housing and Public Works, with

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79 Western Downs Regional Council subsequently resubmitted its project submission and the value of the project approved by QRA was increased to \$37.73 million. The initial part-approval was in relation to certain designated high priority works (to enable work to commence immediately on reconstructing Marble Street in the town of Dalby). Accordingly, this project did not constitute a routine Phase 1/Phase 2 approval.

80 The project was for submergence damage repairs to the Amamoor Creek Road and was fast-tracked to enable Council to complete the works prior to the 2011 Gympie Music Muster (23-28 August). (See further at paragraph 4.50).

81 Given the sample aimed to select 129 projects, it could be expected that more than one project would be selected per delivery agent. Within the 80 projects selected using the CMA sampling methodology, there were two LGAs with four projects selected, four LGAs with three projects selected, and seven LGAs with two projects selected.

submission values of: \$22.25 million; \$17.29 million; and \$5.28 million; and approved values of: \$21.55 million; \$17.02 million; and \$3.36 million respectively;

- the Department of Housing and Public Works also submitted the highest overall value of projects (totalling some \$54.9 million or 78 per cent of the total value of the SDA submissions); and
- the Department of Communities, Child Safety and Disability Services submitted the second highest value of projects (totalling some \$10.35 million).

**3.19** As a consequence of the Taskforce's approach, none of these projects were selected for review by the Taskforce.

### **Project categories excluded from the CMA sample**

**3.20** The Taskforce originally sought to restrict its sample to restoration projects only. However, in October 2011 the Inspectorate decided that CDO and Emergent Works projects were to be included in value for money reviews.

**3.21** The NDRRA determination identifies extraordinary CDO of direct assistance to an individual (for example, operations to protect a threatened house or render a damaged house safe and habitable) as being an eligible measure under Category A, and CDO for the protection of the general public as an eligible measure under Category B. In addition to those NDRRA requirements applying to all Category B measures, the determination requires in relation to Category B CDO measures that the:

- costs are associated with CDO carried out to protect communities and ensure public health and safety in public urban areas; and
- costs exceed the costs that a state could reasonably have expected to incur for these purposes; and
- operations carried out were intended to result in less Category A assistance being required.

**3.22** Notwithstanding the recorded earlier decision of the Inspectorate, the Taskforce decided in February 2012 that CDO projects that came up in the sample would not be subject to a value for money review. According to the submissions register data provided to the Taskforce by QRA, as at 31 December 2012 there were 331 approved CDO projects with a submission

value of \$107.94 million. The approved value of these projects was \$84.53 million (see Table 3.1).

**3.23** By April 2012, the Taskforce had completed five Tier One assessments of Emergent Works projects and a further three were being reviewed. In early 2012, the Taskforce raised with QRA that ‘occasionally’ major reconstruction activities are claimed as Emergent Works (see further at paragraphs 3.27 to 3.28). However, the Taskforce decided that any Emergent Works projects that came up in the sample in future would not be reviewed. This decision was endorsed by the Inspectorate, based on the Taskforce’s advice that ‘There is no requirement under the NDRRA to provide detailed information in emergent works project submissions, which precludes a detailed value for money assessment’.<sup>82</sup> It was on this basis that the Inspectorate ‘agreed that this far into the reconstruction program, there is little value in continuing to assess emergent work applications’.

**3.24** However, the advice from the Taskforce on which the Inspectorate decision was based was not correct. In this respect, the submission guide issued by QRA requires that the same minimum information be provided for Emergent Works projects as is specified for all other restoration projects.<sup>83</sup> Further, the NDRRA determination does not include any provisions in relation to Emergent Works. This sub-category of restoration projects is not a recognised NDRRA term but, rather, was introduced by Emergency Management Queensland as a state-based modification to the national arrangements.<sup>84</sup> As it was a requirement that the minimum information

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82 Similarly, in a Tier One review completed in April 2012 for a DTMR Emergent Works project, the Taskforce incorrectly reported to the Inspectorate that ‘due to the time sensitive nature of these immediate post flood works, the costing information is not required or requested in the submission template’. The works were undertaken by RoadTek and various other contractors for DTMR in relation to the Warrego Highway and six other state-controlled roads in the Lockyer Valley local government area within the South East Queensland region, with a submission value totalling \$40.23 million. What the Taskforce should have drawn to the attention of the Inspectorate was that DTMR did not submit the forms required by QRA for projects it submitted, but instead devised its own forms and submission templates, which omitted some of the minimum information required (and included a different certification statement). Even where DTMR’s own forms required that resource descriptions, units, rates and quantities be included, these were not provided. QRA accepted this situation and (unlike for LGAs) did not request that DTMR provide submissions using the templates set out in the QRA submissions guide.

83 These minimum information requirements are detailed at section 4.2.1 of the QRA Submission Guide. Emergent Works submissions are required to include this information in Forms 1 to 5.

84 Department of Community Safety, Emergency Management Queensland, *Queensland Disaster Relief and Recovery Arrangements Guidelines 2009–10*, November 2009, p. 58. There are similar requirements in the *Queensland Disaster Relief and Recovery Arrangements Guidelines* issued by QRA in April 2013 following the release of the 2012 NDRRA Determination.

specified by QRA was to be provided in Emergent Works project submissions, there was no impediment to the Taskforce conducting reviews of these projects. In this regard, advice and further information could have been sought from QRA if the Taskforce considered that the minimum required information had not been included in the approved submission, given QRA's requirements in respect to Emergent Works submissions.

**3.25** Similarly, the Taskforce completed a Tier One review of a DTMR restoration project that provided less documentation than specified in the QRA requirements. The project was submitted for the reconstruction of approximately 10 kilometres at various sites over a 60 kilometre section of the Leichhardt Highway between the towns of Miles and Goondiwindi within the Goondiwindi local government area in the Southern Queensland region. The submission value and approved value of the project was \$1.97 million. The submission was in relation to damage caused by Tropical Cyclones Anthony and Tasha between November 2010 and February 2011, but the application for funding was not submitted to QRA until January 2012. The damage was described as primarily rutting and loss of surface in the outer wheel path, and was restored with excavation, stabilisation and reinstatement of seal at affected sites. The project was undertaken as Emergent Works by the Goondiwindi Regional Council on behalf of DTMR between May and July 2011.<sup>85</sup> The Tier One review report completed by the Taskforce in February 2013 stated that:

- the work was transitioned into an application for Restoration of Essential Public Assets (REPA) because the 60-day Emergent Works time frame had passed;
- the submission did not supply the level of detail required and also included less photographic evidence than is generally provided for REPA applications;
- the level of evidence, while not ideal, was accepted due to the urgent nature of the works<sup>86</sup> and the increased safety risks associated with the damaged pavement in this context;

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85 Notwithstanding that the works commenced late, the Taskforce scored the project the maximum points (two out of two) for the time criterion.

86 Notwithstanding that there was no explanation provided by the Taskforce in its Tier One review report to the Inspectorate regarding why the works were not undertaken urgently.

- despite this project having been physically completed in July 2011, no completion report detailing actual project costs has yet been submitted to QRA<sup>87</sup>; and
- due to the nature of Emergent Works, combined with the appropriate pricing and scope, this project is considered (by the Taskforce) to represent value for money.

**3.26** As at 31 December 2012, there were 401 approved Emergent Works projects with a submission value totalling \$652 million. The three largest projects were approved for \$38.2 million, \$21.7 million and \$16.3 million respectively, well above the median of \$0.26 million per Emergent Works project. These three projects were included in the eight Emergent Works projects that have been reviewed by the Taskforce. They relate to:

- works undertaken by RoadTek and various other contractors for DTMR in relation to the Warrego Highway and six other state-controlled roads in the Lockyer Valley local government area within the South East Queensland region, with a submission value totalling \$40.23 million<sup>88</sup>;
- clean up and recovery works in relation to Cyclone Yasi undertaken by Townsville City Council in the Townsville area and on Magnetic Island within the Northern Queensland region, with a submission value of \$23.09 million; and
- various pavement repairs, grading and re-sheeting of roads, bridge repairs, debris removal and culvert clearing works undertaken by the Central Highlands Regional Council in the Emerald, Springsure, Blackwater and Duaringa areas of the Central Queensland region, with a submission value of \$18.13 million.

**3.27** Documentation provided to the Taskforce indicates that Emergent Works submissions frequently include the same types of ineligible expenditures as have commonly been found in submissions for restoration projects. Further, in this respect, in a meeting held on 10 February 2012, QRA advised the Taskforce that 'Beyond the normal protection afforded by a senior

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87 Given the project was completed in July 2011 (more than 18 months before the Taskforce Tier One review was completed), there was sufficient time to request that the appropriate level of documentation be provided (the Taskforce selected the project for review in May 2012).

88 In October 2013, DTMR advised the ANAO that 'DTMR have a number of projects within a package of works which then relates to a funding submission'.



public official verifying and signing the emergent works application there is no further assessment.’ This advice was provided in response to a question raised by the Taskforce in respect to a DTMR project for Emergent Works in the Central Highlands and Banana Shire Council areas of the Central Queensland region with a submitted value of \$15.25 million and approved value of \$14.52 million. The project involved pavement repairs, stabilisation, reconstruction and overlays of pavement, as well as restoration of drainage and culverts across 12 sites on the: Capricorn; Carnarvon; Leichhardt; Gregory; and Dawson Highways, and the Fitzroy Developmental Road, Biloela-Duaringa Road and Blackwater Rolleston Road. The question asked by the Taskforce was:

It appears that reconstruction activities occasionally occur as ‘emergent works’. Could QRA clarify how it determines whether reconstruction activities are identified and responded to, considering there is less oversight of emergent works?

**3.28** The response from QRA, as recorded in the file note made by the Taskforce, was:

QRA indicated that emergent works do not get less oversight, but agree that there are less forms to complete for emergent works. They also acknowledged that they do not request invoices for emergent works as evidence.<sup>89</sup> Beyond the normal protection afforded by a senior public official verifying and signing the emergent works application, there is no further assessment. QRA does not have the capacity to independently check this. Emergent works require quick payment and consequently the checks are completed quickly. It is usually not possible to source all the materials and labour to complete full reconstruction works within the first three months.

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89 A written response to the Taskforce’s questions on this DTMR project was also provided by QRA during the meeting. This included the statement (retracted by QRA at the meeting) that ‘As the emergent works relate to works completed and are for actual expenditure incurred rather than an estimate of works to be performed, it is a QRA requirement that all DTMR Submissions must have Tax Invoices or RoadTek Inter Co (Company) Billing Docs attached which reconcile with the Labour, Plant and Material costs contained in the submission.’

## Sample coverage

### Coverage of projects selected for Taskforce review

**3.29** In relation to the projects selected for review, internal Taskforce submissions to the Head of the Taskforce seeking approval of the specific projects selected for Taskforce review have frequently stated that 'Once a project has been selected for review it will be reviewed in its entirety'.

**3.30** However, in practice, the Taskforce usually reviews only a proportion of each project. This approach was endorsed by the Inspectorate ('for some projects') in September 2012.<sup>90</sup> The Taskforce's practice is also at variance with the framework agreed by the Inspectorate (and also commented upon by the ANAO in August 2011 in relation to correspondence received from the Inspectorate prior to the commencement of this audit) that the higher the risk, the more in-depth the review. In this regard, it is not evident that assessed project risk levels are taken into account in deciding the depth of Taskforce coverage for each project.

**3.31** The Taskforce has also not been reviewing the elements or activities of its selected projects that are transferred to another project. Examples include:

- one of the components of a project submitted by the Diamantina Shire Council involved proposed levy bank improvements estimated at \$1.2 million (including sealing three previously unsealed roads on top of levee banks in Bedourie in the Birdsville area of the South West Queensland region). This aspect of the project was identified as ineligible by QRA pending provision of further information on betterment, but was resubmitted as a new project with a submission value of \$0.3 million, but this project is not included in the Taskforce sample; and
- a project submitted by the Scenic Rim Regional Council for replacement of the Stokes Bridge near Silverdale in the South East Queensland region at an estimated cost of \$1.56 million was assessed as ineligible by

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90 In August and September 2012, the ANAO raised with the Taskforce that many projects in the sample were being only partially reviewed. This increased the risk that ineligible items included in project submissions will not be detected by the Taskforce. Partially reviewing projects may also affect the confidence interval for the Taskforce sample in relation to extrapolating results across the whole population.

QRA but was subsequently resubmitted as a new project which is not included in the Taskforce sample.<sup>91</sup>

**3.32** The Taskforce decided that it would not review the projects into which the works were transferred, although they could have been directly selected (see paragraph 3.6). The Inspectorate was not informed of this decision although there is evidence that the Inspectorate is interested in examining cases where ineligible project activities are subsequently resubmitted as new projects. For example, in January 2013 the Inspectorate directed the Taskforce to ‘directly select the Central Highlands Regional Council project that includes those activities found ineligible by QRA in previous submissions—if it is approved by QRA’. More than six months later, in August 2013, Regional Australia advised the ANAO that the project had not yet been selected but ‘will be selected in the next sampling process’.<sup>92</sup> In October 2013, DIRD further advised that ‘The Taskforce will recommend that this project is selected for assessment at the next available meeting of the Inspectorate’.

**3.33** The transfer of works has also arisen in relation to state-delivered projects. For example, QRA advice to the Inspectorate of 29 November 2012 indicated that two packages of works in a \$47.1 million project to address surface, pavement and culvert failures at nine sites along the Landsborough Highway in the Blackall-Tambo and Barcaldine LGAs (see Figure 3.3) were being moved to new projects. In the Tier One review completed in March 2012 on the originally submitted project, the Taskforce had raised its concerns about the high estimated costs for the works proposed in this project, as well as the inclusion of non-eligible road widening activities and additional line marking beyond that which would appear to be required. In August 2013, Regional Australia advised the ANAO that the Taskforce intends to review the two sections transferred to another project as a directly selected project, once QRA advises the Taskforce of the new submission’s project identification number.

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91 In August 2013, QRA advised the ANAO that: ‘In its current form, some readers could misinterpret that sampled projects were resubmitted to avoid further scrutiny of the Taskforce. This was not the case. Rather, the resubmissions are examples of QRA’s collaborative and continual assessment processes whereby QRA works with delivery agents when issues are identified in submissions (such as those cited in the examples) and submissions are returned for rework and resubmissions with alternative, more appropriate treatments.’ As noted at paragraphs 2.42 and 2.43, QRA reporting on costs avoided has included amounts for submissions that are returned for rework and later resubmitted (and in some instances, approved).

92 Regional Australia also advised that the resubmitted Diamantina Shire Council levy bank project (see paragraph 3.31) would also be directly selected.

**Figure 3.3: Photograph of Landsborough Highway, Blackall-Tambo local government area**



**Photo No. 18 - CH 86.51km. Pavement rutting**

Source: DTMR submission to QRA.

### **Consultant's advice to conduct separate samples**

**3.34** Although the consultants advised the Taskforce in mid-2011 to separately sample DTMR projects (using random sampling techniques), the Taskforce instead included DTMR projects in its CMA sample. The rationale for this decision was that the CMA sampling methodology 'will favour their selection from the population of projects'.

**3.35** However, as noted at paragraphs 2.76 and 3.5, QRA's phased approval of state-delivered projects has reduced the likelihood that state-delivered projects will be selected for Taskforce review. In this respect, separately sampling DTMR projects, as recommended by the consultants, would have guarded against this outcome.<sup>93</sup>

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93 The first phased approvals were on 23 August 2011 and were included in the data provided to the Taskforce on 9 September 2011.

## Shortfall in the CMA sample

**3.36** The sample size of 129 projects was based on an assumption that there would be 2000 projects in the population subject to the Inspectorate's remit. The aim was to select the projects and complete all 129 reviews by 31 December 2012. However, the Taskforce had selected only 81 projects (80 projects, with one project that crossed two sampling intervals) using the CMA sampling methodology as at March 2013 (a shortfall of 48 projects or some 37 per cent of the intended sample). In effect, in late 2012 the Taskforce ran out of projects to select. This situation arose through a combination of factors, as discussed below.

### *Initial and revised damage estimates*

**3.37** After the Inspectorate agreed that the CMA sample would aim to select 129 projects, it was a simple matter to determine the sampling interval by dividing the estimated total value of the projects subject to the Inspectorate's remit (\$5.4 billion<sup>94</sup>) by the sample size of 129. This produced a selection interval of \$41.86 million.

**3.38** In January 2012, after conducting a review<sup>95</sup>, the Taskforce increased the sampling interval to \$55.40 million, based on a revised total estimate of reconstruction costs of \$6.645 billion (this excluded \$0.886 billion for SDAs from the \$7.531 billion<sup>96</sup> being reported from November 2011 by QRA). At the time the sampling interval was increased, the cumulative approved value being used by the Taskforce to select projects was \$1548.62 million and 37 projects had been selected. This meant that a further 92 projects were required to be selected out of the remaining \$5.09 billion of expected projects.

**3.39** In September 2012, the Taskforce undertook another internal review of the sampling methodology, again conducted without obtaining expert advice. This review identified 11 DTMR projects with a submission value over \$41 million (the initial sampling interval) which had not been selected as part of the CMA sample. (This was because the sample was selected based on

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94 However, at this time QRA's reported total forecast funding requirement to repair damage to essential state and local government infrastructure was \$6.7 billion. In August 2011, the Taskforce advised the Inspectorate that the 'total figure of approximately \$5.4 billion is the combined total of: the Local Government Association budget of approximately \$2.5 billion; and the DTMR budget of approximately \$2.9 billion'.

95 The review was conducted internally and the Taskforce did not seek any expert advice.

96 As at August 2013, the latest available estimate from QRA (February 2013 update) was \$7.04 billion.

approved value rather than submission value—see further at paragraphs 3.41 to 3.44). The Taskforce decided to ‘directly sample these projects to conform with the Inspectorate’s mandate to focus on high-value projects’.

**3.40** By the end of October 2012, it became evident that new project approvals were rapidly tapering off.<sup>97</sup> The Taskforce had selected 78 projects for review based on a cumulative approved value of projects totalling only \$3.93 billion, some \$2.7 billion or 41 per cent below the estimated total of \$6.645 billion that underpinned the January 2012 increase in the sampling interval. Had the Taskforce not decided to increase the sampling interval, it could have selected 93 projects by October 2012, but this would still have fallen well short of the target of 129 projects.

#### *Decision to use approved value*

**3.41** Shortly after it commenced the process of selecting projects for review, the Taskforce switched from using the submission value of approved projects to using the approved value. In doing so, the Taskforce did not adjust the ‘running total’ for the CMA sample where QRA subsequently withdrew project approval, or reduced or increased the previously advised approved amount of a project, including for Phase 2 approvals. This meant that only 30 per cent of the value of projects subject to phased approvals was included in the ‘running total’. It also meant that potentially up to \$2.475 billion would be excluded from sampling consideration (or up to \$3.85 billion based on the latest DTMR total estimate of \$5.5 billion).

**3.42** It should have been evident from the outset that the number of projects available to be selected under the CMA sample would fall well short of the 129 required by the Inspectorate if the Taskforce adopted a practice of only including the Phase 1 approved values of projects. However, this did not become apparent to the Taskforce until it found it was running out of projects to select. In this respect, on 24 October 2012, the Taskforce advised the Inspectorate that ‘The change by QRA to a two-phase approval process ... has affected the number of reconstruction projects selected for assessment using (the CMA) methodology.’ However, as discussed at paragraph 2.15, the

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97 Although the target was for all submissions to be lodged with QRA by 30 June 2012, this deadline was not achieved. As at March 2013, QRA was reporting that a small number of submissions expected were yet to be received. In May 2013, QRA reported that there were no outstanding submissions for the 2011 events.

two-phase approval process had been in place since August 2011. The Inspectorate was also advised that: 'To date, 78 samples have been selected using QRA's approved value of projects, when 111 would have been selected using the full project value'.

**3.43** At its 31 January 2013 meeting, the Inspectorate was further advised by the Taskforce that the sample of 129 projects 'cannot be achieved using the sampling methodology as it was originally devised'. In August 2013, Regional Australia advised the ANAO that 'The change from using the cumulative submission total to the approval submission total was approved by the Assistant Secretary and the Deputy Secretary of the Taskforce on 5 October 2011. A copy of this minute was provided to the Inspectorate at its 13 October 2011 meeting.' However, this minute did not seek approval for the change. It sought approval for initiation of the project review process for the identified projects already selected by the Taskforce. Specifically, it did not draw to the approver's attention that there was a change (in fact it incorrectly implied that the selections were made in accordance with the consultants recommended methodology when they were not). It also did not address why there was a change and it did not address the risks and/or the perceived benefits, if any, arising from the change.

**3.44** The decision to switch from using the full project value occurred some months after the consultant's report on the sampling methodology had been finalised and after the Inspectorate had agreed on the methodology to be adopted for the sample. This situation highlights the risks involved where a significant change is made to the sampling methodology recommended by the consultants and endorsed by the Inspectorate without the Taskforce seeking further expert advice and the Inspectorate's endorsement of the change before it is made.

#### *Consultant's CMA sampling refresh review*

**3.45** A further review of the CMA sampling methodology was undertaken in late 2012/early 2013, using the same consultants that had provided expert advice to the Taskforce in mid-2011. Amongst other matters, the consultants found during a comparison of the population and sample that the sample

under-represents projects with an approved value of over \$25 million.<sup>98</sup> The consultants also recalculated the confidence level that the results of the Taskforce's CMA sample would reflect the whole population of projects. In this regard, the consultants reported in February 2013 that:

- the Taskforce's sampling activity over the period of time to January 2013 had varied from that analysed in the original report;
- the changes to the sample had increased the confidence interval from + or - 5 per cent to + or - 6.2 per cent<sup>99</sup>, assuming the error rate was unchanged at 10 per cent; and
- the sampling methodology was likely to provide a tighter confidence interval of + or - 1.4 per cent, as a result of the VfM failure rate experienced to date (advised by the Taskforce as likely to be one per cent) being lower than initially assumed at 10 per cent.

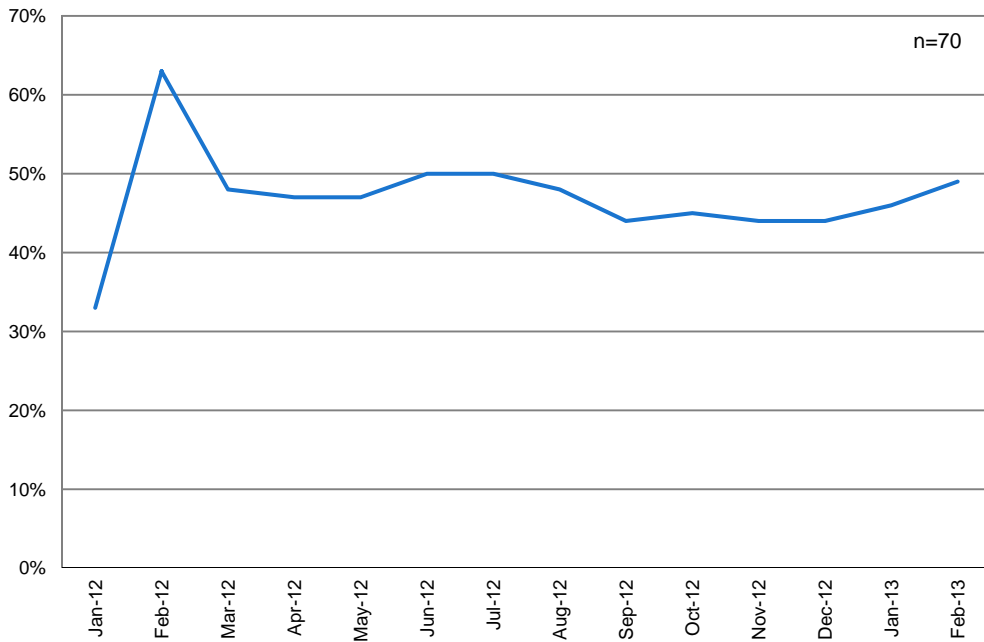
**3.46** However, the advice to the consultants from the Taskforce about the likely failure rate (of one per cent) was not clearly based on analysis of the results of completed reviews. For example, by August 2012 the error rate being experienced in Tier One reviews was averaging around 50 per cent (based on the proportion of projects found to contain errors—at this time there was little or no quantification of the dollar value of the errors being detected). This trend has continued (see Figure 3.4). Accordingly, the Taskforce's advice to the consultants that the expected error rate should be reduced from 10 per cent to one per cent is not supported by the results of the completed reviews.

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98 Accordingly, the consultants also designed 'a top up sampling methodology to augment the current methodology and partially address the sampling shortfall in the remaining time'. This included the random selection of projects with a submitted value between \$25 million and \$55.4 million.

99 In this situation an increase in the confidence interval is an undesirable outcome rather than a good result.



**Figure 3.4: Percentage of initial Tier One reviews awarded a ‘Pass’**

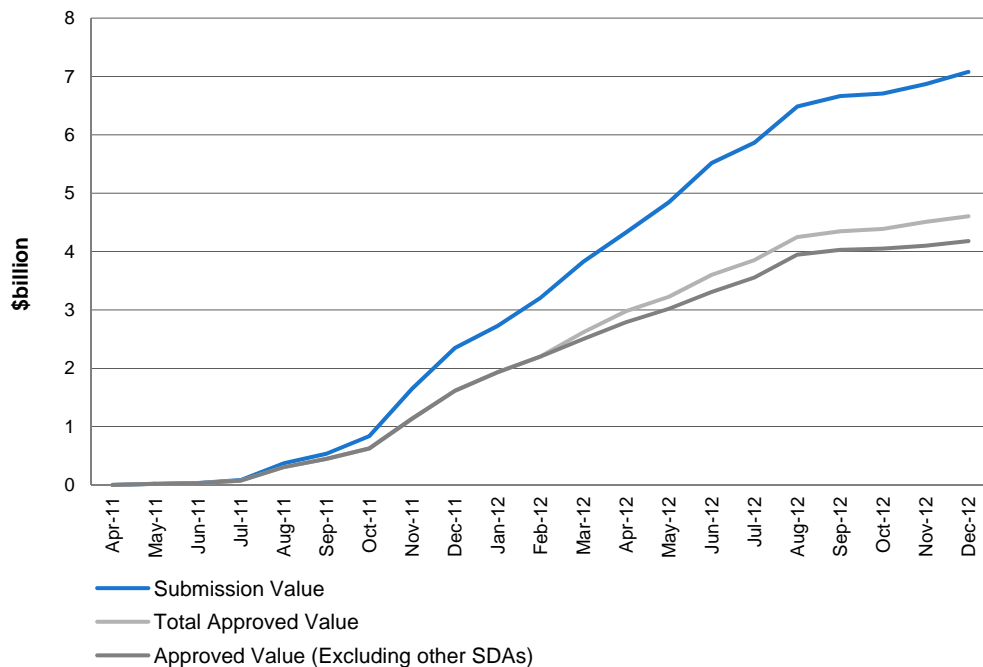
Note: This analysis excludes results of subsequent reviews (such as Tier Two reviews and revised Tier One reviews). The period from late 2012 to March 2013 is not comparable to the preceding period as the Taskforce was directed on 18 September 2012 to not submit Tier One reports to the Inspectorate 'until a value for money finding can be made'.

Source: ANAO analysis of Taskforce data.

**3.47** The actuarial consultants' report also contained an error in the assumptions underpinning the advice that was not corrected by the Taskforce. Although the Taskforce was aware that project approvals had tapered off by October 2012, the consultants assumed that projects would continue to be approved at the same rate during the December 2012 and March 2013 quarters as had occurred during the previous six months '...until the available budget of \$6.535 billion is accounted for'.<sup>100</sup> This was notwithstanding that QRA was reporting in November 2012 that there was only \$80.4 million in outstanding submissions. Further, the approved value of all projects as at 31 December 2012 was only \$4.6 billion, including some \$0.5 billion for expenditures by SDAs other than DTMR excluded from review by the Taskforce (see Figure 3.5). The tapering off in project approvals is illustrated in Figure 3.6.

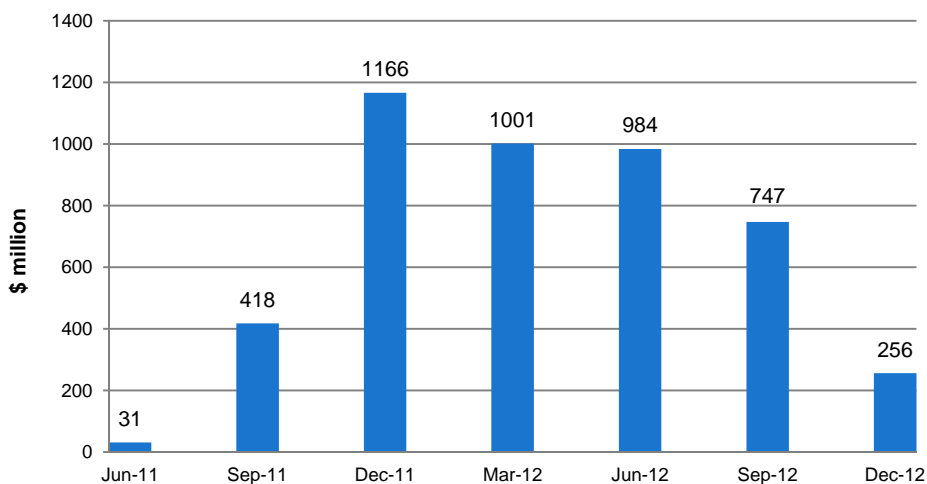
<sup>100</sup> In this regard the consultants noted that 'Any change in the distribution of incoming projects over the remaining period will potentially result in differences between the population and sample distribution'.

**Figure 3.5: Cumulative value of submitted and approved projects as at 31 December 2012**



Source: ANAO analysis of Taskforce data (QRA Approvals to 31 December 2012).

**Figure 3.6: Value of projects approvals by quarter**



Source: ANAO analysis of Taskforce information.

**3.48** A subsequent analysis was undertaken by the consultants in June 2013 that ‘assessed the impact of a further refinement to the sampling methodology requested by the Taskforce’. In the draft report, the confidence interval was revised to + or – 5.5 per cent, assuming a 10 per cent error rate. However, the offset as a result of the value for money failure rate experienced remained unchanged at + or – 1.4 per cent, based on unchanged advice from the Taskforce that the likely failure rate was one per cent (see paragraphs 3.45 to 3.46). Notwithstanding, Regional Australia advised the ANAO in August 2013 that four of 58 projects reviewed ‘would have been found not to represent value for money if not for the intervention of the Taskforce. This equates to approximately seven per cent.’

**3.49** The draft report also recommended that the Taskforce:

- continue the current process of sampling projects using the CMA methodology and directly sampling projects with a submitted value greater than \$55.4 million;
- directly sample DTMR projects with a submitted value in the range of \$20 million to \$55.4 million;
- randomly sample five additional projects with a submitted value between \$25 million and \$55.4 million; and
- randomly sample additional projects from all remaining projects until a total of 129 projects have been selected.

## Planned review timetable

**3.50** In mid-2011, based on the requirement to complete 129 VfM reviews under the CMA sampling methodology over the (then) approved period of operation of the Inspectorate, the forward work plan prepared by the Taskforce and subsequently endorsed by the Inspectorate in August 2011 was to complete, (after initial start-up), an average of about 25 reviews per quarter (see Table 3.3).

**Table 3.3: Revised forward work program approved by Inspectorate on 30 August 2011<sup>101</sup>**

	Jul– Sep 2011	Oct– Dec 2011	Jan– Mar 2012	Apr– Jun 2012	Jul– Sep 2012	Oct– Dec 2012	Total
Planned cumulative project spend covered (\$ million)	251	1130	2051	3265	4479	5400	<b>5400<sup>1</sup></b>
Actual (\$ million)	126	1549	2490	3266	3598	3931	<b>3931</b>
Planned total projects to be selected for Tier One reviews	6	21	22	29	29	22	<b>129</b>
Actual	3	22	25	8	15	5	<b>78<sup>2</sup></b>
Projects anticipated to progress to Tier Two reviews <sup>3</sup>	3	6	5	8	10	7	<b>39</b>
Actual	-	-	5	2	1	2	<b>10</b>
Projects anticipated to progress to Tier Three reviews <sup>4</sup>	1	5	3	3	4	3	<b>19</b>
Actual	-	-	-	-	-	-	<b>-</b>

Notes:

- 1 This total was revised to \$6.645 billion in November 2011. However, the total number of projects to be included in the CMA sample remained unchanged (that is, 129 projects). This was to be achieved by increasing the sampling interval from \$41.86 million to \$55.40 million, for projects selected from February 2012 onwards (see paragraph 3.39).
- 2 One project covered two sampling intervals.
- 3 The Taskforce assumed that 30 per cent of projects would progress from Tier One to Tier Two reviews (this did not occur).
- 4 The Taskforce assumed that 50 per cent of the projects that undertake Tier Two reviews would progress to Tier Three reviews (that is, 15 per cent of all projects would undertake a Tier Three review—this did not occur).

Source: Revised forward work program approved by the Inspectorate on 30 August 2011 and ANAO analysis of Taskforce records.

<sup>101</sup> An initial work program to review 70 projects was proposed by the Taskforce in July 2011 (based on an assumed error rate of five per cent). However, based on the actuarial consultants' advice, the Inspectorate decided that 129 projects should be reviewed (assuming an error rate of 10 per cent) and the work plan was revised in August 2011.

**3.51** On 26 July 2011, the Inspectorate had also instructed the Taskforce to have at least one DTMR project proceed to Tier Three within the first six months of the proposed work program (that is, by January 2012). However, this did not occur.<sup>102</sup>

**3.52** The work plan approved in August 2011 has not subsequently been revised and resubmitted to the Inspectorate for endorsement, notwithstanding that it was evident throughout 2012 that it would not be achieved. In this regard:

- on 4 April 2013, a Taskforce staff meeting noted that 55<sup>103</sup> VfM assessments had been completed, whereas (according to the meeting notes) reviews of 93 projects were required to be completed by then in order to be on track for completing 129 reviews by June 2013<sup>104</sup>; and
- at its 27 February 2013 meeting, following discussions about the progress of project assessments, the Inspectorate directed the Taskforce to ‘develop a broad plan going forward in light of the extension of the Inspectorate and its additional responsibilities’. This did not occur by the time of the next meeting on 4 April 2013, at which the Inspectorate was advised that:

At the next Inspectorate meeting [scheduled for 17 May 2013], the Taskforce will present a draft forward work plan for the Inspectorate in light of the extension of the Inspectorate and its additional responsibilities. This will include consideration of the role of the Inspectorate, a work plan for 2011–12 and 2012–13 events and frequency of meetings and site visits.

**3.53** However, there was no mention of a revised work plan or timetable in relation to finalising the suite of reviews of projects arising from the 2011 disaster events. In August 2013, Regional Australia advised the ANAO that the intention is to complete assessments for the 2010–11 events by the next

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<sup>102</sup> The first Tier Two reviews to be completed were reported to the Inspectorate in May 2012. No Tier Three reviews have been completed. (However, in February 2013 the Inspectorate initiated Tier Three reviews on two projects).

<sup>103</sup> This appears to be a typographical error, as the ANAO understands that only 50 reviews were ‘completed’ as at the Inspectorate meeting held on 4 April 2013.

<sup>104</sup> This advice indicates there was some confusion regarding both the timetable approved by the Inspectorate and the number of reviews to be completed within and outside the CMA sample. As outlined in Figure 3.1, the Taskforce has directly selected 18 projects for review, in addition to the 129 projects that were to be included in the CMA sample and completed by December 2012. As at March 2013, no reviews of directly selected projects had been completed by the Taskforce and endorsed by the Inspectorate.

Inspectorate report to the Prime Minister (due in October 2013), but this amended timeframe will remain challenging for the Taskforce to meet.

**3.54** In relation to the progress being made in completing the VfM review work program, the Inspectorate's fifth report to the Prime Minister in October 2012 stated that:

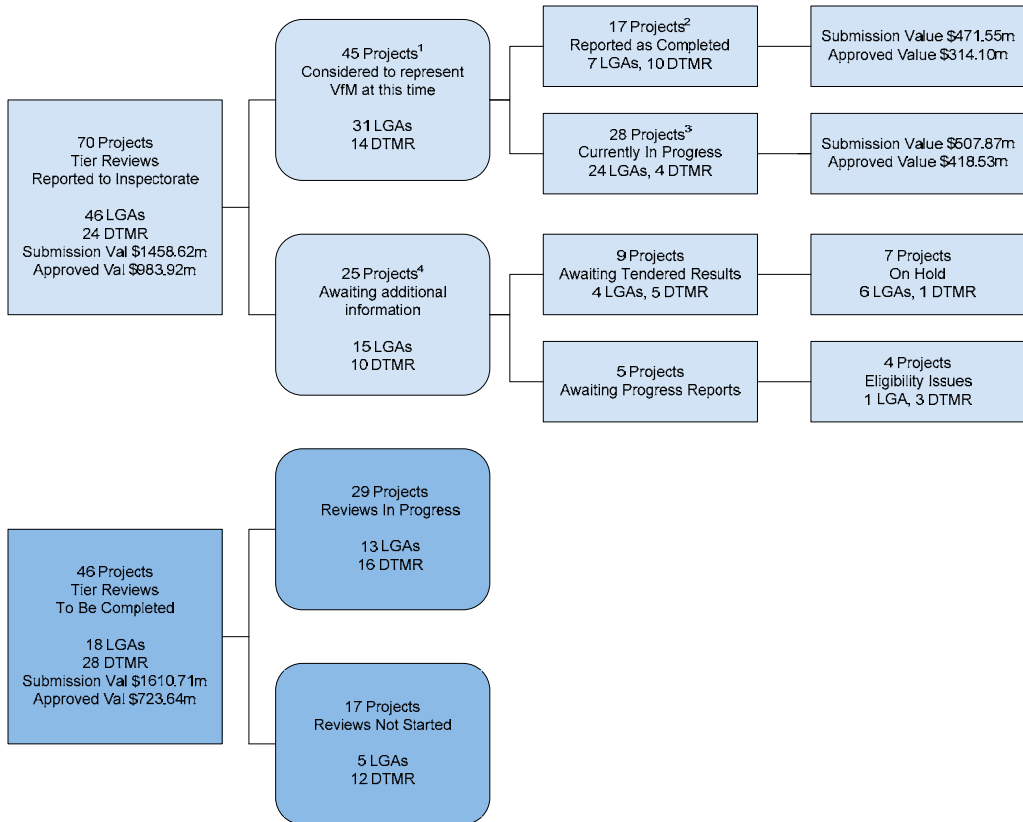
The Inspectorate is concerned that the progress of value-for-money assessments is not as advanced as anticipated, given that 20 months has elapsed since the natural disaster events. The combination of the Queensland Reconstruction Authority's lengthy approval process and the sometimes considerable timeframes involved in receiving the further information required, has significantly impacted on the Inspectorate's ability to complete timely value-for-money assessments. The Taskforce continues to work with the Authority to identify how these processes might be accelerated.

**3.55** There is evidence of delays on the part of QRA as reported by the Inspectorate. However, a further contributing factor has been that the proportion of Taskforce resources dedicated to conducting project reviews has been less than that required to meet the expected timelines. The Taskforce has periodically sought increases in the allocation to the Project Monitoring and Reporting team responsible for the conduct of VfM reviews, with generally limited success. In August 2013, Regional Australia advised the ANAO that, as more information is provided by QRA, further resources will be brought to bear on conducting value for money reviews.

## Time taken to undertake project reviews

3.56 The review status of the 116 projects selected by the Taskforce is outlined in Figure 3.7.

**Figure 3.7: Status of Taskforce sample of 116 projects (as at March 2013)**



**Notes:**

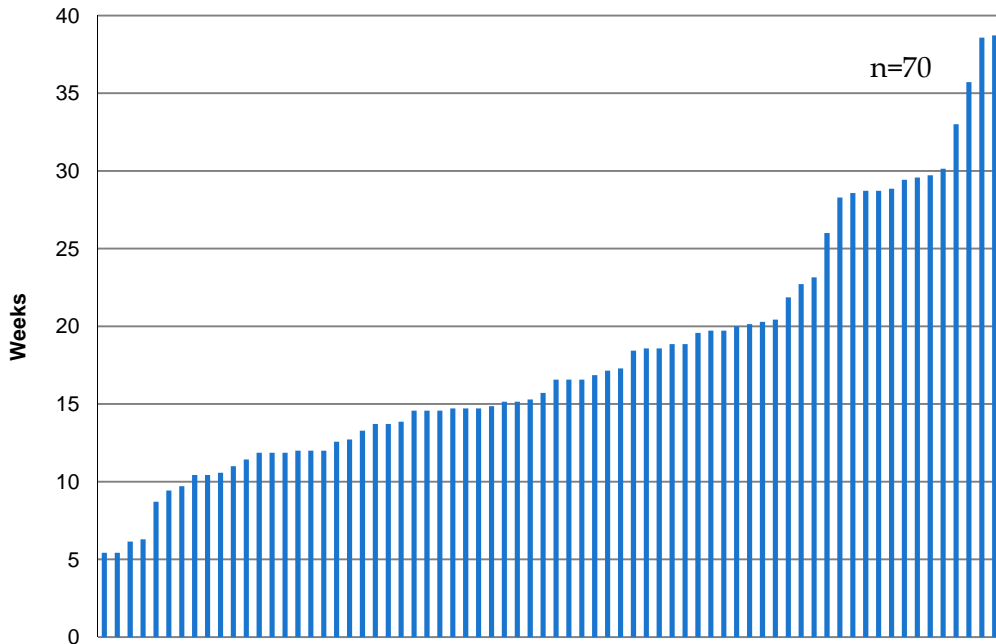
- 1 Of the 45 projects considered to represent value for money, 25 had one page summaries included in Inspectorate reports to the Prime Minister.
- 2 Of the 17 projects reported as completed, 13 had one page summaries reported.
- 3 Of the 28 projects currently in progress, 12 had one page summaries reported.
- 4 The Submission Value of these 25 projects was \$479.21 million and the Approved Value was \$251.29 million.

Source: ANAO analysis of Taskforce information.

## Time taken to complete Tier One reviews

3.57 On average, the 70 initial Tier One reviews undertaken by the Taskforce have taken 18 weeks. The durations have ranged from five weeks to 39 weeks, as illustrated in Figure 3.8.

**Figure 3.8: Duration of Tier One reviews completed**



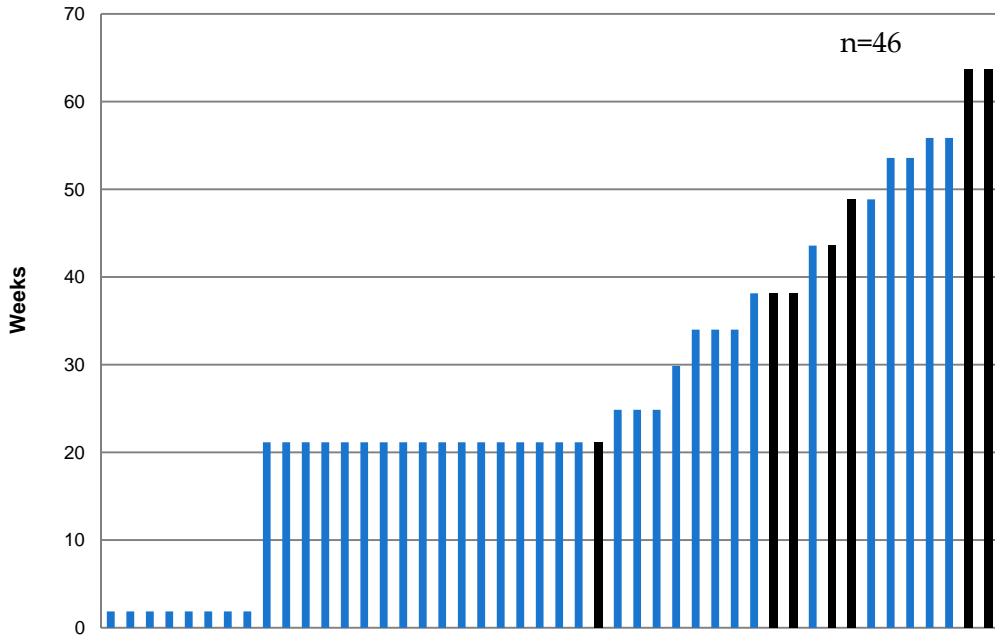
Note: Excludes times taken to complete subsequent reviews where an updated Tier One review or a Tier Two review has been undertaken for the project.

Source: ANAO analysis of Taskforce records.

3.58 The figures for the duration of completed reviews do not provide a full picture of the delays that have occurred. In this respect, the majority of the 46 reviews that had been selected and were yet to be completed by the Taskforce as at March 2013 (including seven projects with reviews 'on hold') had been on hand for periods ranging from 21 weeks to 64 weeks (see Figure 3.9). In addition, as noted at paragraph 3.9, in order to complete the CMA sample of 129 projects the Taskforce has yet to select a further 30 projects for review.



**Figure 3.9: Duration of Tier One reviews on hand (as at 26 March 2013)**



Note: Reviews on hold are shaded black.  
 Source: ANAO analysis of Taskforce records.

3.59 The rate of completion of initial Tier One reports each quarter has also generally been declining, as shown in Table 3.4.<sup>105</sup>

**Table 3.4: Initial Tier One reports finalised per quarter**

March 2012	June 2012	September 2012	December 2012	March 2013
23	17	14	10	11

Source: ANAO analysis of Taskforce records.

### Revised Tier One reviews

3.60 Eleven revised Tier One review reports were issued by the Taskforce. Seven were initiated following the receipt of project progress reports and four were as a result of further information provided by QRA after the initial

<sup>105</sup> Included in the figure for the March 2013 quarter are five Tier One projects submitted by the Taskforce to the 4 April 2013 Inspectorate meeting for endorsement (after the ANAO’s end-March 2013 cut off of 70 tier reviewed projects for detailed audit analysis, but included here for purposes of determining the number of Tier One reports completed by the Taskforce during the March 2013 quarter).

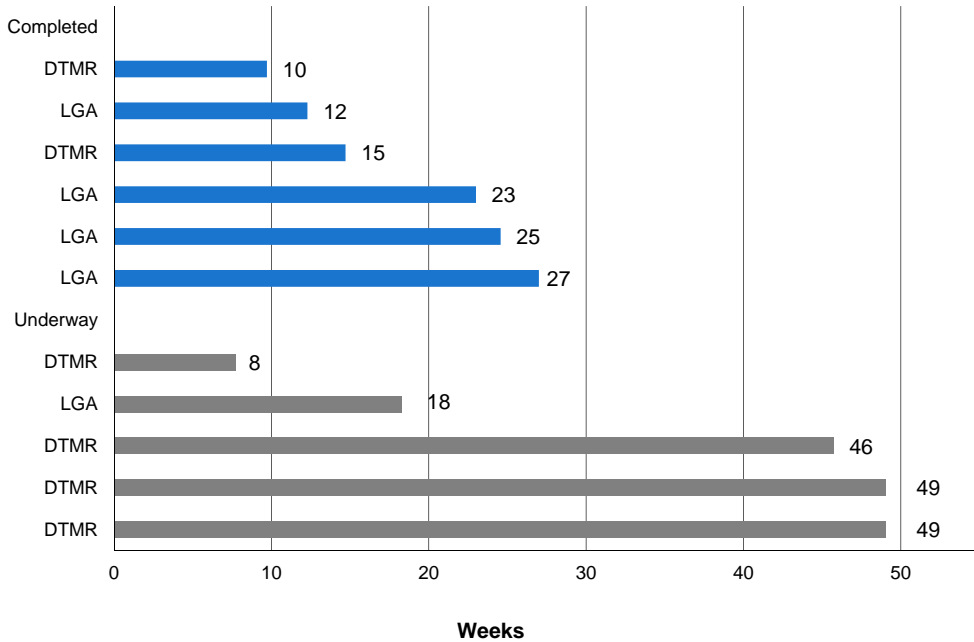
Tier One reports were completed. The revised reports were issued between 10 and 43 weeks (average 27 weeks) after the initial Tier One reports had been completed.

### **Time taken to complete Tier Two reviews**

**3.61** Six Tier Two reviews had been completed and another five reviews were underway as at March 2013. The completed reviews took between 10 weeks and 27 weeks. At this time the unfinalised reviews had been underway for periods ranging from eight weeks to 49 weeks (see Figure 3.10). In relation to the Tier Two reviews then underway:

- for two of the projects, expert's reports were provided in June 2012 and July 2012 respectively (some nine months and eight months previously). These are DTMR projects for works undertaken on the Landsborough Highway between Barcaldine and Longreach within the Longreach LGA, with a submitted value of \$107.24 million, and for reconstruction of 1.1 kilometres of the Cunningham Highway between the towns of Warrill Hill and Willowbank within the Scenic Rim Regional Council area, with a submitted value of 5.77 million; and
- the Taskforce has been conducting 'internal' Tier Two reviews for two projects (that is, an expert was not engaged to conduct the reviews):
  - the first of these is in relation to a DTMR project for the restoration of eight sealed and unsealed roads within the Barcaldine and Blackall-Tambo LGAs in the Central West Queensland region, with a submission value of \$11.03 million. The Tier Two review had been underway since May 2012; and
  - the progression to a Tier Two review of a Tablelands Regional Council project was agreed by the Inspectorate in November 2012. The project involves the reconstruction of 28 sealed and unsealed roads in the Dimbulah area within the Far North Queensland region, with a submission value of \$10.77 million. The works include reconstruction of saturated pavement, bitumen spray sealing, minor culvert cleaning, re-gravelling and grading.

**Figure 3.10: Duration of Tier Two reviews (completed and underway as at March 2013)**



Source: ANAO analysis of Taskforce data.

### Extrapolation of the Taskforce project review sample results

**3.62** The Inspectorate’s key role is to ensure value for money for the Australian Government’s funding of reconstruction projects. It was recognised from early on that the anticipated number of reconstruction projects, in combination with the Inspectorate’s limited resources, meant that it could not review every reconstruction project. It was therefore decided that the Inspectorate (assisted by the Taskforce) would review a sample of projects.<sup>106</sup> As noted in paragraph 3.4, the primary reason for selecting a sample of projects using the CMA methodology recommended by actuarial consultants was to provide a high level of confidence that the sample results can be extrapolated across all reconstruction projects in Queensland. Specifically, this means that if there was found to be a failure rate of 10 per cent in the

106 Sampling is the selection of a subset of items, from a population, to draw conclusions about characteristics of the whole population.

129 sampled project (for example, 13 projects that are found to not represent value for money), it could reasonably be concluded:

- with 95 per cent confidence that the sample of projects accurately represents all the projects in the population (meaning that the Inspectorate could be confident that there would be 200 projects in a population of 2000<sup>107</sup> that would also be found to not represent value for money); and
- a five per cent error in the extent to which the pass/fail rate in the sample might also be the pass/fail rate of the population of all reconstruction projects (meaning that if 10 per cent of projects in the sample are found to not represent value for money, there would be between five and 15 per cent of projects in the population that do not represent value for money).

**3.63** As outlined in paragraphs 3.50 to 3.55, the Inspectorate is only part-way through its work program of VfM reviews. The results of the reviews completed to date have not been collated by the Taskforce. In this respect the Taskforce advised the ANAO in February 2013 that it intends to draw together the findings of the reviews and any lessons learned for inclusion in the Inspectorate's final report (which is now not expected until mid-2015). It further advised the ANAO that it expects to extrapolate the findings from the sample of projects reviewed to the entire population of Queensland recovery and reconstruction projects arising from the 2010–11 disaster events, in order to estimate the financial benefit that is expected to result from the VfM reviews. The Taskforce anticipates this analysis will be included in future reports to the Prime Minister as more details of actual costs become available for the projects being reviewed.

**3.64** The Inspectorate's fifth report (issued at the end of October 2012) stated that 'No project has failed the three-tiered value for money assessment to date'. Nevertheless, the Inspectorate's most recent reports have highlighted a number of issues that have come to attention as a result of the VfM reviews conducted on its behalf by the Taskforce. These are discussed further in the following three chapters.

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107 At the time the sample size was determined the total number of projects that would eventually be submitted and approved was unknown, but was estimated to be between 1500 and 2000. The CMA sample of 129 projects was based on the assumption that there would be a population of 2000 projects.

## Conclusion

**3.65** Given the scale of the reconstruction task, the Inspectorate decided to review a sample of projects rather than examine all projects. The planned Cumulative Monetary Amount (CMA) sampling approach was robust, in that it was designed to provide a 95 per cent level of confidence and favour the selection of higher value projects over lower value projects.

**3.66** The value of the 116 projects selected for review by March 2013 represented some 39 per cent of the total value of projects approved as at 1 March 2013. However, the sample is not fully representative of the population of reconstruction projects. In particular:

- the sampling approach has reduced the level of oversight of state-delivered projects, and these projects are under-represented in the sample;
- the Taskforce decided to exclude all State Departments and Agencies (SDAs) except the Department of Transport and Main Roads from being sampled;
- the Taskforce has not examined any Counter Disaster Operations (CDO) projects and, after initially examining a small number of restoration projects described by the state as 'Emergent Works', has ceased examining any more of these projects<sup>108</sup>; and
- the Taskforce usually reviews only a proportion of each project notwithstanding that it was intended that projects would be reviewed in their entirety.

**3.67** The sample size of 129 projects was based on an assumption that there would be 2000 projects in the population subject to the Inspectorate's remit, with all 129 completed by 31 December 2012. However, the Taskforce had selected only 81 projects as at March 2013 (a shortfall of 48 projects or some 37 per cent of the intended sample). A key contributing factor to this situation

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108 This was notwithstanding that it was recognised that some major reconstruction activities had been incorrectly categorised as Emergent Works, there was evidence of issues with the NDRRA eligibility of expenditure included in this category, and the significant funds involved - some \$595 million in expenditure under this category has been approved for delivery by the state.

were various decisions taken by the Taskforce as to how to go about sampling projects from the data provided by QRA.<sup>109</sup>

**3.68** There has also been slow progress in the conduct of reviews with only 45 reviews completed by March 2013. The majority of these are provisional assessments based on information (including estimates) made available to the Taskforce at a point in time. Further assessment is required when tender results, progress reports and completion reports become available. In August 2013, Regional Australia advised the ANAO that the intention is to complete assessments for the 2010–11 events by the next Inspectorate report to the Prime Minister (due in October 2013), but this amended timeframe will remain challenging for the Taskforce to meet.

**3.69** In the above circumstances, it is not yet possible to extrapolate the results of the Taskforce’s project reviews to identify with the planned level of confidence the extent to which NDRRA expenditure in Queensland is eligible and represents value for money.

## Recommendation No.2

**3.70** In order to maximise the envisaged benefits from the Inspectorate’s program of value for money reviews, the ANAO recommends that the National Disaster Recovery Taskforce improve the application of the sampling approach to make it more representative of the population of projects within the Inspectorate’s remit.

### DIRD’s response:

**3.71** *Agreed. The Taskforce has continued to refine the sampling methodology as more is learned about the reconstruction programme and to ensure that the selected sample is representative of the reconstruction programme as a whole. In particular, the Taskforce has adjusted the methodology to ensure enough state projects are selected and*

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109 One particularly significant factor was that shortly after it commenced the process of selecting projects for review, the Taskforce switched from using the submission value of approved projects to using the approved value. In doing so, however, the Taskforce did not adjust the ‘running total’ for the CMA sample where QRA subsequently withdrew project approval, or reduced or increased the previously advised approved amount of a project, including for Phase 2 approvals. This meant that only 30 per cent of the value of projects subject to phased approvals was included in the ‘running total’. It also meant that potentially up to \$2.475 billion would be excluded from sampling consideration (or up to \$3.85 billion based on the latest DTMR total estimate of \$5.5 billion). In this respect, it should have been evident from the outset that the number of projects available to be selected under the CMA sample would fall well short of the 129 required by the Inspectorate if the Taskforce adopted a practice of only including the Phase 1 approved values of projects.

*has directly selected projects to ensure appropriate representation. Independent consultants have recently confirmed that the current set of sampled and directly selected projects will allow assurance over the 2010–11 programme.*

**3.72** *The experience gained by the Taskforce in sampling the 2010–11 programme, and the observations made by the ANAO in its audits, has already been applied to the sampling methodology for the 2011–12 and 2012–13 programmes.*

**Inspectorate’s response:**

**3.73** *Agreed.*

**AGD’s response:**

**3.74** *Noted.*

**Finance’s response:**

**3.75** *Agreed.*

## 4. Cost of Reconstruction Work

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*This chapter examines the costs of the reconstruction work in the projects reviewed by the Taskforce.*

### Introduction

**4.1** As would be expected, cost is the largest single factor taken into consideration under the Taskforce's VfM assessment methodology; accounting for up to 10 points, or 50 per cent of the overall score that may be awarded to a project. As outlined in Chapter 2, the Taskforce assesses costs in two ways, depending on the information available at the time of its review. The planned cost is examined in detail (including by comparison to benchmark costs, where available); and is also assessed against the actual total outturn cost<sup>110</sup> when the project is finalised. In practice, intermediate cost assessments are also undertaken by the Taskforce when tender results and/or progress reports become available for the project.

**4.2** For the 70 initial Tier One reviews that had been completed to the end of March 2013, 66 were assessed in relation to the cost criterion (the remaining four projects related to NDRRA Category D funding). Around 62 per cent of projects (almost two out of every three projects) were awarded a cost score of between six and eight points during their initial Tier One reviews. No projects were awarded a score of more than eight points or less than two points (see Figure 4.1). The average score awarded for the cost criterion during initial Tier One reviews was 5.9 out of 10 points.

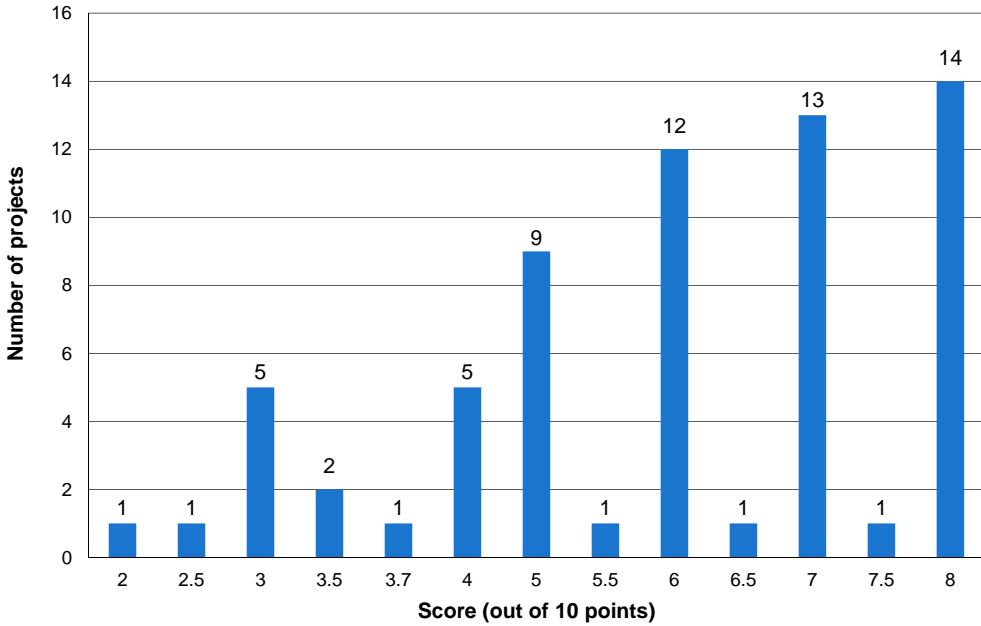
**4.3** Ten projects subsequently had revised cost scores awarded as a result of revised Tier One reports (seven were increased and three were decreased). Five projects also had revised cost scores as a result of undergoing Tier Two reviews (all had increased cost scores, including two projects that were awarded nine out of 10 points). The overall average score for the cost criterion (taking into account the amended scores resulting from Tier Two reviews and revised Tier One reports) was 6.5 points.

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110 Defined as the total NDRRA eligible cost of delivering the project, including design, construction and management costs.



**Figure 4.1: Tier One project reviews: scores awarded against the cost criterion**



Note: All scores shown in the Figure are for initial Tier One reviews.

Source: ANAO analysis of Taskforce information.

**4.4** The QRA submission proformas are designed to capture details of the direct and indirect costs of projects. Delivery agents are requested to provide (as part of the minimum information required) a full cost breakdown, including unit rates (such as dollars per square metre or dollars per hour) for all work items.<sup>111</sup> QRA has also specified that the cost breakdown show all indirect expenditure required to manage and deliver the project, such as project/construction management costs; design costs; and other administrative

111 In May 2011, the Inspectorate was advised by consultants that it was ‘critical that a defined master work breakdown structure is agreed and cascades down to relevant levels and allows requisite reporting for all stakeholders and VfM purposes’. A ‘defined and agreed master work breakdown structure’ was also one of the key risk treatment strategies identified by the consultants. However, QRA has left it to delivery agents to determine what work items are to be reported (notwithstanding that QRA was also advised by consultants that it should specify the items that it requires in a full work breakdown structure in order to facilitate benchmarking). In this respect, QRA considered that mandating the use of a standard work breakdown structure was complicated and would be unlikely to succeed due to the extensive variance in proposed solutions and ability of each applicant to apply a consistent standard for the work breakdown structure and units of measure. In August 2013, QRA advised the ANAO that it ‘developed its benchmarking framework to enable comparison of delivery agent metrics in the absence of a standard work breakdown structure.’

costs. Any day labour cost<sup>112</sup> component of the works must also be shown as a separate cost item.

**4.5** Against this background, the ANAO examined the Taskforce's review work in relation to assessing project costs. The key issues emerging relate to:

- indirect cost;
- application of the NDRRA defined term 'essential public assets';
- work to mitigate the impact of future natural disasters or otherwise improve the asset (betterment);
- claims for certain types of ineligible expenditures; and
- benchmarking of costs.

### **Indirect costs (including project management fees)**

**4.6** A key focus of the Inspectorate in undertaking its program of VfM project reviews is on the indirect costs attached to reconstruction projects. The Inspectorate indicated to QRA early on that it would be carefully examining the level of overhead costs (particularly project management costs) to ensure that they are reasonable. As outlined by the Inspectorate in its third report, the aim was to provide assurance 'that the maximum amount of dollars provided by the Australian and state governments be spent on the actual reconstruction and recovery work, rather than on indirect costs, such as project management fees'.

**4.7** The Inspectorate also reported that members had agreed that there should be a limit to what is considered reasonable for the indirect costs of reconstruction projects, whether this is set as a percentage or as a total dollar amount. To this end, work commenced on developing a framework to determine what is reasonable across the entire reconstruction program, taking into consideration the variety in type, size and complexity of reconstruction projects.

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112 One of the underlying principles of NDRRA is that lower levels of government should exhaust all resources prior to accessing assistance from higher levels. Delivery agents are expected to entirely expend their internal labour (also referred to as 'day labour') on disaster recovery before engaging contractors and seeking reimbursement for additional costs. (See further at paragraphs 4.52 to 4.56).

## **DTMR/RoadTek alliance fee**

**4.8** Under section 5.2.5(a) of the NDRRA determination, eligible 'state expenditure' does not include 'amounts that the state has recovered or may recover from any source'.

**4.9** In August and September 2012, the ANAO raised with the Taskforce that NDRRA submissions were being approved that included a 'profit' component as part of the indirect costs of the project. The inclusion of a profit margin was particularly evident in projects being delivered by RoadTek.<sup>113</sup> To that time, this issue was not being raised in the Taskforce's tier reviews (around 54 reviews had been completed by September 2012, including 12 DTMR projects sole-sourced or co-sourced to RoadTek).

**4.10** In October 2012, the Taskforce requested further information from QRA in relation to what was described as an 'alliance fee' of \$3.182 million (12.9 per cent of direct project costs) included in a DTMR project approved by QRA for \$33.9 million in relation to reconstruction works undertaken between Dalby and Miles along the Warrego Highway. The Taskforce review concluded that 'the project cannot be found likely to represent value for money to the Commonwealth at this stage due to the inclusion of a \$3.1 million profit margin for RoadTek, a commercialised business unit of DTMR, directly sourced for this project.' QRA was requested to 'justify what RoadTek's alliance fee ... represents when project overheads appear to have already been taken into account' (the project management costs were stated as \$5.14 million). QRA advised the Taskforce to the effect that the alliance fee was the profit margin charged by RoadTek and that all NDRRA projects undertaken by RoadTek included a profit margin.

**4.11** In December 2012, the Chair of the Inspectorate wrote to QRA advising that:

... the Inspectorate has noted the application of an alliance fee in projects delivered by RoadTek. As you know, the Inspectorate has a broader concern about the level of indirect costs associated with the reconstruction program. I understand that you are sending further information on this fee to the Taskforce, including its basis, rate and overall quantum, as well as the

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113 As a government-owned organisation, any profits made by RoadTek are paid to the Queensland Government as dividends.

quantum for direct sourced projects. The Taskforce will brief us further on this matter at the next Inspectorate meeting on 31 January 2013.

**4.12** However, the information requested by the Inspectorate was not provided by QRA. Rather, the QRA reply of 30 January 2013 stated that: 'In relation to the ... alliance fee in projects delivered by RoadTek, the Taskforce has previously queried this fee which was included in (another DTMR) submission. The Authority reviewed this matter and responded to the Taskforce noting that (DTMR) used this terminology incorrectly.'

**4.13** After the Taskforce consulted with the Attorney-General's Department (AGD), then Department of Infrastructure and Transport (DIT) and then Department of Finance and Deregulation (Finance), in March 2013 the Inspectorate wrote to QRA, the Queensland Auditor-General and AGD, advising that the RoadTek profit margin 'does not represent a state expenditure for the purposes' of section 5.2 of the NDRRA determination. Taskforce estimates included in the advice to EMA to provide some context to the size of the fee suggested that the cost to the Australian Government of funding the profit for RoadTek (and ultimately the Queensland Government) would be approximately \$93 million.<sup>114</sup> The advice noted that it was also possible that costs to the Australian Government will be higher, as this figure does not include projects where RoadTek has won or may win reconstruction tenders through a selection process.

**4.14** In July 2013, EMA advised the ANAO that:

EMA is currently assessing audited claims for NDRRA costs from the Queensland Government for the periods 2009–10, 2010–11 and 2011–12. The NDRRA claim form does not provide for the itemisation of project-level costs, so there is no visibility of whether or not RoadTek profit margins are a component of the costs being claimed. Among other matters for clarification, EMA is writing to Queensland seeking confirmation that RoadTek profits margins for pre-2010–11 summer floods and Tropical Cyclone Yasi have not been included in these claims.

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114 Based on: DTMR's \$5.5 billion reconstruction program for 2010–11 events; 25 per cent of works expected to be sole-sourced to RoadTek; and the Commonwealth's contribution of 75 per cent of the amount claimed under NDRRA.

**4.15** However, this advice did not address the extent to which such profit margins were included in claims previously assessed and approved for payment by EMA.

**4.16** A related issue is the common practice of RoadTek being sole-sourced to undertake reconstruction work.<sup>115</sup> In this respect, in November 2012, QRA had advised the Inspectorate that DTMR had been requested to prepare a paper on the use of RoadTek as a supplier, specifically in relation to sole-sourced contracts. However, as at August 2013 (some nine months later), this paper had not been provided to the Taskforce. Further, the Taskforce had not followed-up this matter with QRA.

### **Overhead rates**

**4.17** It was intended that the results of QRA benchmarking of indirect project costs would be collated with information gathered from other sources to determine a reasonable level for overheads.<sup>116</sup> Further, the Inspectorate noted that it would be in a better position to assess the value for money of the rate of overheads costs being charged as the number of completed projects increased and information became available on actual indirect costs (as opposed to estimates). However, five 'actual' cost results were included in QRA's benchmarking report dated 1 March 2013 in relation to LGA project management and supervision costs. These ranged from about three per cent up to about 16 per cent. The low number of actual costs included in QRA benchmarking is disproportionate to the number of projects (over 1000) that have theoretically been completed more than two years after the disaster events.<sup>117</sup>

**4.18** In August 2011, QRA provided the Taskforce with a consultant's report on overhead rates. The report was commissioned by QRA and sought to provide an 'opinion on the reasonableness or otherwise' of the rate of

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115 Within the 70 reviews completed by the Taskforce, RoadTek was identified as the contractor in 15 of the 24 completed reviews of DTMR projects, and in one DTMR project for which the Tier One review had not been completed.

116 On 24 January 2012, the then Head of the Taskforce wrote to QRA requesting information identifying the level of project overheads costs for all reconstruction projects approved by the Authority to that date, including the: delivery agent; project number; approved project cost; region; and indirect project costs. However, this information was not provided by QRA.

117 As at 1 March 2013, QRA was reporting a total of 494 projects in respect of the events covered by the 2011 NPA were underway (382 LGA projects and 112 DTMR projects). This indicates that 1059 projects within the total of 1553 approved projects have been completed.

20 per cent being charged by DTMR for NDRRA reconstruction projects.<sup>118</sup> In December 2011, the Inspectorate engaged a consultant to independently evaluate DTMR's project management costs based on the report provided by QRA. This was the same consultant that had been engaged to review the Inspectorate's three-tiered VfM review process (see paragraph 2.4).

**4.19** In December 2011, the consultant issued a draft report<sup>119</sup>, in which he indicated that the reason for it being only a draft was 'Given the short time available for (its) preparation'. Based on his review of 'other large projects', he concluded that the budgeted mark-up being applied by DTMR was 'greater than might be justified' and that 'a reasonable mark-up ... is 18.5 per cent'. It is unclear whether this advice was ever conveyed to QRA or DTMR by the Inspectorate or the Taskforce<sup>120</sup>, but in any event the mark-up included in DTMR submissions has remained unchanged at 20 per cent across the period that submissions have been received.

**4.20** The estimated cost of works being undertaken by DTMR is significant, with the most recent estimated being \$5.5 billion. In this context, overheads being applied at a rate of 20 per cent rather than the 18.5 per cent identified by the Inspectorate's consultant would result in significant additional costs (\$82.5 million) being borne by the Australian Government. In August 2013, QRA advised the ANAO that 'the 20 per cent provisional sum figure relates to estimates and not final costs. Conclusions by the Taskforce based on out of sequence reviews of estimates which will be revised to final actual costs before close out are of limited or no value'. However, the ANAO noted that QRA had approved and paid CDO and Emergent Works claims that included markups in excess of 18.5 per cent. These were percentage-based 'charges', rather than evidence-based actual costs incurred. Further, Emergent Works projects that

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118 Evans and Peck, *QRA – Review of Budgeted Allowance for PMO Costs*, 22 August 2011. The report concluded that 'at this point in time, based on the information presented and taking into account a number of reference benchmarks, the proposed allowance of 20 per cent is within the range Evans and Peck would expect.'

119 The consultant's report has not been finalised and has not been published.

120 On 3 January 2012, the then Head of the Taskforce wrote to QRA about the outcomes of the Inspectorate's 21 December 2011 meeting. This included that research is being undertaken into the percentage amount that will be considered reasonable in relation to project management and overhead costs. QRA was advised that this amount 'will be less than 20 per cent' and that 'the Inspectorate will discuss this with you further at the conclusion of its research'. In mid-October 2013, QRA advised the ANAO that it had not been advised of the figure of 18.5 per cent.

included these 'charges' were awarded a 'pass' during the value for money assessments undertaken by the Taskforce and endorsed by the Inspectorate.

**4.21** The consultant was aware of the NDRRA definition of eligible costs and quoted it in his report. However, a critical (and incorrect) assumption underpinning his analysis was that 'all personnel and other costs involved in the (DTMR project offices) are eligible costs' (see further at paragraphs 4.60 to 4.65). Most importantly, the consultant stated that:

It is my understanding that whatever initial ... mark-up is agreed for budgeting purposes, the actual overhead costs will be determined at the conclusion of each project, and these actual costs will apply.

**4.22** However, the Taskforce has recommended that projects be awarded a 'Pass' without considering (in completed projects) the actual costs incurred. In this respect, in late October 2012, QRA advised the Inspectorate that the Authority approves a recommended value for a submission based upon the costs estimates provided and that indirect costs are reimbursed after the actual cost data has been supplied and reviewed by the Authority. From the data held by the Taskforce, where actual cost data has been supplied, indirect costs charged were primarily formula-based (that is, percentage oncosts) and were not the 'actual' costs incurred in the project.

**4.23** Although 26 of the 70 tier review reports completed by the Taskforce (across LGAs and DTMR) have commented that the project examined has included high indirect costs, the Inspectorate has written to QRA in relation to clarifying these costs for only 14 projects.<sup>121</sup> Examples of projects where the Taskforce's concerns about potentially high indirect costs have not been raised formally with QRA include:

- an Emergent Works project submitted by DTMR involving the reconstruction of approximately 10 kilometres at various sites over a 60 kilometre section of the Leichhardt Highway between the towns of Miles and Goondiwindi within the Goondiwindi local government area in the Southern Queensland region, with a submission value and approved value of \$1.97 million. The project included DTMR program management costs of 20 per cent, which the Taskforce 'considered to be

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<sup>121</sup> In some cases the Taskforce Tier One reports have recorded an expectation that high indirect costs included in estimates would be reduced when tendered or actual costs become available.

high for a project with a low level of complexity' (involving rutting and loss of surface in the outer wheel path, which was restored with excavation, stabilisation and reinstatement of the seal at affected sites). (This project is also discussed at paragraph 3.25);

- a project submitted by the Lockyer Valley Regional Council for 34 activities involving the restoration of sealed and unsealed roads and culverts in the Gatton area in the South East Queensland region, with a submission value of \$4.86 million and approved value of \$4.13 million. QRA reduced the indirect costs included in the estimates for this project from 70 per cent to 49 per cent of direct costs. However, the Taskforce considered the indirect costs remained unreasonably high. The Tier One report completed by the Taskforce in August 2012 stated that this and other issues of concern in relation to the project (including road widening and pre-existing damage) were being managed at a program level. It further stated that a number of issues were likely to be resolved through the provision of a progress report<sup>122</sup>; and
- a project submitted by DTMR for restoration works on the Bruce Highway between Gin Gin and Miriam Vale in the Gladstone Regional Council LGA, within the Central Queensland region, with a submission value of \$60.91 million and approved value of \$20.06 million. The scope of the project was reduced between the time of the Phase 1 and Phase 2 submissions and now involves 12 sites over a distance of 48 kilometres (previously 19 sites over 85 kilometres). The reported damage includes extensive potholes, pavement failure, rutting, shoving, and longitudinal and crocodile cracking of the road surface, along with erosion of batters, silting of table drains, and damage to drainage structures. The Tier One report issued in March 2012 found that the total indirect costs were \$7.04 million, representing 35 per cent of the approved project value. It stated that 'There is significant concern regarding the indirect costs applied to the project, with both the contractor and DTMR applying project management fees' (10 per cent and 20 per cent

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122 A revised Tier One report was subsequently completed by the Taskforce in January 2013, based on an August 2012 progress report. At that time the reported actual expenditure was 49 per cent of the approved value and the reported program management costs were less than seven per cent of the approved total cost, indicating that the program management costs may total around 14 per cent of the total cost (in addition to any other indirect costs charged to the project).



respectively). It further stated that ‘This is a known ongoing issue with DTMR and the issue has been brought to the attention of QRA’.

**4.24** By way of comparison, on 6 March 2013, QRA was requested by the Inspectorate to provide an itemised breakdown of the indirect costs incurred for a project submitted by DTMR that was sole-sourced to RoadTek and undertaken from April to December 2011. The project was for the replacement of 3631 damaged road signs on state-controlled roads across the Cassowary Coast local government area within the Far North Queensland region, with a submission value of \$3.52 million and approved value (based on tendered costs) of \$3.35 million. The Inspectorate expressed its concern that a project of such low complexity—the removal and replacement of road signs—should warrant indirect costs making up 15.6 per cent of the project’s total costs.<sup>123</sup>

**4.25** In this project, as with other DTMR projects examined by the Taskforce, project management costs were charged at the flat rate of 20 per cent of the reported direct costs.<sup>124</sup> In February 2013, the Taskforce recommended that the project be awarded a ‘Pass’ but this was not accepted by the Inspectorate and a Tier Three review was initiated.<sup>125</sup>

**4.26** In January 2013, the Taskforce also reported to the Inspectorate that councils assisted by Local Government Infrastructure Services (LGIS)<sup>126</sup> also generally have higher indirect costs than those councils not assisted by LGIS. However, the Taskforce did not provide the Inspectorate with any supporting analysis (for example, quantifying the differences in indirect costs claimed by councils that have and have not received LGIS assistance) and no explanation was provided regarding why the indirect costs were higher. However, a letter

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123 The submission indicates there were other related DTMR projects for sign replacement (in the Cairns and Tablelands areas). These were not selected by the Taskforce for review.

124 The Taskforce also advised the Inspectorate that these were the ‘final project completion costs’ submitted by QRA. However, in October 2013, QRA advised the ANAO that the project ‘is yet to be closed out’.

125 There were another four projects where the Inspectorate disagreed with the Taskforce VfM finding and/or asked that a more robust assessment be undertaken before a decision could be made on the value for money of the projects.

126 LGIS is a business entity owned equally by the Local Government Association of Queensland, a not-for-profit, council owned organisation, and Queensland Treasury Corporation (QTC), a for-profit, state government entity. Its focus is on supporting local councils through developing and evaluating cost-efficient infrastructure solutions, concentrating on: water, waste, property, roads, environment and planning, disaster management and demand management. In the context of the Queensland disaster reconstruction program, LGIS has been engaged by 12 local councils for damage assessment, cost estimation, quality assurance of project submissions, procurement assistance, and project and program management.

from LGIS to QRA dated 3 February 2012 was included as an attachment, which indicated that submissions from LGIS client councils include an estimate of 10 per cent for 'program management' costs.<sup>127</sup> In August 2013, QRA advised the ANAO that:

LGIS adopted an approach of including a provisional sum for indirect costs. Again QRA did not accept this as a final cost and advised LGIS that actual costs would be required at close out of projects. While LGIS tabled a proposal for uniform indirect costs for its client councils, QRA did not agree to the proposal.

**4.27** In this regard, project documentation provided to the Taskforce indicates that QRA entered into an agreement with LGIS in June 2011, which provided for the following rates to be included in the estimates in NDRRA project submissions: contractor's overheads 20–25 per cent (applied to direct costs), contingency 15 per cent (applied to the sum of direct costs and overheads) and escalation eight per cent (applied to the sum of direct costs, overheads and contingencies). Further, the documentation states that 'the rates agreed in a meeting held on 10 June 2011' were 'subsequently advised in writing by the QRA on 16 June 2011'. However, this correspondence has not been requested by, nor provided to, the Taskforce, and the Inspectorate has not been informed about the existence or provisions of any such agreement. Overhead charges within the range of 20–25 per cent are well above benchmark rates that the Inspectorate itself has deemed to be 'reasonable'. Accordingly, as was done in relation to the RoadTek alliance fee, there would be benefits in the Taskforce investigating the LGIS agreement and seeking EMA's advice as appropriate on NDRRA eligibility.<sup>128</sup>

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127 The 10 per cent fee was stated as being intended to cover the costs of: consultants' fees for contract engagement; construction supervision; assistance from LGIS; office rental and telecommunications; and backfilling of Council finance, purchasing and engineering staff. However, councils' office rental costs are not eligible for NDRRA funding (only the costs of additional office premises required in response to dealing with the specific NDRRA event are eligible). LGIS also advised QRA that 'estimated costs for LGISs' program management service are generally in the range of two to four percent of forecast REPA works for individual councils, with the total across LGIS's client councils currently at less than three percent. The balance of the council program management cost estimate reflects anticipated council costs'.

128 In April 2013, the Taskforce was also investigating whether any amounts within the profits returned to the Queensland Government, through the dividends paid to QTC, were attributable to LGIS' NDRRA advisory services. These amounts would not be eligible for NDRRA reimbursement, in accordance with section 5.2.5(a) of the determination. (See further at paragraphs 4.8 to 4.13).

**4.28** In August 2013, Regional Australia advised the ANAO that:

The Taskforce agrees that indirect costs between 20–25 per cent require further investigation. The Taskforce will request that QRA provide a copy of the ... documentation relating to the agreement with LGIS from June 2011. The Taskforce will also provide this to EMA for advice on eligibility.

**4.29** It also advised that the Taskforce has collated indirect costs information relating to LGIS-assisted councils to allow benchmarking and analysis of these rates, when resources allow.

**4.30** In relation to this issue, in October 2013, LGIS advised the ANAO that:

LGIS and QRA agreed to an estimate of 10 per cent of direct costs of works for council project management costs. The total actual costs of LGIS services for the 12 councils that engaged LGIS following the 2010–2011 events is significantly less than the cost estimate.<sup>129</sup>

**4.31** However, at this time QRA also advised the ANAO that ‘QRA has not entered into any formal agreement with LGIS, it is understood that these are provisional amounts for the purpose of estimating cost of restoration works’.

### **Other corporatised entities owned by delivery agents**

**4.32** Media articles indicate that there may be other delivery agents that have structured their organisations in such a way as to circumvent the day labour rules (see paragraph 4.62) and derive profits from undertaking NDRRA works. For example, in April 2012 there were media reports that Cook Shire Council had set up a new business unit titled ‘Cook Shire Road Works’ to manage the Shire’s NDRRA works. It was reported that the new business unit had won its first tender from Council to undertake NDRRA reconstruction works. As no projects from Cook Shire Council have been reviewed by the Taskforce to date, there would be merit in at least one representative project being directly selected for a VfM review.<sup>130</sup>

**4.33** Documentation provided to the Taskforce also indicates that Brisbane City Council has conducted NDRRA works through its ‘Brisbane City Works’

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129 This is to be expected, as the total amount of submissions approved by QRA, as well as the reported expenditure to date for these 12 councils are also significantly less than the councils’ initial cost estimates.

130 According to QRA reports, as at March 2013 the Cook Shire Council had submitted 17 projects with a submission value of \$167 million and an approved value of \$91.6 million.

commercialised business unit. The Taskforce has also been reviewing a project submitted by the Cairns Regional Council within the Far North Queensland region in March 2012 for which the covering letter states that ‘Council has an agreement with QRA whereby any labour carried out by Council’s ‘Cairns Works’ business unit is not considered to be Day Labour’.<sup>131</sup> The project involves repairs to multiple sealed and unsealed roads, embankments, bridges, causeways and drainage, as well as the replacement of trees in streets and parks, with a submission value of \$20.67 million and approved value of \$18.64 million. The project was directly selected by the Taskforce in October 2012 in order to provide greater oversight in this area as Cairns was one of the top 10 most damaged LGAs.

**4.34** More broadly, there would also likely be benefits in the Taskforce obtaining information from QRA as to whether there are other delivery agents with similar arrangements involving corporatised entities undertaking NDRRA works on behalf of councils. In particular, such information would enable the Taskforce to more fully understand the eligibility of the pricing regimes for business units and other corporatised entities undertaking NDRRA works, including through consultation with EMA. In July 2013, EMA advised the ANAO that ‘There has been no agreement by EMA that labour supplied by the commercial business units operated by LGAs and SDAs is not considered to be day labour’.

**4.35** In August 2013, Regional Australia also advised the ANAO that a Cook Shire Council project will be directly selected should one not be selected randomly, and that the Taskforce agrees there would likely be benefit in obtaining further information from QRA on delivery agents using commercialised business units to undertake NDRRA works. In October 2013, DIRD advised the ANAO that ‘the Taskforce is ready to assist EMA with its work on the eligibility of commercialised business units’.

## **DTMR administration fees**

**4.36** DTMR project submissions and other related records that had been provided by QRA to the Taskforce indicate that there has been a longstanding practice of including an additional five per cent ‘administration fee’ as part of

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<sup>131</sup> In addition to Day Labour, the submission indicates that overheads and profit margin are being charged to NDRRA projects. In September 2013, Council advised the ANAO that Cairns Work was established in approximately 2000.

the indirect costs included in all DTMR projects involving NDRRA funding assistance. The records indicate that there was an agreement between QRA and DTMR that ‘the administration fees are no longer deemed eligible for funding under NDRRA effective from 8 July 2011’. However, this did not address the ineligible administration fees included in DTMR’s NDRRA claims made prior to mid-2011.<sup>132</sup> In July 2013, EMA advised the ANAO that it is writing to Queensland on a number of claim-related issues and will seek assurances that the eligibility of administration costs associated with essential public asset restoration activities are being treated in accordance with the Determination.

## Essential public assets

**4.37** Clause 3.6.1 of the 2007 (and 2011) NDRRA determination defines an essential public asset as:

... an asset of an eligible undertaking that, in the judgement of the state concerned:

- a) is an integral and necessary part of the state’s infrastructure;
- b) would, if lost or damaged, severely disrupt the normal functioning of a community; and
- c) would, if lost or damaged, be restored or replaced as a matter of urgency.

**4.38** In its fifth report to the Prime Minister, the Inspectorate observed that it is up to each state to determine what it considers to be ‘an essential public asset’ in accordance with the NDRRA determination. The Inspectorate noted that this can lead to inconsistent application of NDRRA funding across the states.

**4.39** In late-2012, the Taskforce liaised with EMA in relation to a number of areas identified during its project reviews where there was uncertainty about the eligibility of assets claimed for NDRRA funding. On 18 December 2012, the then Attorney-General signed a new NDRRA determination. The guidelines released with the 2012 determination include a clearer definition of an ‘essential public asset’. This provides greater clarity to the states in relation to

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<sup>132</sup> Prior to the establishment of QRA, in February 2011, DTMR’s NDRRA claims were processed by Emergency Management Queensland. The first DTMR projects arising from the 2011 events were approved by QRA on 28 July 2011. In disallowing the administration fees, QRA noted that their inclusion was contrary to clause 5.2.5 of the NDRRA determination and that the ‘Determination does not contain any clauses that provide for the pro rata percentage addition of ongoing overheads’.

essential public assets damaged on or after the date of the determination. For example, Guideline 6 lists 15 examples of assets that the Commonwealth would generally consider to be eligible, including: public schools, public hospitals and public housing; roads, bridges, tunnels, footpaths; state and local government offices; prisons; and police stations. It also provides the following examples of assets that the Commonwealth would not generally consider to be essential public assets:

- sporting, recreational or community facilities (for example, playgrounds and associated facilities);
- religious establishments (for example, churches, temples and mosques); and
- memorials.

**4.40** However, as further discussed below, delivery agents have not generally been requested to provide any supporting rationale where the assets they have claimed for repair or restoration do not appear to be 'essential' in accordance with the provisions of the NDRRA determinations issued in 2007 and 2011 (noting that the definition of an essential public asset set out in successive versions of the determination has remained unchanged).<sup>133</sup>

**4.41** Accordingly, it is important that the NDRRA eligibility of assets such as: parks; gardens; reserves; foreshores; car parks; fishing piers, and roadside rest areas, including the landscaping costs of restoring these and other types of assets, be clearly established. However, claims for the costs of restoring these types of facilities have been included in a number of the projects that have been awarded a 'Pass' by the Taskforce without the Taskforce having obtained supporting reasons as to why these assets should be considered 'essential'. For example, Ipswich City Council submitted a claim of \$12.6 million for restoration of the Colleges Crossing Recreation Reserve.<sup>134</sup> This project was assessed by both QRA and the Taskforce as being eligible for NDRRA funding. In this respect, in August 2013, QRA advised the ANAO that:

Under the NDRRA Determination, classification of essential public assets is a matter of judgement of the State. It is the State's responsibility to ensure the

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133 The Taskforce requested further information from QRA in relation to whether the assets being claimed were 'essential public assets' for one project. However, the response did not address this issue (QRA advised that 'The road and car park are listed as Council assets').

134 QRA's approved value of the project is \$9.03 million.

assets are consistent with the definition of an essential public asset as detailed in section 3.6.1 of the Determination. Previous versions of the Determination were silent on the eligibility of recreational facilities. Clarity was not provided until 2012 when recreational facilities were explicitly excluded in the 2012 Determination. However, following the 2013 flood events, community response to the potential that damaged parks would not be repaired resulted in an exception to the revised Determination being incorporated into the 2013 NPA to allow recognition of sporting, recreational and community facilities that were damaged in 2011 and re-damaged in 2013 as eligible essential public assets. Prior to the 2012 Determination, QRA has also relied on precedents for Commonwealth acceptance of historical works on parks as eligible.

**4.42** More broadly, QRA reports indicate that, by March 2013 over \$86 million had been approved for submissions categorised as being for 'parks and recreation'. This total excludes amounts for such facilities included in many other submissions that have been classified as 'roads' (reflecting that roads expenditure constituted the major portion of the restoration works in the submissions). For example, the Cairns Regional Council project being examined by the Taskforce (see paragraph 4.33) was primarily for the restoration of roads and bridges but included a component for replacing trees in parks. Similarly, a project submitted by the Townsville City Council in the Northern Queensland region and selected for review by the Taskforce in July 2012 is predominantly for road repairs (involving more than 70 streets). The project has a submission value of \$5.48 million and approved value of \$5.44 million, which includes around \$0.75 million for repairs to various parks (including shade sails and play equipment) throughout the local government area. As at August 2013 the Tier One review of this project had not been completed.

**4.43** A further example of a project classified as 'roads' by QRA involves the restoration of three car parks, two of which are within public parks and recreation reserves (one of these involves the entrance to the car park). Gympie Regional Council in the South Queensland region submitted the project for \$180 970 in March 2012 and QRA subsequently approved a project value of \$169 610. The Taskforce Tier One review was completed in November 2012 and found that the project represents value for money (scoring 17 out of 20 points) at that stage of assessment, based on estimated costs provided. NDRRA eligibility of the assets being repaired was not raised in the report to the Inspectorate.

## Mitigation and betterment

**4.44** The NDRRA determination includes specific provisions that enable the restoration or replacement of an asset to a more disaster-resilient standard than its pre-disaster standard (defined as 'betterment'). The state is required to inform the Secretary of AGD of its decision to restore the asset to the higher standard and the reasons for doing so. Betterment of the asset is considered eligible for NDRRA funding if the Secretary is satisfied with the cost effectiveness of the proposal and that the increased disaster-resistance of the asset will mitigate the impact of future natural disasters. Ten tier review reports prepared by the Taskforce have raised concerns about the enhancement of assets beyond their pre-existing standard, and one report has noted assets may potentially be improved.

**4.45** In July 2012, the Inspectorate wrote to QRA seeking confirmation that the NDRRA definitions (including in relation to betterment) were being applied by QRA in the processing of project applications. Amongst other reasons, this assurance was sought following correspondence from QRA that expressed a differing view on what constituted betterment in relation to a project reviewed by the Taskforce involving the replacement of two gravel pathways with concrete (see paragraph 2.55).

**4.46** The Inspectorate also wrote to QRA in September 2012 requesting clarification that the ineligible (under NDRRA Category B) cost of upgrading the unsealed foot track between the southern car park and Point Hinchinbrook near Cardwell in the Far North Queensland region be removed from a Cassowary Coast Regional Council project, with a submission value of \$11.65 million and an approved value of \$6.84 million (see Figure 4.2). The cost to be removed was expected to be approximately \$200 000. In late-November 2012, QRA advised the Taskforce that it was working with DTMR (the project manager for this and two other related projects with a combined total cost of around \$36.5 million) to finalise Category B and Category D funding eligibility. Further, in late March 2013 the CEO of QRA wrote to DTMR and the Cassowary Coast Regional Council recommending that, due to the complexities in the funding breakdown between the three projects, the Council and DTMR meet with the Authority to discuss the funding schedule and agree on any necessary amendments. In April 2013, the parties agreed to amend the funding schedules for the three projects. In August 2013, Regional Australia advised the ANAO that the Taskforce will assess the amended funding schedules in its reviews of these projects.



**4.47** Similarly, in March 2013, the Inspectorate wrote to QRA in relation to the inclusion in a DTMR project for reconstruction of the Bruce Highway at Cardwell in the Far North Queensland region of a 750 metre long rock seawall, estimated to cost \$11.6 million.<sup>135</sup> The submission value of the project was \$20.17 million and the Phase 1 approved value was \$6.05 million, consistent with the QRA practice of approving 30 per cent of the submission value at Phase 1 for state-delivered projects. The project submission indicated that the rock wall would stabilise the foreshore and provide protection to the Bruce Highway (Victoria Street) at Cardwell (previously there were sand dunes offering protection from the sea but no rock wall installation). QRA was advised that a Tier Two review would be conducted.

**Figure 4.2: Photograph of Cardwell Foreshore Esplanade, Cassowary Coast local government area**



Source: Taskforce Tier One Report – Image by Cassowary Coast Regional Council (AFP: Paul Crock).

<sup>135</sup> The Queensland Premier's media release of 19 January 2013 stated that the rock wall is 900 metres long. A revised Tier One report completed by the Taskforce in mid-January 2013 stated that the original submission included the development of a 750 metre rock seawall and that 'the proposed seawall has been extended to 940 metres, thereby increasing the direct costs by \$4.2 million [to \$11.6 million] plus indirect costs'. In writing to QRA, the Taskforce quoted the originally proposed length but the revised cost based on the extended length.

**4.48** In October 2012, EMA received a submission from DTMR seeking betterment funding for seven reconstruction projects. The betterment component of these projects totalled \$85 million (of which the Australian Government would contribute half if the submission is approved). All the proposed projects were for works on assets damaged within the previous three years by natural disasters. One of the assets was the A J Wyllie Bridge, which was the subject of a Tier One review completed by the Taskforce in September 2012.

**4.49** In respect to this bridge, in August 2011, DTMR submitted a project proposing the replacement of the low level northbound, dual lane bridge over the North Pine River on Gympie Road near Petrie in the South East Queensland region.<sup>136</sup> During the severe monsoonal flooding of January 2011, the low level bridge was submerged under the floodwater released from the North Pine Dam. The submission value of the project was \$17.46 million and the approved value was \$14.79 million. The Tier One review was based on tendered results. It raised concerns about the duplication of indirect costs, including design and contingency fees (with total indirect costs of \$9.48 million or 64 per cent of the total cost of the project), as well as concerns that potentially other ineligible items were included. The review concluded that further information was required from QRA and DTMR, including on the proposed indirect costs and the inclusion of principal-supplied materials approved by QRA, before a value for money assessment can be made. Notwithstanding that further information was required, no Tier Two review was recommended.<sup>137</sup> As at August 2013, a revised Tier One report had not been issued. As at October 2013, a decision on the seven betterment applications had not been announced.

**4.50** The Taskforce has also awarded a 'Pass' to projects that include significant realignment of roads (for example, the Cunningham's Gap realignment on the Cunningham Highway near Maryville in the Southern Queensland region). Although the works were considerably more extensive and expensive than would have been required to restore the damaged sections of the highway to its pre-disaster condition, the Taskforce considered they were eligible under Category B. However, a factor not explored in reaching

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136 An adjacent, new and higher bridge provides a dual lane carriageway for southbound traffic.

137 Regional Australia advised the ANAO in August 2013 that the further information to be sought was of a type suitable for a revised Tier One.

this conclusion was whether the realignment works constitute complementary works, which would have rendered them ineligible for NDRRA funding.

**4.51** To a certain extent the Inspectorate has been 'locked in' to finding projects are value for money as a result of the wide publicity given to its pilot review of a Gympie Regional Council project undertaken in 2011. This project was for submergence damage repairs to the Amamoor Creek Road and was fast-tracked through the QRA approval processes to enable Council to complete the works prior to the 2011 Gympie Music Muster (23–28 August), a key economic event for the region and attended by up to 60 000 people. The project had a submitted value of \$0.66 million and an approved value of \$0.49 million. As evidenced in the photos provided with the submission and those taken when the Inspectorate visited the site after the works had been completed (see Figure 4.3), the project included road widening, realignment of the road, increased drainage capacity, roadworks over a longer section of the road than was evidently damaged and installation of an extensive rock wall on one side of the creek where none previously existed (constituting betterment). The Taskforce did not advise the Inspectorate that these improvements (which did not represent restoration of the asset to its pre-disaster condition) were ineligible for Category B funding (Council had not sought funding under the betterment provisions of the NDRRA determination—see paragraph 4.44).

**Figure 4.3: Photographs of Amamoor Creek Road, Gympie local government area**



Source: Gympie Regional Council submission to QRA.



Source: Taskforce records.

## NDRRA eligibility of particular types of claimed 'costs' or 'expenditures'

**4.52** The NDRRA determination includes a number of defined terms and specific conditions which must be met in order for claims to be considered to be eligible for Commonwealth assistance. One of the key determinants is in relation to 'state expenditure', which is defined as the amount actually spent by a state in respect of an eligible measure. Accordingly, claims for NDRRA assistance must be in relation to the costs actually incurred by the SDA or LGA. That is, the amount claimed must have been actually paid (to a person or an entity). There is no provision that enables delivery agents to make a profit on any of their NDRRA-eligible works or to claim oncosts, overheads or other amounts that exceed the actual costs incurred in delivering the project.

**4.53** Under clause 5.2.5 of the determination, there are also five categories of amounts that must be excluded from the allowable 'state expenditure'. Importantly, the fourth category that must be excluded is:

- d) amounts attributable to salaries or wages or other ongoing administrative expenditure for which the state would have been liable even though the eligible measure had not been carried out.

### Day labour

**4.54** One of the underlying principles of NDRRA is that lower levels of government should exhaust all resources prior to accessing assistance from higher levels. The requirement for each level of government to contribute appropriately to reconstruction is aimed at ensuring that lower levels of government do not shift the costs of their reconstruction responsibilities to the Commonwealth. In accordance with this principle, it is expected that delivery agents such as local councils will fully utilise their own workforce on disaster recovery measures before engaging contractors and seeking reimbursement for additional costs. Where delivery agents use their existing employees to undertake reconstruction work, their ordinary labour costs are not reimbursable under NDRRA.

#### *Day labour exemption*

**4.55** As an exceptional circumstances measure under NDRRA Category D, in February 2011 the Australian Government agreed to provide extra assistance under the Queensland Local Council Package to reimburse local councils for use of their day labour in recovery and reconstruction projects

arising from the 2010–11 disaster events. Amongst other items in the package was funding of \$50 million for the labour costs of regional and remote local governments in cleaning-up after the flooding and Tropical Cyclone Yasi, to be cost-shared 50:50 by the Commonwealth and Queensland Governments. The assistance was intended to be for small and remote councils that were experiencing difficulty in accessing contract labour due to their distance from major centres and competition with the mining industry.

**4.56** QRA devised a set of eligibility criteria based on various strata for each council's net revenue (from rates and utility charges) and estimated residential population. Under these criteria, 22 regional and shire councils and 16 Indigenous councils were eligible for up to \$1.25 million in day labour costs, and 22 councils were eligible for up to \$1 million (including Townsville and Cairns).<sup>138</sup> The remaining 13 large councils were not considered eligible for day labour assistance. Where NDRRA submissions declare that day labour costs are included in the project, QRA tracks the amounts against the eligibility caps for each council.

#### *Day labour trial*

**4.57** Following representations from the Queensland Government, in June 2012, the Australian Government also agreed to conduct a day labour trial in Queensland. The trial will reimburse local councils 70 per cent of their day labour costs relating to the reconstruction of assets damaged in the 2010–11 disaster events, including those assets that were re-damaged in the 2012 events.<sup>139</sup> Reimbursement is not retrospective and is only available until 30 June 2014, in cases where the use of council labour is demonstrated to deliver better value for money when compared to outsourcing to contractors. Office overheads, CDOs, Emergent Works and maintenance are ineligible. QRA is responsible for assessing eligibility for this funding and the value for money of using council staff, as well as ensuring general maintenance costs are not shifted to the Commonwealth.

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138 Ministers were informed that advice from Queensland was that up to 16 councils would require day labour assistance. As it has eventuated, 60 of the 73 LGAs in Queensland are being permitted to claim reimbursement of their day labour costs. This included two large Councils (Cairns and Townsville) that did not meet the eligibility criteria. In October 2013, QRA advised ANAO that its perspective was that 'QRA was delegated the responsibility to develop the day labour distribution method'.

139 Subsequently, Clause 52 of the 2013 NPA extended the trial to include the January 2013 disaster events.

**4.58** The conditions in the Commonwealth's agreement to undertake the trial included that there be regular (bi-monthly) reporting and regular reviews of the effectiveness of the trial in meeting its objectives. The first (and as at March 2013 only) report on the progress of the trial was provided to the Taskforce in January 2013 (some five months overdue). At that time there were 11 councils participating in the trial. In August 2013, Regional Australia advised the ANAO that:

It has taken some time to roll-out the trial. Reporting is now proceeding and the first review is underway. Further information was provided by QRA in June; there are now 16 councils participating, with a further five being assessed for participation, as at 31 May 2013.

**4.59** In addition, in October 2013, QRA advised the ANAO that it 'is not aware of the bi-monthly reporting requirements. It was agreed that the first review and report of the trial would be conducted in early 2013'. The ANAO notes that quarterly updates are required under the reporting arrangements agreed for the 2013 NPA.

### **Claims that exceed actual expenditure**

**4.60** When examining whether specific amounts are eligible for NDRRA funding, it is important to gain an understanding of who is delivering the works, and who is providing the resources required to deliver the project (including any labour, equipment and materials required). Assessing eligibility of the costs of projects contracted out for 100 per cent delivery by the private sector as a result of a competitive tender process is a relatively straightforward exercise. However, there are a number of important considerations to be taken into account where some (or all) of the project is being delivered by an LGA or SDA.

**4.61** In general, the Taskforce has assessed claimed amounts based on the assumption that the projects have been (or are being) delivered by external parties, whereas in practice this is commonly not the case. Accordingly, the project reviews undertaken by the Taskforce have either not detected or not commented on the apparent full or partial ineligibility of the following types of claimed amounts for LGA or DTMR (including RoadTek):

- staff charged to the project at 'commercial hire' rates, rather than the

actual hourly wage rates paid to these workers<sup>140</sup>;

- owned plant and equipment charged to the project at ‘commercial hire’ rates, rather than the actual costs of operation of that plant and equipment (for example, fuel, oil, grease, and so on, and any additional essential maintenance costs arising as a direct result of the eligible project or activity); and
- stores and materials charged to the project at ‘commercial’ rates or with an oncost or profit margin, rather than the actual costs paid for the stores or materials. This is particularly an issue where the delivery agency supplies rock, gravel or road base and so on from its own quarries, in which case only the actual direct costs of extraction, crushing and transportation are allowable expenditures under NDRRA.

## **Claims for ineligible salaries, wages and other administrative expenditure**

**4.62** Apart from some specific and limited exemptions provided to certain LGAs (only in Queensland) in relation to Day Labour (see paragraph 4.55), the salaries, wages and other ongoing administrative expenditures that an LGA or SDA would have incurred anyway (that is, even if the approved restoration project or activity had not been carried out), are not eligible for NDRRA funding. This means that LGAs and SDAs should not claim for the ‘ordinary time’ salaries and wages of existing staff, and for ‘oncosts’ and overheads.<sup>141</sup> However, delivery agents may claim amounts paid to their staff for any overtime hours worked on an eligible project or for the wages paid to a staff member whose position has been backfilled while that person works on an eligible project. Delivery agents may also claim for the costs of temporary staff, consultants and contractors engaged specifically to work on one or more eligible projects or activities.

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140 For example, DTMR commonly charges a minimum of around \$57.70 per ‘ordinary time’ hour for construction workers (\$69.15 per hour in the DTMR project discussed at paragraphs 4.72 to 4.73), and \$75.05 for supervisors, whereas the actual wage rates paid to these workers is around \$20 to \$30 per hour (based on the Transport and Main Roads Operational Employees’ Certified Agreement 2011. Council award rates are similar).

141 In part, the rationale is that these costs would have been incurred anyway and have already been included in delivery agents’ budgets. Another part of the rationale is that the Australian Government has already contributed to these costs, through the wide range of other funding and grants made available to delivery agencies.



**4.63** The projects that have been subject to the Taskforce's VfM review process have included numerous instances where ineligible salaries, wages, oncosts and so on that had been included in the approved costs of projects were either not detected or not commented upon in the Taskforce's Tier One and Tier Two review reports. Examples include:

- a Tier One review was completed in April 2012 for a project submitted by the Central Highlands Regional Council involving various pavement repairs, grading and re-sheeting of roads, bridge repairs, debris removal and culvert clearing works in the Emerald, Springsure, Blackwater and Duaranga areas of the Central Queensland region, with a submission value of \$18.13 million and approved value of \$17.30 million. The ANAO observed that although the 'Work Order transaction listings' provided with the submission as support for the costs claimed did not show hours or rates for the Day Labour lump sums included<sup>142</sup>, they did show that oncosts had been charged at the rate of 50 per cent. In many instances oncosts were also charged on suppliers' invoices at the rate of 10 per cent. These oncost charges are not eligible for NDRRA funding. In October 2013, the Central Highlands Regional Council advised the ANAO that: Council provided all transactions to QRA in relation to its Emergent Works and REPA activities; Council works were audited 'both on site and desktop' by QRA, as well as by a contracted company engaged by QRA; all financial transactions were provided openly and transparently; and QRA approved the payments;
- a Tier One review was completed in April 2012 for a DTMR Emergent Works project undertaken by RoadTek and various other contractors in relation to the Warrego Highway and six other state-controlled roads in the Lockyer Valley local government area within the South East Queensland region, with a submission value totalling \$40.23 million. The ANAO observed that the project included charges ranging from 13.2 per cent to 15.3 per cent of 'direct costs' for 'Overhead and Markup' totalling \$3.61 million, which are ineligible for NDRRA funding. In addition to directly charged project management fees of about \$27 000, further percentage-based project management fees totalling more than

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142 The Central Highlands Regional Council has a \$1 million Day Labour cap.

\$600 000 were charged to the project. Only the actual amounts paid by DTMR/RoadTek are eligible, and only where they do not relate to payments made to existing staff;

- a Tier One review was completed in February 2012 for an Emergent Works project undertaken by the Charters Towers Regional Council in the Central Queensland region, with a submission value of \$0.95 million and approved value of \$0.85 million. The activities included: debris removal; repair of flooded crossings; repair of saturated roads; and replacement of gravel. The submission included Day Labour costs of \$137 152<sup>143</sup>, whereas the ANAO noted that the extract of the general ledger provided with the submission included payroll costs totalling only \$120 851. In addition, 'oncosts' of \$241 765 were shown (comprising more than 25 per cent of the total submission value), which are ineligible for NDRRA funding<sup>144</sup>; and
- a Tier One review was completed in February 2012 for an Emergent Works project involving Cyclone Yasi clean up and recovery works in Townsville and Magnetic Island undertaken by the Townsville City Council in the Northern Queensland region, with a submission value of \$23.09 million and approved value of \$21.69 million. Although Council had certified that there was no Day Labour included in its submission, the ANAO noted that some \$2.2 million for payroll costs were shown in the supporting transaction listing (including around \$677 000 which Council advised the ANAO in October 2013 was for use of Council plant by Council employees). The dates, number of hours worked and rate per hour were not shown, so it was not possible for the ANAO to ascertain whether the charges were eligible and in particular, whether they reflected actual payments to employees or included any component of oncosts or overheads. For example, the data indicated that Council claimed a total of \$8829 for one employee for the week

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143 The Charters Towers Regional Council has a \$1 million Day Labour cap.

144 In October 2013, Council advised the ANAO that an incorrect general ledger report was inadvertently provided to QRA. Council also provided documentation from QRA advising Council (in the ANAO's view, incorrectly) that payroll oncosts of 56 per cent and plant oncosts of 21 per cent were eligible for NDRRA funding.

ended 8 February 2011, including overtime and allowances of \$2289.<sup>145</sup> There were also around 130 entries for 'Double Time' and over 150 entries for 'Time & half' that did not show details of who was being claimed.

**4.64** More commonly, however, the ANAO considered that the project information provided to the Taskforce was either inadequate or insufficiently specific to enable independent verification that the claimed amounts were eligible under NDRRA.<sup>146</sup> To address this, it would be necessary for the Taskforce's VfM reviews to provide positive confirmation of eligibility of claimed expenditures based on sufficient information from QRA to enable an 'evidence-based' conclusion.

**4.65** A key area of risk relates to the inclusion of various ineligible direct and indirect staff costs in approved DTMR project submissions. In particular, DTMR submissions include considerable costs of what appear to be 'ordinary time' wages and salaries of existing DTMR and RoadTek employees, as well as associated 'on costs'. A related issue is the frequency with which DTMR projects include large and often vaguely described non-transparent 'lump sums' which provides no visibility as to whether the amounts include charges for existing DTMR/RoadTek staff and other resources, or existing plant and equipment<sup>147</sup> (see further at paragraph 4.77). In August 2013, Regional Australia advised the ANAO that the inclusion of lump sum costs is 'one reason for the higher number of Tier Two assessments undertaken of DTMR projects as opposed to local council projects'.

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145 In October 2013, Council advised the ANAO that \$6540 was for 'plant cost recovery'. However, Council did not provide any details that would enable an assessment of NDRRA eligibility, such as: the type of plant; where and when it was used; the number of hours it was used; and the rate per hour charged.

146 For example, only a total dollar amount is shown for a 'construction worker' without disclosing whether the worker was an employee of the delivery agent, working ordinary or overtime hours and without disclosing the number of hours and/or the rate per hour paid to that worker that has been included in the amount claimed.

147 Examples include traffic control, setting up and dismantling construction site camp facilities, linemarking, guardrails, removal and reinstatement of road furniture, project management, and so on. Inclusion of non-transparent lump sums was also relatively common in LGA submissions.

## Benchmarking

**4.66** Benchmarking of costs is a requirement under the Inspectorate's terms of reference and the provisions of the 2011 NPA. The Tier One methodology includes a comparison by the Taskforce of the 'planned cost versus benchmark costs'. The Inspectorate also stated in its third report that: 'Benchmarking will be an important tool for the Inspectorate in assuring the Government that value for money is being achieved in the reconstruction.' This is in line with its responsibility to ensure value for money in the reconstruction process, including monitoring against any potential cost escalation.

**4.67** It has been the Inspectorate's intention<sup>148</sup> that benchmarking data would assist with determining what costs and durations are reasonable and represent value for money in a particular region and for particular activities. As well as available industry data, such as *Rawlinson's Australian Construction Handbook* (Rawlinsons), information specific to Queensland reconstruction projects was to be collected and analysed by the Taskforce.

**4.68** In early 2012, the Taskforce started collecting benchmarking information, including for various categories of direct and indirect costs and primarily for LGA projects.<sup>149</sup> However, given that relatively few projects had been completed by that time, this was largely based on the estimated costs included in project submissions rather than actual project costs. This exercise was subsequently postponed in recognition that, as more reconstruction projects are completed, the finalised figures will allow more accurate and robust benchmarking. There was also an implicit reliance by the Taskforce on the more extensive benchmarking able to be undertaken by QRA (as the Taskforce only receives information for those projects that it has selected for review).

**4.69** In December 2012, QRA commenced reporting some limited benchmarking information for LGA projects in its monthly reports. However, it is unclear whether like-for-like items are being benchmarked in these reports (particularly in relation to whether reported costs are for council-provided

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148 As stated in the Inspectorate's third report, pp. 8-9.

149 In February 2012, the Taskforce advised the Inspectorate that data on estimated indirect costs for projects selected for VfM assessment will be collated with that provided by QRA. It would then be separated into DTMR, LGA and LGIS-assisted LGA projects and analysed according to region. CDOs and Emergent Works projects were to be excluded from this analysis.

versus contractor-provided labour, materials and plant and equipment, and so on).<sup>150</sup> Further, the benchmarking information reported by QRA to date has excluded DTMR projects.<sup>151</sup> Table 4.1 summarises benchmarking data on selected actual costs reported by QRA in March 2013.

**Table 4.1: LGA benchmarking data reported by QRA (actual costs)**

Item	Unit of measure	Highest	Lowest	Average
Bitumen	\$/m2	665	50	380
Cement GB	\$/m2	575	210	375
Gravel	\$/m2	120	7	45
Rock	\$/m2	180	10	70
Engineer	\$/hour	250	50	160
Foreman/Ganger	\$/hour	115	40	65
Labourer	\$/hour	85	30	50
Supervisor	\$/hour	145	45	75
Multi-tyred Roller	\$/hour	150	23	100
Grader	\$/hour	190	65	145
Engineering design/survey	%	12	2.5	6
Project Management and Supervision	%	16	2.7	7.8

Note: Figures are approximate (interpreted from published graphs).

Source: ANAO analysis of benchmarking data in March 2013 CFO report, pp.25–26.

**4.70** It is unclear whether QRA has taken any action in the cases it has identified that have incurred above-benchmark costs. The Taskforce has not queried any cases at the high end of the range reported by QRA, nor sought to identify the specific projects involved. Similarly, the Taskforce has not requested information from QRA on actions taken or proposed where actual

150 For example, a paper provided to the QRA Board in December 2011 indicated that the benchmarks for plant included the costs of: ownership; interest; depreciation; insurance; fair wear and tear; ground engaging tools; maintenance; parts and consumables; and fuel and oils. However, most of these cost items are ineligible for NDRRA funding where the plant and equipment is owned by the delivery agency.

151 However, in August 2013, Regional Australia advised the ANAO that 'some' DTMR data was provided by QRA in May 2013.

costs are significantly above benchmarks. Projects with high costs against benchmarks, as reported by QRA, could also be considered for direct selection for Tier One reviews by the Taskforce, but this has also not occurred to date.<sup>152</sup> In October 2013, DIRD advised the ANAO that 'The Taskforce is aware that QRA has used benchmarking information to support adjustments to the approved value of reconstruction projects'.

**4.71** In addition, the benchmarking comparisons reported in the tier review reports issued by the Taskforce are not always appropriate. Effective benchmarking should only include like with like items. While it is appropriate to benchmark the cost elements of the NDRRA eligible works undertaken by councils against such works undertaken by other councils (where the works are undertaken by council staff), it is not sound to benchmark these costs against works undertaken by the private sector (the private sector will invariably be higher, as these costs include elements that are excluded from works undertaken by councils, including a profit margin). Rather, separate benchmarking cohorts should be established. Further, benchmarking to Rawlinsons is only appropriate where the work is being undertaken by private sector contractors (or where materials are being sourced by LGAs from the open market).

**4.72** For example, a DTMR Emergent Works project reviewed by the Taskforce in April 2012 involved repairing sections on two highways and 18 state-controlled roads in the Scenic Rim Regional Council LGA within the South East Queensland region, with a submission and approved value of \$12.21 million. The activities included: removal, replacement and repair of failed pavement in localised areas; bridge repairs; pothole repairs; land slip clearing; and removal of silt and debris from roadways, drains, turnouts and culverts.

**4.73** The Taskforce reported that the 'detailed costs of works, equipment, materials and labour ... are generally in line with recommendations made in Rawlinsons - Australian Construction Handbook 2011 and appear reasonable'. However, equipment, materials and labour supplied by DTMR/RoadTek should be included in the NDRRA claim at actual cost, rather than at 'charge

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152 On 19 January 2012, QRA advised the Inspectorate that 'once the benchmarks have been established, QRA will be able to identify anomalies. These projects can then be selected to undergo further investigation'.

out' rates that include oncosts, profit and overheads. The Taskforce has also incorrectly compared Rawlinsons rates for private sector equipment with operator, against RoadTek rates for equipment only (that is, RoadTek labour is a separate charge).

**4.74** A further example is in relation to a Tier One review report completed in July 2012 for a Diamantina Shire Council project for the restoration of 15 roads in the Birdsville area in the South West Queensland region, with a submission value of \$29.91 million and an approved value of \$23.70 million. The project involved works being undertaken by Council for the removal of silt and backfill; heavy formation grading to pavement, shoulder and drainage areas; and replacement of gravel. The report stated that benchmarking was undertaken against Rawlinsons and the neighbouring Blackall-Tambo Regional Council's estimates. However, the Taskforce had already reported in January 2012 that Blackall-Tambo Regional Council's estimates were high, being 'approximately 60 per cent above regional benchmarks', and so estimates from that council do not provide a sound benchmarking source. Further, the estimates were for works that were to be tendered, rather than undertaken using Council's in-house resources.

**4.75** Taskforce reviews have also included some inappropriate generalised benchmarking. For example, the totals claimed in Emergent Works submissions have been compared to the totals in other councils' Emergent Works submissions in surrounding LGAs. Such comparisons do not take into account a range of factors that would commonly affect the overall quantum of claims, including variations in the size, topography and location of respective LGAs (for example, relative to the path of cyclones and storm cells causing flooding events). Further, the Taskforce also experienced challenges in identifying which project submissions actually related to Emergent Works (see paragraph 3.13) and in addition was aware that restoration works were on occasions incorrectly included in Emergent Works submission (see paragraphs 3.27 to 3.28). Independent verification was precluded as no documentation was located evidencing the Taskforce's benchmarking of Emergent Works against surrounding LGAs.

**4.76** In August 2013, Regional Australia advised the ANAO that the Taskforce received the data underlying the benchmarking graphs in June 2013 after asking QRA for this since November 2012. It further advised that the Taskforce would continue to monitor the benchmarking data and would undertake more detailed analysis as resources allow. It agreed that

benchmarking by delivery agent, by region and by contracted/internal works delivery would be valuable. It also agreed that projects with high costs against benchmarks should be considered for direct selection for value for money assessment.

### Lump sums example—site establishment costs

4.77 A DTMR project examined by the Taskforce was for the reconstruction of a section of the Cunningham Highway following a land slip at Cunningham’s Gap near Maryville within the Scenic Rim Regional Council LGA in the Southern Queensland region (see Figure 4.4). The project had a Phase 2 submission value and approved value of \$10.94 million. It involved realigning the Cunningham Highway over approximately 500 metres, including: major excavation (over 100 000 cubic metres), major drainage works, realigning and reinstating existing major drainage gullies, removal of failed embankment areas, and significant environmental rehabilitation works. The Taskforce accepted that DTMR’s geotechnical reports justified the realignment of the highway.

**Figure 4.4: Photograph of Cunningham’s Gap realignment projects, Scenic Rim local government area**



Note: Contractor’s site camp is shown at upper right side of photo.

Source: Taskforce records.



**4.78** The project included estimated direct costs of \$7.86 million, of which \$1.498 million (almost 20 per cent) was for the contractor's site establishment and camp facilities. In September 2012, QRA sought further information in relation to the high cost included for this item. DTMR subsequently advised that:

The ... tender prices received from the five tenderers ranged between \$50 846 and \$1 497 550. This item is subject to the tenderers pricing methodology and structure. It is not unusual for Tenderers to spread additional costs to Lump Sum items to assist with cash flow. While this item is high compared to other Tenderers other items are low and hence balance the total tendered amount.<sup>153</sup>

**4.79** This explanation was accepted by QRA. However, this contractor was already working on this and other sites in the vicinity before the tender was awarded, raising questions about the need for further site establishment costs with a related risk of these costs being duplicated across projects. In August 2013, QRA advised the ANAO that:

While the site facilities and camp costs were in the order of 20 per cent of direct costs (but, importantly, still the lowest overall tender price), QRA has advised that the relevant contractor was able to use the site facilities and camp established for these works for these additional projects nearby. This realised significant cost synergies in the additional submissions such that the approved site facilities and camp costs for these additional submissions were less than 5 per cent of direct costs.

**4.80** The project as originally submitted was for a single package of works at 11 sites on the Cunningham Highway, but was subsequently separated into four projects. However, the Taskforce has examined only two of the four projects. In August 2013, Regional Australia advised the ANAO that it agreed there may be benefit in directly selecting the other two projects and that it will do so and assess the site establishment costs to ensure the costs are not duplicated across the projects. In the circumstances, there would be benefits in the Taskforce: seeking substantiation that only actual costs incurred for site establishment have been claimed for NDRRA reimbursement; and assessing whether these costs represent value for money. Assessments also should bear in mind that NDRRA funding is not provided by the Commonwealth for the purposes of assisting tenderers with cash flow but to meet the eligible costs of recovery and reconstruction.

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153 The Taskforce did not request the documentation for the unsuccessful tenders.

## Conclusion

**4.81** Cost is the largest single factor taken into consideration by the Taskforce and Inspectorate when reviewing the value for money of sampled reconstruction projects. Through these reviews, the planned cost is examined (including by comparison to benchmark costs, where available), intermediate cost assessments are undertaken when tender results and/or progress reports become available for the project, and the actual total outturn cost can be assessed when the project is completed.

**4.82** Demonstrating the benefit of the Australian Government having visibility, through value for money reviews, of the reconstruction projects being funded under NDRRA, the Taskforce and Inspectorate have identified a number of significant issues in relation to the cost of reconstruction projects. In particular:

- an estimated \$93 million related to NDRRA-ineligible profit-related fees have been included in the estimated costs of projects being delivered by the state-government owned entity RoadTek.<sup>154</sup> In March 2013 the Inspectorate wrote to QRA, the Queensland Auditor-General and AGD, advising that the RoadTek profit margin 'does not represent a state expenditure for the purposes' of section 5.2 of the NDRRA determination;
- the Inspectorate indicated to QRA early on that it would be carefully examining the level of overhead costs (particularly project management costs) to provide assurance that funding was principally being used on actual reconstruction and recovery work rather than on indirect costs, such as project management fees.<sup>155</sup> It has been identified that the estimates for projects being undertaken by DTMR include a 20 per cent standard overhead rate. Consultant advice to the Inspectorate indicated that a rate of 18.5 per cent would be reasonable, meaning the estimated costs for those projects should be reduced by some \$82.5 million.

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154 As a government-owned organisation, any profits made by RoadTek are paid to the Queensland Government as dividends.

155 In January 2012, the Taskforce wrote to QRA requesting information identifying the level of project overheads costs for all reconstruction projects approved by the Authority to that date, including the: delivery agent; project number; approved project cost; region; and indirect project costs. However, this information was not provided by QRA.

Similarly high overhead costs are also evident in a number of reviewed projects that are being delivered by local government authorities; and

- the NDRRA determination includes specific provisions that enable the restoration or replacement of an asset to a more disaster-resilient standard than its pre-disaster standard (defined as 'betterment'), but this requires approval from the Australian Government. However, 10 tier review reports prepared by the Taskforce have raised concerns about the enhancement of assets beyond their pre-existing standard, and one report has noted assets may potentially be improved.

**4.83** It is also evident that there remain opportunities for further benefits to be derived from the project reviews being undertaken by the Taskforce and Inspectorate. For example, in examining the project documentation provided by QRA to the Taskforce, it was evident that there was overclaiming that had not been detected by the Taskforce, including in projects that had scored a 'pass' as a result of completed Tier One and Tier Two reviews. This included:

- the 'ordinary time' salaries and wages of existing staff as well as related 'oncosts' and overheads;
- staff charged to the project at 'commercial hire' rates, rather than the actual hourly wage rates paid to these workers;
- owned plant and equipment charged to the project at 'commercial hire' rates, rather than the actual costs of operation of that plant and equipment; and
- stores and materials charged to the project at 'commercial' rates or with an oncost or profit margin, rather than the actual costs paid for the stores or materials.<sup>156</sup>

**4.84** Often the information provided to the Taskforce for assessment has provided insufficient visibility over the nature of costs for the sampled projects. A key area of risk relates to the frequency with which DTMR projects (and to a lesser extent LGA projects) include large and often vaguely described non-transparent 'lump sums', providing no visibility as to whether the amounts they represent are NDRRA eligible. Another area where there would

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<sup>156</sup> This is particularly an issue where the delivery agency supplies rock, gravel or road base from its own quarries, in which case only the actual direct costs of extraction, crushing and transportation are allowable expenditures under NDRRA.

be benefits from greater scrutiny relates to the development and application of benchmarking of costs. With the anticipated increasing availability of data on actual costs, there would be benefits in the Taskforce adopting a more pro-active approach to the systematic collection of appropriate benchmarking data, including by creating its own database with suitable cohorts, thereby reducing the reliance it places on QRA.

### Recommendation No.3

4.85 In order to further build on the value for money review work being undertaken by the National Disaster Recovery Taskforce (on behalf of the Australian Government Reconstruction Inspectorate), the ANAO recommends that the Taskforce:

- (a) apply greater scrutiny to project cost data, particularly in circumstances where the data provided for review includes lump sums; and
- (b) develop the capacity to independently benchmark actual cost data for Queensland reconstruction projects.

#### **DIRD's response:**

4.86 *Agreed-in-principle. The evaluation of individual costs is one of the most challenging aspects of conducting project assessments, particularly when lump sum amounts are used. The Taskforce will continue to investigate lump sum costs and seek further details from the delivery agent where appropriate.*

4.87 *The Taskforce continues to work with the Authority to compile and use benchmark data on common reconstruction costs. The Taskforce's development and use of benchmarking is constrained by access to data and beyond the resources available to the Taskforce. However, it should also be noted that benchmarks only provide a rough guide to judging appropriate costs and costs must be considered in the broader context of the project, including the location of work, the delivery agent and any specific features of the project.*

#### **Inspectorate's response:**

4.88 *Agreed.*

#### **AGD's response:**

4.89 *Noted.*

#### **Finance's response:**

4.90 *Agreed.*

## 5. Quality of Reconstruction Work

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*This chapter examines the emerging results of the value for money reviews undertaken by the Taskforce in relation to the quality of the reconstruction work being undertaken in Queensland.*

### Introduction

**5.1** Other than where the Australian Government has agreed that an essential public asset can be restored to a more disaster-resilient standard (referred to as 'betterment'), the NDRRA determination requires that essential public assets be restored or replaced to their 'pre-disaster standard, in accordance with current building and engineering standards.' However, under the NDRRA administrative arrangements, the Australian Government does not have visibility over whether work undertaken by the states and territories is to an appropriate standard.

**5.2** Reflecting the importance of quality reconstruction in providing value for money outcomes, an assessment of work is an important element of the Inspectorate's project review process. In particular:

- the score against the quality criterion is the second highest weighted of the four criteria, representing up to six points or 30 per cent of the total value for money score to be awarded for each reviewed project; and
- a project that receives a score of zero against the quality criterion is to automatically receive an overall value for money rating of 'fail', irrespective of its scores against the remaining criteria.

**5.3** The Inspectorate's value for money assessment methodology requires that project quality be assessed in relation to three considerations, namely:

- whether the project has been completed in accordance with the scope outlined in the submission documents (scored out of a maximum of three, making it the most important factor in the quality score);
- whether the construction is fit for purpose (scored out of a maximum of two); and
- whether the design matches current engineering or other relevant standards (scored out of one).

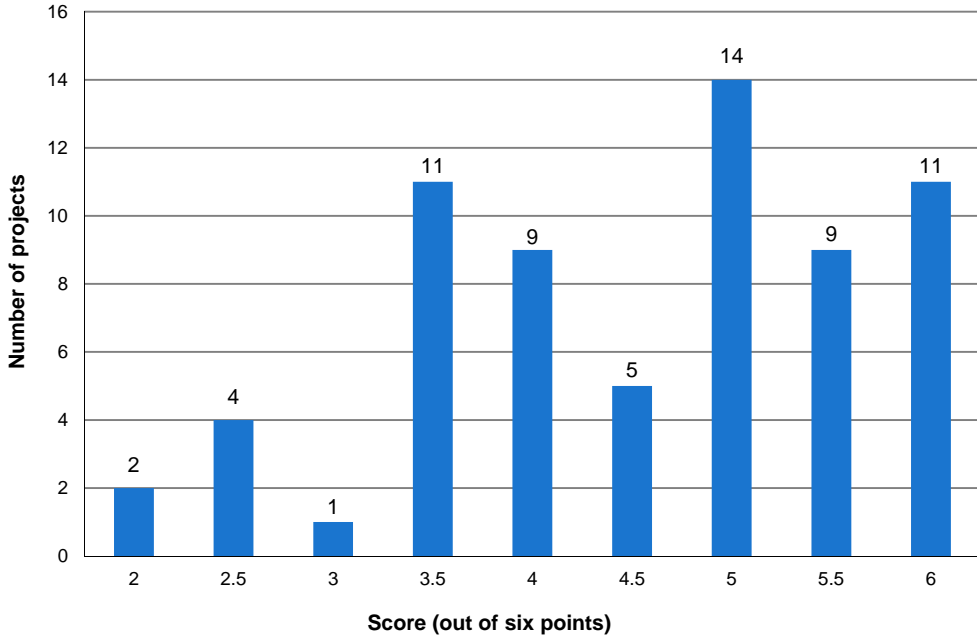
**5.4** For the 70 Tier One reviews that have been completed to the end of March 2013, 66 were assessed in relation to the quality criterion (the other four projects related to NDRRA Category D funding). As illustrated by Figure 5.1, the scores awarded by the Taskforce against the quality criterion indicate that there have been relatively few projects reviewed where there are concerns with the construction work being fit for purpose, in accordance with current engineering standards or in accordance with the approved scope. The average score for the quality criterion for the initial Tier One reviews was 4.5 points. Further in relation to the scores awarded against the quality criterion:

- 34 projects (some 52 per cent of those reviewed) were awarded a total quality score of at least five out of six;
- a further 25 projects (38 per cent) were awarded a total quality score of between 3.5 and 4.5 out of six; and
- only six projects were awarded a total quality score of less than three points and no projects were awarded a score of zero.

**5.5** Eight projects received an amended quality score as a result of revised Tier One reports. Two projects were increased from 2.5 and 4.5 to five points, three projects were increased from 3.5, 3.5, and 4.5 points respectively to 5.5 points, two projects were increased from two and five points to six points and one project was decreased from six to 5.5 points.

**5.6** Five projects were also awarded increased quality scores as a result of Tier Two reviews. One was increased from two to five points, three were increased from three, four and five points respectively to 5.5 points and one was increased from 3.5 to six points. The overall average score for the quality criterion (taking into account the amended scores resulting from Tier Two reviews and revised Tier One reports) was 4.9 points.

**Figure 5.1: Tier One project reviews: scores awarded against the quality criterion**



Source: ANAO analysis of Taskforce records.

5.7 Against this background, the ANAO examined the Taskforce's assessment of the quality of reconstruction work for those projects for which a review had been completed and reported to the Inspectorate up to the end of March 2013.

## Road widening and other complementary works

5.8 A common finding in the VfM reviews undertaken by the Taskforce is that the costs of widening and otherwise improving roads and other assets damaged in disaster events have been included in the amounts claimed for NDRRA funding. Ordinarily, state and local governments are encouraged to combine NDRRA reconstruction work with complementary maintenance or enhancements where this results in efficiencies, but the costs for any non-NDRRA elements of the project are to be segregated and separately funded.

5.9 There have been 27 tier review reports endorsed by the Inspectorate (around one-quarter) that have raised issues concerning ineligible road widening and/or other complementary works included in NDRRA costs in

projects that have been approved by QRA. The majority of these have been DTMR projects. Road widening is also being investigated in a number of projects that are still undergoing Tier One or Tier Two assessments.

**5.10** The Inspectorate first flagged to QRA that there were potential issues with project scope in a 20 July 2012 letter. In that correspondence, the Inspectorate outlined that it was concerned to ensure that all agencies working on reconstruction and recovery apply a common definition of the key NDRRA terms 'replacement', 'enhancement' and 'betterment'. In respect to 'enhancement', the Inspectorate outlined to QRA that, from its perspective, road widening was considered to be an enhancement to an asset, and that such enhancements would require complementary funding to be provided or sourced by the delivery agent (rather than being included in any NDRRA claims).

**5.11** In November 2012, the Inspectorate wrote to QRA about road widening in four projects (two LGAs and two DTMR). In relation to the two LGA projects, the Inspectorate requested confirmation from QRA 'that the ineligible road widening activities have been removed'.<sup>157</sup> QRA was advised that road widening has been identified by the Taskforce in the two DTMR projects, which required further assessment regarding eligibility (and costs for one project) before a VfM determination could be made. QRA was requested to provide further information for both DTMR projects. The Inspectorate also wrote to QRA in December 2012 advising that an LGA project with road

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157 On 26 March 2013, QRA advised the Taskforce that the estimated cost of the road widening in a project submitted by Hinchinbrook Shire Council within the North Queensland region was \$638 000. The project involves 35 activities, predominantly for restoration works to repair saturated pavements on suburban roads in the Toobanna area. These include boxing out damaged sections of seal and pavement; reinstating pavement; grading road shoulders to provide pavement drainage; and reinstating guide posts, signage and pavement markers. The submitted value of the project was \$8.46 million and the approved value was \$7.10 million. In September 2013, Hinchinbrook Shire Council advised the ANAO that 'There are some narrow seals in the (project) package which have been widened as complementary works. No confirmation that ineligible road widening had been removed was received in respect of the other project, which was submitted by the Gladstone Regional Council within the Central Queensland region for 18 restoration activities in the Calliope area, with a submission value of \$7.11 million and approved value of \$6.30 million. The works predominantly involve grading and re-gravelling unsealed rural roads and table drains. Instead, in December 2012, QRA advised the Inspectorate that 'During the progress reviews undertaken at 50% and 100% actual costs and activities are reviewed for eligibility. If ineligible costs are noted they will be discussed with council and not be approved for payment.' In September 2013, Council advised the ANAO that 'all widening (or complementary works) undertaken on existing flood damaged roads has been funded by Gladstone Regional Council'. In October 2013, QRA also advised the ANAO that 'a sample inspection of this project ... identified that works have been delivered to scope and below cost'.



widening, pre-existing damage and excessive treatments was being escalated to a Tier Two review.

**5.12** On 26 March 2013, QRA acknowledged to the Taskforce that there was road widening in six DTMR projects being reviewed by the Taskforce (including one of the projects referred to in the Inspectorate's November 2012 letter) and that it was investigating the costs apportionable to the widening activities in these projects. QRA further advised that:

- the other DTMR project referred to in the November 2012 letter did not have any road widening<sup>158</sup>; and
- the road widening activities identified in the Phase 1 submissions for two other DTMR projects being reviewed by the Taskforce had been de-scoped or excluded from the Phase 2 submissions.

**5.13** In the majority of instances where the Taskforce has identified complementary works as being included in projects, the costs have not yet been quantified. However, the largest single amount (which was quantified during a Tier Two review completed in May 2012) has been \$2.75 million for a DTMR project involving the reconstruction of the Warrego Highway between Jackson and Roma in the Maranoa local government area.<sup>159</sup> However, in late-November 2012, QRA advised the Inspectorate that the full length, full width sealing of 24.44 kilometres of the highway (where approximately 15 per cent of the surface area was identified as requiring patching to repair pavement failures) accounts for approximately \$1.5 million of unsupported restoration costs. It further advised that DTMR accepted there was shoulder sealing and road widening as identified by the Taskforce, and that correspondence was continuing with DTMR to clarify a number of queries in relation to the project and resubmit a variation. DTMR subsequently advised QRA that the variation documentation would be submitted with the project completion report in July 2013. However, in August 2013:

- QRA advised the ANAO that this documentation has not yet been received from DTMR; and

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158 By way of comparison, extensive road widening was documented in the Taskforce Tier One report. In August 2013, QRA advised the ANAO that the road widening was de-scoped in the Phase 2 documentation prior to the final assessment by QRA.

159 This \$90.9 million project is the only project in the Taskforce CMA sample that crosses two sampling thresholds.

- Regional Australia advised the ANAO that the Taskforce will monitor and assess all subsequent information before the value for money assessment of this project is finalised.

**5.14** In October 2013, DTMR advised the ANAO that it will resubmit the variation as part of the completion report which is planned to be lodged with QRA in October 2013.

**5.15** In cases where the Taskforce has identified road widening or other complementary works, instances have also come to attention where it appears that delivery agents have sought to contribute less than their fair share of the total project costs. For example, in March 2013 the Inspectorate wrote to QRA regarding road widening in a project submitted by the Tablelands Regional Council involving two roads in the Mareeba area in the Far North Queensland region. Council agreed that complementary funding would be provided to cover the cost of widening one road. However, in calculating this contribution, the pre-existing width of the road was stated by Council as 4.5 metres (rather than 3.3 metres) and the width to which it was being widened was stated as 6.5 metres (rather than 7.0 metres). In addition, further road widening was being undertaken at other sites. The Inspectorate requested that QRA work with Council to resolve this matter. In August 2013, QRA advised the ANAO that:

QRA undertook a detailed review and, after investigation (of the) issues raised by the Tier 2 reviewer, found no evidence of road widening being claimed for eligible works but identified possible seal widening to the value of less than \$5000. This will be removed on close out.

**5.16** In March 2013, the Taskforce was advised by QRA that a DTMR project involving the reconstruction of 1.1 kilometres of the Cunningham Highway between the towns of Warrill Hill and Willowbank within the Scenic Rim Regional Council area in the South East Queensland region had been postponed due to funding availability. It further advised that no tender had been awarded and the project may not proceed in the foreseeable future. This \$5.77 million project had been undergoing a Tier Two review as a result of a number of issues of concern identified in the Taskforce's Tier One report, including road widening and other complementary works.

## Excessive works in relation to damage

**5.17** Taskforce project reviews have also highlighted instances where the works proposed or undertaken are more extensive and expensive than that required to address the damage resulting from the disaster. For example, there has been full depth reconstruction of the entire length and width of the road in situations where the delivery agent would normally patch the isolated pot holes that have developed in the road, using its routine maintenance budget (if it were not for the availability of NDRRA funding). Similarly, damage treatments have been found by the Taskforce to be excessive where the depth of pavement restoration is not considered to be like-for-like nor necessary.

**5.18** For example, clarification was sought by the Inspectorate in September 2012 in relation to the reasonableness of the proposed treatment of one road in a project submitted by the Blackall-Tambo Regional Council, within the Central Queensland region, with a submitted value of \$31.56 million and approved value of \$9.37 million<sup>160</sup>, and more generally about the reasonableness of the cost of the stabilising agent proposed for the roads being repaired in this project. The project includes 111 activities for road restoration, primarily involving grading and re-gravelling works. The Inspectorate considered that in-situ stabilisation activity cost included in the submission could be reduced by up to 10 per cent.

**5.19** At this time, QRA was also requested to clarify the necessity to re-sheet certain roads in a project submitted by the Boulia Shire Council within the Central Queensland region, which the Inspectorate considered did not appear to be justified on the basis of the photographic evidence provided (see, for example, Figure 5.2). The project had a submission value of \$11.38 million and approved value of \$10.35 million. It involves restoration of the predominantly unsealed road network to replace gravel washed from pavements and repair embankment scouring. It also includes restoration of some sealed sections of roads with edge deterioration and pavement softening, requiring more significant repairs following heavy vehicle passage after the flooding event. In August 2013, QRA advised the ANAO that 'further information provided in relation to soil types resolved the issue and the project was accepted by the Inspectorate as likely to achieve value for money'.

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160 In late-November 2012, QRA increased the approved value of the project to \$22.87 million.

**Figure 5.2: Photograph of Selwyn Road, Boulia Shire Council local government area**



Source: Boulia Shire Council submission to QRA.

**5.20** Subsequently, in November 2012, the Inspectorate wrote to QRA in relation to the placement of gravel on a significant proportion of the roads in another project being undertaken by the Blackall-Tambo Regional Council within the Central Queensland region, with a submitted value of \$9.34 million and approved value of \$2.80 million. In this second instance, the Inspectorate noted the project appeared to be enhancing the unsealed road network.

**5.21** At this time, the Inspectorate also sought clarification from QRA of the need for excavation and turfing at Tully airfield in the Far North Queensland region, as it was not evident during the site visit undertaken by the Taskforce in August 2012 that the significant pavement repairs proposed in a Cassowary Coast Regional Council project were necessary. This project was for the proposed restoration of three aerodromes (Mundoo Aerodrome, which is a centre for aerial spraying businesses on the coast near Innisfail; Tully Airfield, which is a facility for skydiving; and Dallachy Aerodrome near Cardwell, which supports the region's agriculture and tourism industries). The submission value and approved value of the project was \$220 274.

**5.22** A further matter that was relevant, but not addressed by the Taskforce in its Tier One report to the Inspectorate, or with QRA, was the eligibility of aerodromes for NDRRA Category B funding. In respect to aerodromes:

- successive NDRRA determinations in operation from July 1985 to February 2007 stated that, other than in exceptional circumstances aerodromes ‘would not be regarded as an eligible public undertaking’; and
- in July 2013, EMA advised the ANAO that, if a disaster were to occur from 18 December 2012 (when the NDRRA Determination 2012 came into effect) its assessment would likely be that the airfields identified in paragraph 5.21 are not essential public assets and therefore ineligible for partial reimbursement under Category B.

**5.23** However, EMA’s advice to the ANAO further noted that, under the determinations in operation between 2007 and the end of 2012, it was for the State to decide what is an essential public asset. The ANAO has recently commenced a performance audit that is examining the administration of NDRRA by EMA, and the scope of that audit includes the administration of eligibility by EMA and delivery agencies (including the definition of an essential public asset).

## Pre-existing damage

**5.24** In August 2011, the Inspectorate directed that the Taskforce’s value for money assessment process will ‘include the threshold pass/fail question of whether the damage was caused by floods/cyclones’. However, addressing this consideration has been a particularly challenging area for the Taskforce, primarily because the information provided in submissions is often insufficient to allow an appropriately informed assessment to be made. In this respect, in December 2012, the Chair of the Inspectorate raised with the Secretary of AGD that it has frequently been ‘difficult to conclusively establish the pre-existing condition of the asset’.

**5.25** In part this is because of a lack of photo evidence of the asset (before and after the damage occurred, and also after the repairs or restoration work has been carried out). Where photos are provided, these do not always include relevant information such as the date taken and the location (for example, chainages or Global Positioning System coordinates). Further, many photos provided with submissions are of such poor quality that it is difficult to determine the damage reportedly being depicted. Local surroundings that might provide useful context (such as which side of the road and/or, the slope of the site) are also rarely included.

**5.26** A further difficulty for the Taskforce has been in relation to establishing NDRRA eligibility where the damage is in areas that have not been flooded. Numerous submissions have stated that damages were caused or exacerbated by heavy vehicles travelling on roads that have been saturated, but before the roads have had an opportunity to adequately dry out. Information on road closures and heavy vehicle speed restrictions is accessed by the Taskforce, but in some instances the Taskforce has been advised that decisions were made to reopen roads earlier than would normally occur, because of the need for essential supplies to be delivered to affected areas. Although the Taskforce has generally accepted such claims, the determination provides that only damage that occurs as a direct result of a natural disaster is eligible for NDRRA funding.

**5.27** Other publicly available sources of information about the pre-existing condition of roads have also been used by the Taskforce to supplement the information provided in submissions, including publications by motoring bodies such as the Royal Automobile Club of Queensland (RACQ) 'Unworthy Roads Surveys' and 'Regional Road Inspection Tours', as well as Google maps and street view.

**5.28** In August 2012, the Taskforce advised the Inspectorate that it had identified several submissions in which the damage to a road appears to have existed prior to the disaster events, as is evidenced by Google Maps images taken and formal funding submissions made before the events. The Taskforce further advised the Inspectorate that QRA has requested a contribution from some councils for works on roads for which the eligibility of the damage for NDRRA funding is disputed due to possible pre-existing damage, but this same process is not applied to DTMR projects. In October 2013, QRA informed the ANAO that:

The statement (*made by the Taskforce to the Inspectorate*) in relation to pre-existing damage contribution not applying to DTMR is incorrect. Contribution to pre-existing damage has been applied to multiple DTMR projects.<sup>161</sup>

**5.29** In cases where it appears likely that roads were in a poor condition before the disaster event occurred, the Taskforce has requested details of the maintenance histories for the relevant assets (for 11 projects). However, QRA has

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161 QRA did not advise the ANAO of the number of DTMR projects where this had occurred, or the amounts involved.

not provided this information (other than for two DTMR projects, which QRA stated were provided to the Taskforce in mid-late March 2013).

**5.30** Concerns surrounding whether there has been a lack of maintenance and/or whether there is pre-existing damage have been highlighted in 24 projects reviewed by the Taskforce. Seven of the 11 projects that have failed a Tier One review (and therefore been referred for a Tier Two review) have included concerns about lack of maintenance and pre-existing damage. In other cases (not referred for a Tier Two review) the Taskforce has noted, for example, that ongoing poor maintenance on some sections of the road or highway facilitated water ingress, thereby causing an increased level of damage, but overall the project was assessed as representing value for money at this stage of assessment. In several other cases, the Taskforce has noted that there has been traffic use damage, but has not specifically linked this to lack of maintenance or the pre-existing condition of the road.

## Conclusion

**5.31** Reflecting the importance of quality reconstruction in providing value for money outcomes, an assessment of work is an important element of the Inspectorate's project review process. In this respect, the score against the quality criterion is the second highest weighted of the four criteria, representing 30 per cent of the total value for money score to be awarded for each reviewed project.

**5.32** The scores awarded by the Taskforce against the quality criterion indicate that there have been relatively few projects reviewed where there are concerns with the construction work being fit for purpose, in accordance with current engineering standards or in accordance with the approved scope. However, although not suggested by the quality criterion scores that have been awarded, the project reviews have identified some significant issues in respect to the nature and scope of reconstruction work in respect to the 2010–11 Queensland flooding that is being funded through NDRRA.

**5.33** In particular, issues with ineligible road widening and other complementary works have been identified in a high proportion (around one quarter) of value for money reviews endorsed by the Inspectorate. This has been the case notwithstanding that the Inspectorate had, in August 2012, advised QRA of the definitions it was using in relation to key terms in the NDRRA determination (which had been discussed with EMA) and seeking confirmation

from QRA that it was applying these definitions in the processing of project applications.

**5.34** Taskforce project reviews have also highlighted instances where the works proposed or undertaken are more extensive and expensive than that required to address the damage directly resulting from the disaster.

**5.35** Claiming NDRRA funding to restore or replace assets that were in poor condition prior to the disaster events, either because of a lack of routine maintenance or unrepaired normal wear and tear, has also been a common finding of Taskforce value for money reviews. In those cases where the Taskforce considered it likely that roads were in a poor condition before the disaster event occurred, it has requested details of the maintenance histories for the relevant assets (for 11 projects). However, there have been few instances where the requested information has been provided. More broadly, the Taskforce has advised the Inspectorate that QRA has requested a contribution from some councils for works on roads for which the eligibility of the damage for NDRRA funding is disputed due to possible pre-existing damage, but this same process has not been applied to DTMR projects, where similar issues have been identified. QRA has advised the ANAO that it considers the Taskforce advice to be incorrect.



## 6. Timeliness of Reconstruction Progress

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*This chapter examines the timeliness of the reconstruction work being undertaken in Queensland. It also examines the arrangements for reporting individual project progress and completion.*

### Introduction

**6.1** The disaster events in the summer of 2010–11 resulted in the largest reconstruction program in Australia’s history. Immediately following the disasters it became clear that the scale and complexity of the recovery and rebuilding task in Queensland (described around this time as ‘one of post war proportions’) would take some time.

**6.2** Against this background, the ANAO examined the:

- allowable time for completing reconstruction projects;
- reported progress of the 2010–11 reconstruction program; and
- project progress and completion reporting.

### Taskforce assessments of project timing

**6.3** The Inspectorate’s value for money assessment methodology requires that the timing of the project be assessed in relation to either the first; or the second two; of the following three considerations:

- the suitability of the project timeframe (maximum of two points); or
- whether the actual commencement date of the project was in accordance with the estimated commencement date outlined in the project submission (maximum of one point); and
- whether the actual date of practical completion of the project was in accordance with the estimated date of practical completion specified in the project submission (maximum of one point).

**6.4** The score for the timing of the project is weighted equally with that of the fourth criterion (local engagement), each of these two criterion representing up to 10 per cent of the total value for money score to be awarded for each reviewed project. For the 70 Tier One reviews that have been completed to the

end of March 2013, 58 were assessed in relation to the time criterion. Four projects related to NDRRA Category D funding and eight Emergent Works projects were not scored against the time criterion.<sup>162</sup>

**6.5** For 57 of the 58 projects assessed in relation to the time criterion, the scores awarded by the Taskforce have been based on its assessment of the suitability of the project timeframe (see Table 6.1). Nearly half of the projects were awarded the maximum score of two points. Seven projects were awarded a score of zero. The average score was 1.4 points.

**Table 6.1: Tier One project reviews: scores awarded against the time criterion**

Suitability of timeframe	0	0.5	1	1.5	2
Number of projects	7	4	12	6	28

Note: All scores shown in the table are for initial Tier One reviews. As a result of revised Tier One reviews: one project had a reduced score (from two points to one point); and another two projects also had reduced scores (from 1.5 points to one point).

Source: ANAO analysis of Taskforce records.

**6.6** Notwithstanding that 27 of the 116 projects being reviewed by the Taskforce were reported as completed by March 2013, only six projects have been assessed on the basis of their actual commencement and completion (one in an initial Tier One review, three as a result of a revised Tier One assessment and two as a result of Tier Two assessments). These projects each scored one point for actual commencement; and for completion against timeframe: one scored zero, three scored 0.5 and two scored one point respectively.

**6.7** In one project, the revised Tier One assessment recorded a score of one out of two for completion (this was a departure from the usual maximum allocation of one point each for actual commencement and completion). The revised report stated that actual commencement was not scored because 'The submission did not identify when the project commenced'. However, other documentation made available to the Taskforce had reported that the project

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162 This was stated to be on the basis that Emergent Works projects are completed within three months of the disaster event. (However, the Queensland state requirement is that the works be completed within 60 days – this was increased from 30 days in November 2009.) [Source: 2009–10 Emergency Management Queensland Disaster Relief and Recovery Guidelines, p. 3.] For five projects the Taskforce reported that 'No timeframes were provided and this could not be assessed.' For two projects the Taskforce cited QRA advice that the works were completed within the required timeframe. In one case the Taskforce examined invoices provided that it concluded 'suggests that works were completed within the required timeframe'.

commenced in April 2011. In any event, the integrity of the scoring regime is compromised if scores are reallocated elsewhere. Further, as indicated in Table 6.1, several projects scored zero on the time criterion on the basis that no information on the timeframes of these projects had been provided. As at March 2013, the Inspectorate had written to QRA seeking clarification of the timeframes for seven projects (only one of which had a Tier One score of zero).

## Allowable time for completing reconstruction projects

**6.8** In August 2011, the Commonwealth agreed to a request from Queensland for a 12 month extension to the allowable period under NDRRA in which to complete the reconstruction of assets damaged during the (then) recent natural disasters. This was a general exemption for all projects where assets were damaged between December 2009 and February 2011. The allowable reconstruction period was extended to 30 June 2014 for reconstruction related to damage resulting from 2010–11 events.

**6.9** In October 2012, the then Prime Minister also agreed to the Queensland Premier's request that the allowable period for completion of the \$70 million Brisbane River Ferry Terminals project be extended by a further 12 months to 30 June 2015. At the time of the audit fieldwork there had been no other requests for extensions in relation to Queensland reconstruction projects covered by the 2011 NPA.

### Inspectorate role in providing assurance that scope of work is not increased

**6.10** In conjunction with the general 12 month extension granted to Queensland, the Australian Government also requested that the Inspectorate take on an additional role. Specifically the extension was granted:

... subject to the Queensland Government providing assurance that the scope of work will not increase and that the Queensland Government will provide an updated expenditure profile for the extended period.

**6.11** In this context, the Australian Government requested (and the Inspectorate agreed) that the Inspectorate would 'monitor the Queensland Government's assurance with regard to the scope of damage'. The Taskforce prepared documentation to formalise this as part of the Inspectorate's role, which was subsequently endorsed by the Inspectorate in October 2011. The methodology agreed by the Inspectorate included that:

- the Taskforce, on behalf of the Inspectorate, will monitor the information relating to project submissions and approvals and damage estimates received from QRA for any increases in the scope of work;
- as part of the project review process, the Taskforce will monitor costs and project scope for increases in individual local government areas and projects, including DTMR projects; and
- if any potential increases in the scope of work are identified, the Taskforce will work with QRA to investigate them further and inform the Inspectorate of its findings.

**6.12** There has only been one increase in estimates for Queensland in relation to the 2011 NPA events since the Inspectorate took on this role. This occurred in November 2011. The Taskforce reported the increases to the Inspectorate in December 2011, but did not explore whether there were increases in scope. It is also not evident that the Taskforce had investigated and reported scope increases at delivery agent level.

## Progress with the 2011 reconstruction program

**6.13** QRA has reported that, by early March 2013, over \$5.01 billion in project submissions had been approved, with more than \$3.66 billion paid by it to LGAs (\$1.6 billion) and SDAs (\$2.06 billion), including nearly \$1.28 billion in NDRRA advances.<sup>163</sup> Similarly, each of the six reports provided by the Inspectorate to the Prime Minister between June 2011 and May 2013 has reported that there has been significant reconstruction progress, as evidenced by the state's reported pipeline of works.

**6.14** By November 2012, QRA was reporting that 37.7 per cent of the 2011 events total damage estimate of \$7.31 billion had been spent (as at 30 September 2012).<sup>164</sup> As at 2 April 2013, (the latest information available at the time of the audit fieldwork) the reported expenditure had increased to 56 per cent. Concurrently, QRA was reporting that for the 2011 works program:

- 80 per cent of submissions had been processed as at 2 April 2013;

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<sup>163</sup> These figures include 2012 events – the 2011 events have not been separated in QRA reporting.

<sup>164</sup> The November 2012 CFO report was the first occasion since the March 2012 report that QRA included information on the progress of reconstruction specifically in relation to the 2011 flood and cyclone events covered by the 2011 NPA.

- 60 per cent of the timeline for completing reconstruction projects (stated as June 2011 to June 2014) had already passed; and
- 50 per cent of the works were ‘in progress or delivered’.<sup>165</sup>

**6.15** Consistent with these indications that some two years after the disaster events, completion of the 2011 program of works is only around the half way mark, QRA graphs of LGA expenditure by region show that most regions have spent less than 50 per cent of their reported damage estimates. Similarly, the reported expenditure by DTMR as at 2 April 2013 is shown as approximately 60 per cent of the program estimate.<sup>166</sup>

**6.16** QRA reports that the ‘monthly spend’ on reconstruction in Queensland has been increasing (averaging around \$220 million per month between October 2012 and March 2013—the latest available figures as at July 2013, and up from an average of around \$170 million per month in the equivalent period of the preceding year). This figure, however, includes reconstruction spending on 2012 disasters that occurred after the events covered by the 2011 NPA. It is therefore unclear from this data whether the increase is attributable to reconstruction spending arising from the 2011 NPA events or subsequent disaster events.

### **QRA reporting of individual project timelines**

**6.17** Appendix C of the QRA CFO reports provides a ‘Project Time Line and VFM Milestone Forecast’. This includes a Gantt chart showing the proposed (or actual) start and finish dates for individual projects, as reported to QRA by delivery agents.<sup>167</sup> This form of presentation provides a useful visual overview of project progress, supported by additional details such as submission type, submission status and approved value of each project.

**6.18** For example, the CFO report for March 2013 (using data provided up to 31 January 2013) showed that Ipswich City Council in the South East Queensland

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165 QRA does not report the number or value of projects that have actually been delivered. In relation to the Taskforce sample of 116 projects, 26 projects were reported by QRA as actually completed as at March 2013 (including eight Emergent Works projects). These 26 projects had a total approved value of \$433 million.

166 In October 2013, QRA advised that approximately 78 per cent and 75 per cent of LGAs’ and DTMR’s 2011 NPA event programs respectively had been delivered up to 31 July 2013, as reported to QRA as at 2 September 2013.

167 However, not all projects are shown.

region would have completed all of its projects by February 2013. In comparison, Bundaberg Regional Council in the Southern Queensland region had started five projects which were scheduled for completion by June 2013. It also had 16 projects that had not yet commenced and were scheduled for completion by or before 30 June 2013.<sup>168</sup>

**6.19** Similarly, Maranoa Regional Council in the Southern Queensland region commenced two projects in December 2012 and January 2013 that (as at the March 2013 CFO report) were scheduled for completion in July and June 2013 respectively. However, it had yet to commence another eight projects, four of which were due for completion by 30 September 2013 and four were scheduled for completion between August and December 2014.<sup>169</sup>

**6.20** There have also been various data anomalies in relation to the reported start and completion dates for some DTMR projects. For example, one DTMR project (which is included in the Taskforce sample) for pavement restoration works in the Blackall-Tambo and Barcaldine areas of the Central Queensland region, with a submitted value of \$47.06 million and an approved value of \$22.4 million, has a reported actual start and finish date of 9 October 2012.<sup>170</sup> Similarly, there are other multimillion dollar DTMR projects with reported very short durations (from one day to a few weeks). For example, the South Coast DTMR Region has reported that four projects (varying in size from \$3.8 million to \$10.9 million) were all to commence on 3 January 2013 and be completed one week later on 6 February 2013.<sup>171</sup> In August 2013, QRA advised the ANAO that:

The data anomalies with regard to these projects are generally due to the earlier stage status of the project. Until full (Phase 2) assessment has been

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168 In September 2013, Bundaberg Regional Council advised the ANAO that it had received extensions for 22 projects (including one project reported by QRA as a 2010 NDRRA activation event). Council further advised that it was currently on schedule to meet the extension of time with 19 submissions due for completion on 31 October 2013; two due on 31 December 2013; and the final submission due for completion on 30 April 2014.

169 These eight projects were for 2012 disaster events. In October 2013, QRA advised the ANAO that all Maranoa Regional Council works are 'expected to be completed by March 2014'.

170 In October 2013, DTMR advised the ANAO that the current planned completion date for this project is November 2013.

171 Notwithstanding this reported situation, QRA otherwise provided the Taskforce with a progress report it received from DTMR on 9 August 2012 that stated the actual start date for these four projects was 19 May 2011 and forecast completion date was 31 August 2012.

provided, start and completion dates reported in the Reconstruction & Governance Report are, in many cases, placeholders only.<sup>172</sup>

**6.21** A primary concern with an extended reconstruction program is that the costs may escalate with the passage of time. In this regard, many of the projects being reviewed by the Taskforce include in their estimates an allowance for escalation in costs of around eight per cent per annum. Analysis of the proposed finish dates reported by QRA over the months preceding March 2013 indicates that, for a significant number of projects, the end dates are progressively being 'rolled forward'. For example:

- a project submitted by the McKinlay Shire Council in the North Queensland region involves the restoration of 19 sealed and unsealed roads in the Julia Creek area, with a submission value of \$7.57 million and approved value of \$7.05 million. The majority of the works involve grading and re-gravelling the unsealed roads. The project commenced in June 2011 and was scheduled for completion by January 2012. However, the project was still underway as at March 2013. In the five CFO reports issued between November 2012 and March 2013, the expected completion dates reported for this project were: 31 December 2012, 30 January 2013, 1 March 2013, 30 April 2013 and 31 May 2013 respectively; and
- similarly, a project submitted by the Tablelands Regional Council involves the restoration of two rural roads in the Mareeba area of the Far North Queensland region, with a submitted value of \$3.58 million and approved value of \$2.94 million. The works include reconstruction of saturated pavement, bitumen spray sealing, minor culvert clearing and floodway repairs. Works were scheduled to commence in June 2012 with completion expected by mid-October 2012. In the five CFO reports issued between November 2012 and March 2013, the expected completion dates reported for this project were 30 November 2012, 14 December 2012, 15 January 2013, 13 February 2013 and 18 March 2013 respectively.

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172 The QRA reporting does not identify those dates that are 'placeholders' or otherwise inform readers that any of the reported dates are a 'placeholder'.

**6.22** As at March 2013, there were also 23 LGA projects with reported proposed completion dates that ranged from July 2014 to October 2014.<sup>173</sup> However, as noted in paragraph 6.9, no extensions have been sought for these projects to authorise their continuation beyond the existing 30 June 2014 completion deadline. In August 2013, QRA advised the ANAO that:

To ensure a transparent process, QRA reports delivery timeframes supplied by delivery agents. Where the timeframe goes beyond the required completion deadline, QRA undertakes a program/project review in conjunction with the delivery agent to ensure compliance with the deadline imposed by the NDRRA Determination.<sup>174</sup>

**6.23** The above circumstances highlight that there would be considerable benefits from the Taskforce more closely monitoring revisions to scheduled project completion dates, and raising issues and anomalies with QRA. This could be undertaken through conducting time-series analysis of QRA reports. Alternately, QRA could be requested to highlight changes in project start and completion dates against the originally approved baseline dates for each project.

### **Progress of projects being reviewed by the Taskforce**

**6.24** As indicated, not all projects being reviewed by the Taskforce have provided clear and specific timeframes. Many project submissions include only vague timeframes (such as commencement by 1 July 2011 and completion by 30 June 2013). Others have indicated that project timeframes will be identified later and included in progress reports (when these are submitted).

**6.25** In relation to the 108 restoration projects<sup>175</sup> being reviewed by the Taskforce, there were 68 projects where information was available (as at March 2013) to enable an assessment of the extent of any slippages in project completion timeframes. In respect to these 68 projects:

- only 15 of the 37 projects (less than 41 per cent) initially scheduled for

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173 In comparison, there was only one project with a proposed end date beyond 30 June 2014 in the December 2012 CFO report. A restoration project submitted by Mackay Regional Council in the Central Queensland region with an approved value of \$11.20 million that commenced in October 2010 (and was reported at that time as 28 per cent physically complete) was scheduled for completion on 28 October 2014. This was revised to 30 June 2014 by the time of the March 2013 CFO report.

174 See also footnote 172 in relation to the use of 'placeholders' in QRA timeframe reporting.

175 This analysis excludes projects defined by QRA as 'Emergent Works'.



completion by March 2013 had been reported as completed. Further, six of these 15 projects were not completed on schedule; and

- 43 of the remaining 53 projects (81 per cent) in progress as at March 2013 had already reported an extension in the expected timeframe for project completion. By way of comparison, only two projects had been reported as being expected to be completed earlier than initially scheduled.

**6.26** In total, 52 of the projects being reviewed by the Taskforce had an extension in their expected completion date as per the March 2013 CFO report compared to the expected completion date shown in the December 2012 report.<sup>176</sup> The largest increase was around 11 months.

**6.27** In January 2012, QRA advised the Taskforce that in relation to progressing the program of works, QRA had written to all councils informing them that an extension from two to three years 'would only be considered by the Authority if a council provides a business case (including cost benefit) justifying the extension'. QRA did not advise whether a similar letter was also sent to SDAs (including DTMR).<sup>177</sup> As at March 2013, QRA reporting did not indicate whether the Authority had received any applications for extensions beyond 30 June 2013. However, there were 45 projects being reviewed by the Taskforce that had reported proposed end dates that extended beyond June 2013.

## Project progress and completion reports

**6.28** The QRA VfM assurance framework endorsed by the Inspectorate included recognition that 'regular progress monitoring and reporting is an essential feature of achieving VfM across the State'. As outlined in Chapter 2, reporting was to be regular and to include project progress (against timelines) and financial performance.

**6.29** In respect to timelines, delivery agents were to report on:

- actual start date versus planned start;

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<sup>176</sup> Data on DTMR projects was not included in CFO reports before December 2012.

<sup>177</sup> In August 2013, QRA advised the ANAO that: 'Given DTMR's consultation with EMA was the catalyst for the extension of time, the extension was applied to their program. Apart from a few minor works exceptions, the extension did not apply to other SDAs.'

- progress milestones (if applicable) for example ‘road pavement sealed’<sup>178</sup>;
- estimated time to project completion; and
- estimated percentage completion versus the target.

**6.30** Financial reporting for the project was to include in successive progress reports the: cost variance versus budget, estimated cost to completion and estimated cost at completion. The financial data to be included in progress reports was in part designed to provide the mechanism for triggering release of progress payments by QRA to delivery agents.<sup>179</sup> Accordingly, information on actual costs to date is reported as aggregated lump sums. While this high level reporting meets QRA’s needs, it does not provide transparency of the component costs of the project necessary for the Taskforce to assess and monitor whether the project is delivering value for money.

**6.31** In this regard, further details in respect of the progress reporting requirements are set out in the submission guide to NDRRA funding applicants produced by QRA and distributed to delivery agents in mid-2011, as well as in QRA’s proforma progress reporting template (Form 9) and accompanying checklist (Form 8). Importantly, these documents include a requirement that ‘Applicants must lodge ... tax invoices and receipts and additional information to support any claim’. The evidence required to support the progress claim is further detailed as including: photos, tax invoices/receipts, internal company orders and project payments to contractors.

**6.32** Although more than two years had passed since the disaster events occurred, progress reports had been provided by QRA for only a small proportion of the projects within the cohort being reviewed by the Taskforce. Specifically, reports had been received for 22 of the 46 LGA projects with tier review reports issued as at March 2013. Progress reports had also been received for a further nine projects out of the 46 projects where tier reviews were underway, on hold or not started.

**6.33** The stated level of ‘construction physically complete’ in the individual LGA projects at the time the progress reports were prepared ranged from

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178 However, it was not evident that any reporting milestones had been set in the projects being reviewed by the Taskforce.

179 If the progress report was also a claim for payment, it was to include: total certified expenditure; applicant’s contribution; total due; total paid to date; and payment due from QRA.

zero per cent to 91 per cent.<sup>180</sup> Reports with zero physical completion had some reported expenditure, indicating to QRA that the projects had started.

**6.34** Only one progress report had been received for a DTMR project (see further at paragraphs 6.40 to 6.41). Further, none of the progress reports provided to the Taskforce included tax invoices, receipts and the other types of supporting documentation specified by QRA as mandatory requirements for progress reports.

**6.35** The Taskforce is reliant on the provision of this costing information and evidence of project expenditures to assess and confirm the value for money of projects being reviewed. While the Taskforce has an expectation that this documentation will be provided when projects are completed, this has generally not been the case to date in relation to the sub-group of projects being reviewed that were reported as completed by March 2013. In this regard, 19 restoration projects being reviewed by the Taskforce were reported as completed by March 2013, but no completion reports had been provided to the Taskforce. Eighteen of the projects had been reported as completed by December 2012 and the earliest was reported as having been completed in early July 2011. This would appear to be sufficient time for delivery agents to submit project completion reports and for QRA to assess the reports and then forward them to the Taskforce. There are also significant workload implications for the Taskforce if the supporting documentation for the majority of projects being reviewed is provided all at or around the same time (which appears increasingly likely as the deadline for completing projects approaches).<sup>181</sup>

**6.36** Against this background, there would be benefits in the Taskforce taking a more pro-active approach to requesting progress and completion reporting documentation from QRA according to planned and reported actual completion dates.

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180 Nine reports with construction completed of zero to two per cent, five with 15 to 22 per cent, two with 41 to 43 per cent and five with 54 to 66 per cent.

181 In this regard, QRA has expressed its view that the Taskforce and Inspectorate should not examine reconstruction projects until they have reached 'close out' and have been acquitted by QRA. However, information provided to the ANAO by QRA in October 2013 indicates that, across the multimillion dollar reconstruction program in Queensland, as at 31 July 2013 only \$180 million of projects had been 'closed out' and acquitted (information provided by QRA to the Taskforce indicates that this amount is in relation to only 34 projects, none of which are being examined by the Taskforce).

**6.37** Even where a progress report has included some detailed costing information that would facilitate a more robust assessment of value for money, scrutiny by the Taskforce could beneficially be more detailed. For example, a progress report was received for a Diamantina Shire Council project for the restoration of 15 roads in the Birdsville area in the South West Queensland region, with a submission value of \$29.91 million and an approved value of \$23.70 million. The project involved removal of silt and backfill; heavy formation grading to pavement, shoulder and drainage areas; and replacement of gravel. The progress report included a report of financial transactions extracted from Council's general ledger. Following a review of the progress report, in February 2013 the Taskforce provided a revised Tier One report to the Inspectorate. Amongst other matters, the Taskforce reported that:

Overall, the unit rates for direct costs fall within the average range for materials when compared against the benchmarking data collated by QRA from multiple council submissions across the state. There are no indirect costs, including project management fees, within the submission.

**6.38** However, the transaction history included with the progress report examined by the Taskforce shows that ineligible oncosts have been charged on each listed transaction. Specifically, oncosts were included at the rate of:

- 0.5 per cent on all suppliers' invoices;
- 7.0 per cent on all council-owned plant and equipment;
- 15.0 per cent on all council stores used; and
- 45.9 per cent on all payroll costs charged to the project.

**6.39** The total cost included in the project at the time the progress report was prepared was \$4.16 million, of which some \$97 000 or 2.3 per cent comprised ineligible oncosts. As the approved value of the project is \$23.7 million, extrapolation at the same rate indicates that ineligible oncosts for the entire project could total around \$552 000.

## **DTMR progress reports**

**6.40** At the time of the audit only one progress report had been provided to the Taskforce in respect to any DTMR projects. This progress report, received by QRA in August 2012, contained aggregated costs for four DTMR projects. Two of these projects were being reviewed by the Taskforce. The report provided no project-level information and was of limited utility. No supporting

documentation was provided to the Taskforce (such as tax invoices, receipts or transaction reports extracted from DTMR's general ledger). As at October 2013 a disaggregated report was still awaited from QRA.<sup>182</sup>

**6.41** The available evidence (as indicated in CFO reports issued from December 2012 onwards) is that a batch of DTMR progress reports was submitted to QRA in September 2012 which included 31 of the 52 DTMR projects being reviewed by the Taskforce. However, the progress reports for these projects had not been provided to the Taskforce as at March 2013, some six months after they were received by QRA. In August 2013, QRA advised the ANAO that, in addition to the one progress report that had been provided to the Taskforce:

Other DTMR progress reports have been received by QRA and are available to the Taskforce on request, in accordance with agreed operating protocols.<sup>183</sup>

## Conclusion

**6.42** Substantial advance payments (totalling \$4.16 billion) were made to Queensland by the Australian Government in 2011 and 2012 with the stated aim of ensuring that recovery and reconstruction in Queensland could start as soon as possible. Nevertheless, in August 2011, the Commonwealth agreed to a request from Queensland for a 12 month extension (compared to the usual two years) to the allowable period under NDRRA in which to complete the reconstruction of assets damaged during the (then) recent natural disasters.<sup>184</sup>

**6.43** QRA has reported that, by early March 2013, over \$5.01 billion in project submissions had been approved, with more than \$3.66 billion paid by it to councils and state project delivery agencies. Similarly, each of the six reports provided by the Inspectorate to the Prime Minister between June 2011 and May 2013 has reported that there has been significant reconstruction progress, as evidenced by the state's reported pipeline of works.

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182 In October 2013, QRA advised the ANAO that it understood that the projects referenced in the report have now been completed and 'the relevant completion report ... will be provided once it is received and assessed by QRA'.

183 Documentation provided to the ANAO by DTMR in October 2013 indicates that DTMR had submitted five progress claims to QRA by mid-August 2013.

184 For one project, the Brisbane River Ferry Terminals project, the allowable period for completion has been extended by a further 12 months to 30 June 2015.

**6.44** The Taskforce's value for money project reviews have assessed the timeframe of 58 of the sampled projects. Nearly half of the projects were awarded the maximum score, and more than 80 per cent of these projects were awarded a mark of at least half the maximum that could be achieved. However, in all but one instance, the Taskforce's assessment has been based on the suitability of the planned project timeframe rather than actual start and completion dates. Further in this respect, although more than two years have passed since the disaster events occurred, there has been little in the way of project progress reports provided to the Taskforce to enable it to monitor actual progress with the projects it has sampled. Specifically:

- reports had been received for 22 of the 46 LGA projects with tier review reports issued as at March 2013. Progress reports had also been received for a further nine projects out of the 46 projects where tier reviews were underway, on hold or not started; and
- only one progress report had been provided to the Taskforce in respect to any DTMR projects. This progress report, received by QRA in August 2012, was of limited utility as it contained aggregated costs for four DTMR projects, two of which were being reviewed by the Taskforce. Further, none of the supporting documentation stated to be required by QRA was provided.

**6.45** This situation contrasts with other data (mainly in relation to council projects) reported by QRA on the overall reconstruction program which indicates that projects have been completed but without progress reports being provided to the Taskforce to update its VfM assessments. Specifically, in relation to the 108 restoration projects<sup>185</sup> being reviewed by the Taskforce, there were 68 projects where information was available (as at March 2013) to enable an assessment of the extent of any slippages in project completion timeframes. In respect to these 68 projects:

- only 15 of the 37 projects (less than 41 per cent) initially scheduled for completion by March 2013 had been reported as completed. Further, six of these 15 projects were not completed on schedule; and
- 43 of the remaining 53 projects (81 per cent) in progress as at March 2013 had already reported an extension in the expected

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185 This analysis excludes projects defined by QRA as 'Emergent Works'.

timeframe for project completion. By way of comparison, only two projects had been reported as being expected to be completed earlier than initially scheduled.

**6.46** This broader reporting has also included various anomalies in relation to the reported start and completion dates (such as sizeable projects starting and completing on the same date). These circumstances highlight that there would be considerable benefits in the Taskforce more closely monitoring revisions to scheduled project completion dates, and raising issues and anomalies with QRA. This could be undertaken through conducting time-series analysis of QRA reports or QRA could be requested to highlight changes in project start and completion dates against the originally approved baseline dates for each project.

## **Recommendation No.4**

**6.47** To strengthen its oversight of Queensland reconstruction progress, the ANAO recommends that the National Disaster Recovery Taskforce:

- (a) monitor revisions to scheduled project completion dates, and raise with the Queensland Reconstruction Authority any issues and anomalies, as appropriate; and
- (b) adopt a more pro-active approach to requesting timely progress and completion reporting documentation from the Queensland Reconstruction Authority according to planned and reported actual completion dates.

**DIRD's response:**

**6.48** *Agreed. The Taskforce has questioned the scheduled completion dates of some projects with the Authority and will apply greater scrutiny to this reporting in the future. The Taskforce continues to request progress and completion reports for specific reconstruction projects from the Authority, with varying results.*

**Inspectorate's response:**

**6.49** *Agreed.*

**AGD's response:**

**6.50** *Noted.*

**Finance's response:**

**6.51** *Agreed.*

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Ian McPhee

Auditor-General

Canberra ACT

6 November 2013



# Appendices



## Appendix 1: Australian Government agency responses

1. Formal responses received by the ANAO from Australian Government agencies following circulation of the draft report have been reproduced in the following pages. It should be noted that the report has been amended in some parts following analysis of the comments received.

For-Official-Use-Only



Australian Government

Department of Infrastructure and Regional Development

Secretary

Contact: Paul McInnes

Mr Ian McPhee  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2600

Dear Mr McPhee

**Proposed audit report on the "Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland"**

I refer to the letter of 3 September 2013 from Ms Barbara Cass, seeking comment from the Department regarding the proposed report for the performance audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland.

The proposed report is the result of more than 18 months of field work and is the third in a series of three audits on the operation of the Australian Government Reconstruction Inspectorate ('the Inspectorate') and the National Disaster Recovery Taskforce ('the Taskforce').

I welcome the broad findings of the report that the Inspectorate and the Taskforce have provided a level of assurance and oversight to the reconstruction programme in Queensland that has not previously been available to the Commonwealth. These arrangements have resulted in significant additional value being generated for both the Commonwealth and Queensland Governments.

At the state level, the Queensland Reconstruction Authority ('the Authority') has applied a centralised approval process that was developed in conjunction with the Inspectorate and focuses on excluding ineligible costs and providing value for money in reconstruction. This is a unique arrangement and one that has resulted in the majority of ineligible costs being excluded from reconstruction projects before claims are submitted to the Commonwealth. The Authority has recently reported that it has permanently excluded more than \$1.6 billion from the reconstruction programme, of which up to \$1.2 billion could have been claimed from the Commonwealth.

As the proposed report has noted, it is too early to quantify the benefits generated directly by the Inspectorate and the Taskforce at the Commonwealth level, however even now it is clear that there have been significant further benefits across a range of possible costs. This includes an

estimate of \$130 million of additional value, comprising ineligible costs detected by the Taskforce in projects assessed to date and reduced contractor costs achieved through the day labour trial. The Taskforce will continue to pursue opportunities to reduce the Commonwealth's financial exposure and promote better value in reconstruction.

Execution of the Taskforce's mandate has largely been dependent on assistance and information provided by the Authority. The Taskforce has requested a level of detail on the reconstruction programme in Queensland that state and territory governments have not previously provided under the standard terms of the Natural Disaster Relief and Recovery Arrangements ('the NDRRA'). Accessing project information in a timely manner has been an ongoing challenge for the Taskforce and, as noted in the proposed report, it remains one of the biggest risks to the completion of project assessments.

This task has been further complicated by delays in reporting and claims for reimbursement that are inherent in the NDRRA. Work to repair damage typically occurs in the two to three years after a disaster, with claims submitted to the Commonwealth in the financial year after the work is conducted. As a result, it can take several years after a disaster for the Commonwealth to receive final costs for work through an NDRRA claim.

The visibility of reconstruction afforded by the Taskforce's project assessments has also exposed a range of other challenges in the administration of the NDRRA. As a devolved programme, decisions relating to the eligibility of costs are made by state and territory governments in the first instance. In some cases, such as establishing what public assets are essential, the discretion has been largely left to the states and territories. In assessing reconstruction projects, the Taskforce has encountered a wide range of interpretations and uncertainty applying the terms of the NDRRA and it is working with Emergency Management Australia to address this issue.

It is important to recognise that the Inspectorate's assurance function, provided through the Taskforce's assessment of value for money in individual reconstruction projects, is new to the disaster recovery space. Establishing this function continues to be a learning process for the Commonwealth and the operation of the Inspectorate is being constantly refined to reflect our new experiences.

This iterative process can be seen in the sampling methodology employed by the Inspectorate to select projects for value for money assessment. The original sampling methodology was based on a range of assumptions that were made at the outset of the reconstruction programme. As we have progressed, these assumptions have been tested against our experiences and the sampling methodology has been adjusted where necessary. The ANAO has identified some areas in which the sampling methodology has not performed as originally envisaged, including the selection of projects from the Queensland Department of Transport and Main Roads and the movement of work out of selected projects.

Each of these issues has been addressed by the Inspectorate and, in a recent report, independent consultants have confirmed that the sampling methodology will deliver a set of projects that represent the reconstruction programme as a whole and can be used to draw conclusions about its value for money. This audit has been a valuable part of the development process for the sampling methodology, and the Inspectorate is reflecting observations made by the ANAO in finalising the sampling methodology for the 2011–12 and 2012–13 disaster events.

In some cases, the Taskforce disagrees with specific conclusions drawn in the audit. For example, the report states that up to half of all projects assessed by the Taskforce contain errors and that this would require a much larger sample of projects to be assessed to provide assurance of value for

money.<sup>186</sup> However, in many cases these errors are minor compared with the overall value and scope of the project and they have not resulted in the project failing to provide value for money. Only three projects to date have contained material errors sufficient to affect their value for money (prior to these errors being addressed by the delivery agent).<sup>187</sup> The failure rate of around 5 per cent being applied by the Taskforce is correct and independent consultants have confirmed that the current sample size is sufficient to provide assurance over the reconstruction programme.<sup>188</sup>

The proposed report also identifies several examples in which the ANAO considers reconstruction exceeded the scope of work that would be eligible under the NDRRA. The examples identified by the ANAO include the Cunningham's Gap and Cardwell Foreshore projects. Both of these projects have been subject to extensive assessment and the Taskforce concluded that, while the engineering solutions for each project were substantial, they were necessary for the proper reconstruction of the assets and eligible under the NDRRA. The Taskforce's recommendations on these projects were not influenced by previous project assessments, as suggested by the ANAO.<sup>189</sup>

With regard to the specific recommendations made in the report, I offer the following comments.

#### Recommendation 1

*The ANAO recommends that the Australia Government Reconstruction Inspectorate and the National Disaster Recovery Taskforce seek to maximise the benefits from their value for money review activities by obtaining more timely and comprehensive information on project progress and completion from the Queensland Reconstruction Authority, to enable the preliminary value for money assessments to be finalised based on the scope and cost of works that were actually delivered (rather than estimates).*

Agree-in-principle. Access to timely and complete information on reconstruction projects, including final costs and completion reports, is essential to conducting value for money assessments. The Taskforce has spent considerable time working with the Authority to access

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186 **ANAO Comment:** *The ANAO report does not state that a much larger sample of projects would be required to be assessed to provide assurance of value for money. Rather, the report emphasises the importance of the Taskforce's intended sample (endorsed by the Inspectorate) of 129 VfM reviews providing 'evidence-based' confirmation of the eligibility of claimed expenditures (see paragraphs 31 and 4.64).*

187 **ANAO Comment:** *DIRD's comments do not appear to take into consideration that, in addition to the errors identified by the Taskforce, the ANAO found that there was a considerable incidence of ineligible expenditures included in NDRRA submissions approved by QRA and reviewed by the Taskforce, that were not detected by QRA, the Taskforce and/or the Inspectorate (see for example, paragraphs 2.55–2.56, 4.09–4.14, 4.20, 4.27, 4.32–4.34, 4.38, 4.40–4.41, 4.50–4.51, 4.60–4.65, 4.77–4.80, 5.22 and 6.37–6.39).*

188 **ANAO Comment:** *As outlined at paragraphs 3.45–3.46 and 3.48, at the time of the audit the actuarial consultants' advice to the Taskforce was based on an error rate of one per cent (not five per cent).*

189 **ANAO Comment:** *The ANAO report does not suggest that the Taskforce's recommendations on the Cunningham's Gap and Cardwell Foreshore projects were influenced by previous project assessments. In relation to the Cardwell Foreshore projects, the ANAO report reflects the findings of the Inspectorate (as conveyed in correspondence from the Inspectorate to QRA in September 2012 and March 2013 - see paragraphs 4.46 and 4.47). In relation to the Cunningham's Gap project (see paragraph 4.50) an asset is not being restored if it is being built in a location in which it did not previously exist.*

this information, however it remains a challenge. As noted in the proposed report, the Taskforce has made hundreds of requests for information to the Authority and has escalated matters to the Inspectorate on at least six occasions.

The Taskforce's experiences in accessing information on the reconstruction programme from the Queensland Government will be used to inform reforms to the NDRRA and the use of National Partnership Agreements for future disasters.

### Recommendation 2

*In order to maximise the envisaged benefits from the Inspectorate's programme of value for money reviews, the ANAO recommends that the National Disaster Recovery Taskforce improve the application of the sampling approach to make it more representative of the population of projects within the Inspectorate's remit.*

Agree. The Taskforce has continued to refine the sampling methodology as more is learned about the reconstruction programme and to ensure that the selected sample is representative of the reconstruction programme as a whole. In particular, the Taskforce has adjusted the methodology to ensure enough state projects are selected and has directly selected projects to ensure appropriate representation. Independent consultants have recently confirmed that the current set of sampled and directly selected projects will allow assurance over the 2010–11 programme.

The experience gained by the Taskforce in sampling the 2010–11 programme, and the observations made by the ANAO in its audits, has already been applied to the sampling methodology for the 2011–12 and 2012–13 programmes.

### Recommendation 3

*In order to further build on the value for money review work being undertaken by the National Disaster Recovery Taskforce (on behalf of the Australian Government Reconstruction Inspectorate), the ANAO recommends that the Taskforce:*

- a) *apply greater scrutiny to project cost data, particularly in circumstances where the data provided for review includes lump sums; and*
- b) *develop the capacity to independently benchmark actual cost data for Queensland reconstruction projects.*

Agree-in-principle. The evaluation of individual costs is one of the most challenging aspects of conducting project assessments, particularly when lump sum amounts are used. The Taskforce will continue to investigate lump sum costs and seek further details from the delivery agent where appropriate.

The Taskforce continues to work with the Authority to compile and use benchmark data on common reconstruction costs. The Taskforce's development and use of benchmarking is constrained by access to data and beyond the resources available to the Taskforce. However, it should also be noted that benchmarks only provide a rough guide to judging appropriate costs and costs must be considered in the broader context of the project, including the location of work, the delivery agent and any specific features of the project.

#### Recommendation 4

*To strengthen its oversight of Queensland reconstruction progress, the ANAO recommends that the National Disaster Recovery Taskforce:*

- a) monitor revisions to scheduled project completion dates, and raise with the Queensland Reconstruction Authority any issues and anomalies, as appropriate; and*
- b) adopt a more pro-active approach to requesting timely progress and completion reporting documentation from the Queensland Reconstruction Authority according to planned and reported actual completion dates.*

Agree. The Taskforce has questioned the scheduled completion dates of some projects with the Authority and will apply greater scrutiny to this reporting in the future. The Taskforce continues to request progress and completion reports for specific reconstruction projects from the Authority, with varying results.

Thank you again for the opportunity to comment on the proposed report. I have attached comments against the specific requests from the ANAO contained in the proposed report.

I understand that the Chair of the Inspectorate, the Hon John Fahey AC, will write to you separately with his comments. If you or your officers have any queries concerning this response, please contact me on 02 6274 7593.

Yours sincerely



Mike Mrdak

29 September 2013





**Australian Government**  
**Reconstruction Inspectorate**

Chair

Mr Ian McPhee PSM  
 Auditor-General  
 Australian National Audit Office  
 GPO Box 707  
 CANBERRA ACT 2601

Dear Mr McPhee

I refer to the letter of 3 September 2013 from Ms Barbara Cass seeking comment from the Australian Government Reconstruction Inspectorate ('the Inspectorate') on the proposed audit report on *The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland*.

I agree with the Australian National Audit Office's finding that the Inspectorate and the National Disaster Recovery Taskforce ('the Taskforce') have provided an unprecedented level of assurance and oversight over the reconstruction activity in Queensland.

The Inspectorate strongly believes that the oversight arrangements introduced by the Commonwealth following the 2010-11 natural disasters have generated considerable additional value for both the Commonwealth and Queensland Governments. This includes an estimated \$130 million of ineligible costs identified in completed value-for-money assessments and reduced contractor costs through the day labour trial.

I am of the view that there is the opportunity for even greater benefit to the Commonwealth, including reduced costs, through the application of some of the lessons learnt by the Inspectorate to the reconstruction funding framework.

The Inspectorate agrees that the timeliness of the receipt of information from the Queensland Reconstruction Authority ('the Authority') has impacted on our completion of the value-for-money assessments. The Taskforce continues to work with the Authority on our behalf, to improve the timeliness and completeness of information provided.

The Inspectorate agrees with the report's recommendations, noting that some are reliant on the Authority providing more timely and comprehensive information on project progress and completion.

Yours faithfully

The Hon John Fahey AC  
 30 September 2013

GPO Box 803 Canberra ACT 2601 Australia • Telephone: (02) 6210 6242  
 Website: [www.reconstructioninspectorate.gov.au](http://www.reconstructioninspectorate.gov.au)



3 OCT 2013  
TO GED

**Australian Government**  
**Department of Finance**

**David Tune PSM**  
**Secretary**

Our Ref: SEC0009280

Ms Barbara Cass *SA 3/10/2013*  
Group Executive Director, Performance Audit Services Group  
Australian National Audit Office  
19 National Circuit  
Barton ACT 2600

Dear Ms Cass

Thank you for your letter of 3 September 2013 providing me with the proposed Performance Audit of the Inspectorate's Conduct of Value for Money Reviews of Queensland flood reconstruction projects.

I agree with the recommendations of the report and have no further comments.

Yours sincerely

David Tune  
30 September 2013



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15 OCT 2013  
9.30

**Australian Government**  
**Attorney-General's Department**

**Deputy Secretary**  
**National Security and Criminal Justice**

SEC13/0520  
12/8639-03

Ms Barbara Cass *B* 15/10/2013  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
19 National Circuit  
BARTON ACT 2600

Dear Ms Cass

**Response to the audit report on the Performance Audit of the Australian Government  
Reconstruction Inspectorate's Conduct for Value for Money Reviews of Flood Reconstruction  
Projects in Queensland**

Thank you for providing a copy of the proposed audit report in accordance with sub-section 19(1) of the *Auditor-General Act 1997* ('the Act'). The following comments are provided for consideration pursuant to sub-section 19(4) of the Act.

The Attorney-General's Department ('the Department') notes the audit findings and recommendations. The audit findings and ongoing feedback from the Inspectorate's value for money reviews continue to provide valuable input to inform the Department's ongoing administration of the Natural Disaster Relief and Recovery Arrangements (NDRRA). This includes the development of eligibility advice to provide better guidance to state and territory governments and state auditors-general in interpreting the intent of the Determination and executing their oversight responsibilities. Further consideration of relevant issues highlighted by the audit will be taken forward in the context of ANAO's performance audit of the administration of the NDRRA, currently underway.

Should you wish to discuss these comments, please contact Mark Crosweller, Director General Emergency Management Australia on 6141 3910.

Yours sincerely

Tony Sheehan

4 October 2013

## Appendix 2: State, local government and other entity responses

1. Formal responses received by the ANAO from Queensland state and local government agencies and other entities following circulation of the draft report have been reproduced in the following pages. It should be noted that the report has been amended in some parts following analysis of the comments received.
2. In a number of respects, the comments provided indicate a lack of support for the review approach taken by the Taskforce and Inspectorate (particularly in relation to reviews being undertaken based on preliminary estimates<sup>190</sup>) and/or disagreement with the findings of the Inspectorate's and Taskforce's value for money reviews. In this context, and having regard to the significant amount of Australian Government funding involved and that the benefits from the value for money reviews will not be fully evident until 2014–15, when final claims for the 2011 disaster events are due for acquittal to EMA, the ANAO will consider scheduling a further performance audit in this area to commence in 2014–15.

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190 As noted at paragraphs 11, 12 and 19, reviews have been primarily based on early project estimates, and this reflects some delays with the delivery of reconstruction projects, and challenges experienced by the Taskforce in obtaining information on projects that have proceeded to tender (where tendered) and delivery.

# Queensland Reconstruction Authority

For reply please quote: QldRA/SC/ QRAIN/13/7998

18 OCT 2013

Mr Ian McPhee  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr McPhee

Further to previous correspondence, I am writing in response to a letter received 6 September 2013, from Ms Barbara Cass, Group Executive Director, advising the Queensland Reconstruction Authority (QRA) of the opportunity to comment on extracts of the Australian National Audit Office's (ANAO) proposed audit report on the Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland.

In summary:

Following the unprecedented series of natural disaster events that impacted Queensland over the summer of 2010-2011, the QRA was formally established to take on management and administration of the state's Natural Disaster Relief and Recovery Arrangements (NDRRA) program. QRA's role was subsequently extended to include prior natural disaster events from 2007 to 2010, followed by the later events in 2011 and 2012, and most recently 2013.

As such, the QRA facilitates and coordinates an estimated \$14 billion natural disaster reconstruction program, the most significant disaster reconstruction program in Australia's history.

The QRA is satisfied that the extracts of the proposed audit report acknowledges QRA's Value for Money processes, which to-date have avoided costs in excess of \$1.7 billion to the State and Commonwealth Governments. It is important to recognise that this is the first time that a Value for Money approach of this nature has ever been applied to NDRRA funds expenditure.

A vital component of QRA's operating framework supporting the value for money approach, is a continuous assessment process to NDRRA funding for each stage of a project (submission assessment, progress reporting and acquittal of funds). Through each stage of the process, submissions are assessed for eligibility and increasingly for value for money.

It should be noted that, under the NDRRA Determination, the final completion date for 2011 and 2012 NDRRA reconstruction works is 30 June 2014, with funds to be acquitted by 31 March 2015. The 2013 works are due to be completed by 30 June 2015, with funds to be acquitted by 31 March 2016. For further details regarding QRA's operating environment and processes, refer to the enclosed Extract 1.

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[www.qldreconstruction.org.au](http://www.qldreconstruction.org.au)

Under the NDRRA Determination, 'eligibility' is the fundamental criteria for determining whether proposed reconstruction works can be progressed.

The ANAO's proposed audit report identifies that under the NDRRA Determination, the classification of an asset as an essential public asset (a requirement for eligibility) is a matter of judgement of the State and that it is the State's responsibility to determine the assets are consistent with the definition of an essential public asset (as detailed in section 3.6.1 of the NDRRA Determination).

The proposed audit report also recognises the challenges for the State and NDRRA delivery agents surrounding the ambiguity of 'current engineering standards' and 'betterment'. This is evident by the examples provided in section four of the proposed audit report. The fundamental conflict is that in rebuilding an asset to its pre-disaster functionality using current engineering standards, there is an expectation current standards would have evolved from past standards, resulting in an incremental improvement. The QRA continues to work closely with Emergency Management Australia in addressing these matters. For further details regarding the NDRRA policy framework, refer to the enclosed Extract 2.

The proposed audit report acknowledges the detailed reporting involved for the Queensland reconstruction program, which has never before been undertaken for any NDRRA program, and far exceeds any reporting by other states in relation to NDRRA. This includes a detailed report of the NDRRA program published on QRA's website on a monthly basis.

QRA notes however, that extracts of the proposed audit report provided to QRA are in some instances heavily redacted, impeding QRA's ability to provide comment. For example, the extracts did not include any proposed recommendations, therefore it is difficult for QRA to comment on whether the recommendations (if any) will make a positive contribution to the delivery of the NDRRA program in Queensland.

The ANAO conclusion is also noted that many of the completed reviews by the National Disaster Recovery Taskforce are provisional assessments based on early estimates. This is evident where 66% of Department of Transport and Main Roads submission reviews were based on preliminary estimated costs, prior to final eligibility and Value for Money assessment by QRA. The ANAO further conclude that it is too early to reliably extrapolate the review findings to the reconstruction program.

Inclusive of this letter, QRA's formal response for inclusion in the final Audit Report comprises two Extracts from *QRA's Response to the ANAO – proposed audit report, Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland* provided to the ANAO:

Extract 1 - QRA Operating Environment and Processes  
Extract 2 - NDRRA Policy Framework

Thank you for providing QRA with an opportunity to comment on the proposed audit report.

Yours sincerely



Graeme Newton  
**Chief Executive Officer**

Encl.

cc. Ms Barbara Cass, Group Executive Director, Australian National Audit Office

## EXTRACT ONE - QRA Operating Environment and Processes

The Authority operates in the extraordinary context of multiple natural disasters with varying rules and timeframes of events causing damage across all of Queensland, where the speed of repairing and reconstructing the damage is paramount. Given the scale of Queensland's NDRRA reconstruction program and the various rules and timeframes associated with it, the Authority's management approach and processes are modelled on the delivery of a major infrastructure construction project. This is illustrated in the attached diagram (Diagram 1).

### Cost estimates and certainty

The cost estimate developed for projects is dependent on the stage reached for the project. It is possible to have vastly different estimates developed at each stage. Common practice with project delivery is to measure the reliance that can be placed on cost as a probability e.g. P50 indicates 50% confidence that the project will come in at less than the P50 estimate. The reliance that can be placed on cost at the early stage of the project is usually a P50 or below (i.e. scope and estimation phase); while at the completion of the project the actual cost is known and the reliance that can be placed on the project cost is 100% (i.e. at close out and acquittal).

### Context in NDRRA and timeframes

In the context of the delivery of NDRRA works, the NDRRA Determination imposes a time limit of two financial years after the disaster to complete reconstruction works. Given the scale and scope of the Authority's combined reconstruction program, a one year extension was granted for the 2010/2011 program, which means that all works for 2010/2011 and 2011/2012 must be completed by 30 June 2014 with funds to be acquitted by 31 March 2015. The 2013 works are due to be completed by 30 June 2015, with funds to be acquitted by 31 March 2016. Once works are complete, Clause 6.3.2 of the Determination states *Audited financial statements are submitted within 9 months after the end of the financial year in which the expenditure to which it relates took place*. Therefore, even after a project has been completed, actual expenditure may be acquitted up to nine months after the end of the financial year.

### Continuous Assessment process

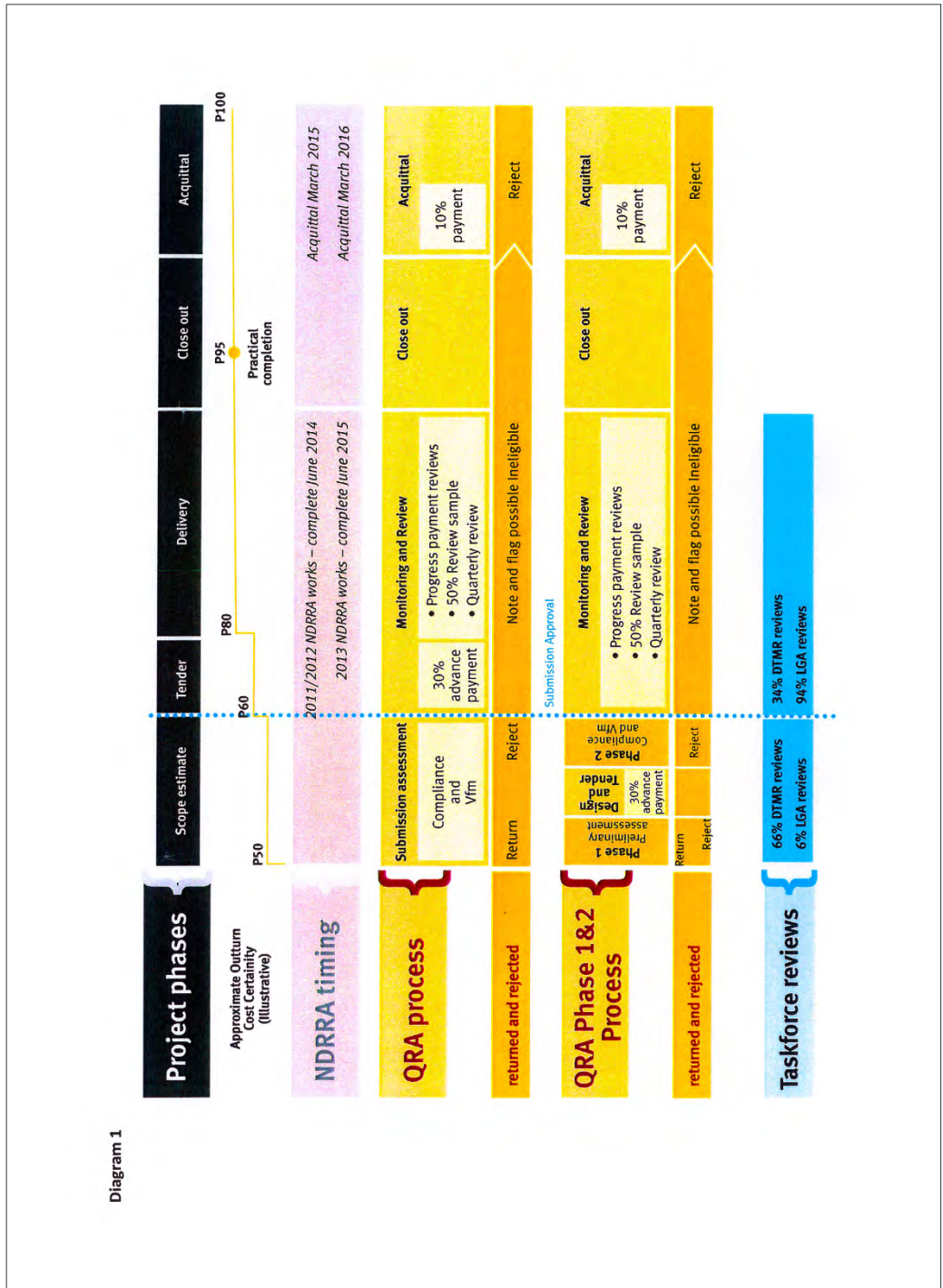
As illustrated at Diagram 1, the Authority essentially applies a continuous assessment process to NDRRA funding for each stage of a project (submission assessment, progress reporting and acquittal of funds). Through each stage of the process, submissions are assessed for eligibility and increasingly for value for money. QRA's value for money processes to-date, have avoided costs in excess of \$1.7 billion to the State and Commonwealth Governments.

### Phase 1 (preliminary assessment) and phase 2 process

As illustrated in Diagram 1, the phased assessment approach of NDRRA submissions was introduced by the Authority in an attempt to respond to the needs of delivery agents in the mobilisation phase of the NDRRA reconstruction program. At the same time, this remained consistent with the processes of the Authority's Value for Money (VfM) framework.

The Authority's preliminary assessment (phase 1) of submissions allowed for a 30 per cent advance payment to be made to a delivery agent, enabling delivery agents to start detailed design and go to tender before the detailed compliance and VfM stage (phase 2). The Authority completes its VfM assessments of all projects at phase 2, with continued VfM assessment at the relevant stages of delivery and close out.

Under a Funding Agreement / Memorandum of Understanding between the Authority and delivery agents, no further payments are made to delivery agents without a phase 2 approval and the Authority receiving and reviewing progress documentation for the various programs of work.





## EXTRACT TWO - NDRRA Policy Framework

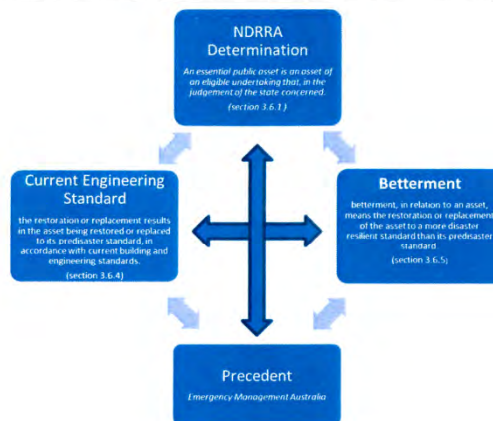
The policy environment framing the Authority's massive task of reconstruction, following its establishment in February 2011, included:

- The Determination 2011 and its accompanying guidelines
- The Queensland State guidelines (09/10) (these were out-dated)
- The precedent of approvals throughout Australia, via Emergency Management Australia.

The Determination and its accompanying guidelines are the primary source of guidance, however given the high level of policy advice and the lack of supporting detail, the NDRRA Determination was clearly not designed for such massive reconstruction over multiple disaster events.

The Authority took direction from precedent, via Emergency Management Australia, and was guided by the definition of an Essential Public Asset, which in the Determination is described as an asset of an eligible undertaking which **'in the judgement of the State'** concerned:

- is an integral and necessary part of the state's infrastructure; and
- would, if lost or damaged, severely disrupt the normal functioning of a community; and
- would, if lost or damaged, be restored or replaced as a matter of urgency.






Within the Determination 2011, there is an internal ambiguity surrounding clauses referring to 'current engineering standards' and 'betterment'. The fundamental conflict between the two clauses in the Determination (Clause 3.6.4 and 3.6.5), is that in rebuilding an asset to its pre-disaster functionality (or utility) using current engineering standards, there is an expectation current standards would have evolved from past standards, resulting in an incremental improvement.

Although the Determination does not provide a detailed explanation with regard to *current engineering standards* and *betterment*, greater clarity was provided in 2012, in the *Building it Back Better* resource, a report prepared with input from Griffith University, the University of Queensland, the Attorney-General's Department (i.e. Emergency Management Australia), and Australian State and Territory Governments:

*Already, in accordance with contemporary building standards, a restored asset will invariably attain a higher standard than that of the previous structure. In this report however, adherence to betterment principles means restoring an asset to a standard even higher than contemporary building standards, to make it more resilient to the types of natural disasters to which it is susceptible. (Building it Back Better, 2012).*

To overcome the ambiguity and to support the Authority's rigorous processes, the Authority contracts many highly qualified and experienced engineering and technical specialists to bring a high level of technical skill to Queensland's reconstruction program.

With regard to current engineering standards, some examples that illustrate this evolution of construction practices.

<p><b>Precast Concrete Box Sections in place of Corrugated Steel Pipe Sections</b></p> <p><b>Past Practice:</b> Hot dip galvanised steel corrugated pipes (often referred to as 'Armo' pipes) were predominantly used in culvert crossings, particularly where larger flow capacities were required.</p>		<p><b>Current Practice:</b> Precast concrete box sections are used primarily for new culvert installations in high flow capacity applications.</p>	 <p><b>Rationale for change:</b> Australian Standards require new guardrails to conform with AS/NZ 3945 Road Safety Barrier Systems and AS/NZ 4671 Steel Reinforcing Materials. Deflection of W-beam is greater (not as rigid). With increased deflection capabilities the W-beam can better absorb greater impacts, improving its function as a road safety feature.</p> <p><b>Past Practice:</b> Use of steel box beams for roadside guardrails.</p> <p><b>Current Practice:</b> Use of W-beam guardrail.</p>
<p><b>Stone Piling / mass rock protection replaced by Rock Mattresses</b></p> <p><b>Past Practice:</b> Protection to embankments and as head walls, Stone piling by hand placed mortar and stone protection. A heavy, mass stone protection by dropping rock as protection.</p>		<p><b>Current Practice:</b> rock/ Reno Mattresses whereby smaller rocks are encased in multiple 'gabion' style cage mattresses</p>	<p><b>Rationale for change:</b> The Type 3 material previously used to construct the shoulder was found to actually stop moisture from draining once a pavement became saturated causing greater saturation damage. A Type 2 material shoulder however enables this moisture to drain faster and reduces saturation damage. The improved availability of Type 2 materials and the changes in construction techniques make full width construction more cost effective and quicker. As Type 2 materials are typically more susceptible to surface water ingress than the Type 3 material, the common practice is to seal the shoulders to minimise water ingress under the pavement.</p> <p><b>Current Practice:</b> The construction of pavements using a base course (Typically a Type 2 granular material) across the width of the formation providing greater compressive strength and improved drainage but increased propensity for unravelling. It is common practice for the seal to be extended across the width of the formation to mitigate the risk of material unravelling.</p> <p><b>Shoulder Sealing</b></p> <p>The construction of pavements using a base course under the traffic lanes (Typically a Type 2 granular material) and then the construction of the shoulder using a 'select shoulder material' (Typically a Type 3 mainly clay material). The bitumen seal would then only cover the traffic lanes with a 500mm overlay onto the select shoulder material.</p> <p><b>Type 3 clay material to prevent moisture penetration</b></p> <p><b>Type 2 granular material with bitumen seal to prevent moisture penetration.</b></p>



7 OCT 2013  
 10 GED

Our ref DG22202  
 Your ref 2012/392

Department of  
**Transport and Main Roads**

2 October 2013

Ms Barbara Cass  
 Group Executive Director  
 Performance Audit Services Group  
 Australian National Audit Office  
 GPO Box 707  
 Canberra ACT 2601

*B 2/10/2013*

Dear Ms Cass

I refer to your letter dated 4 September 2013, seeking formal comments on the proposed audit report on the Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland.

I thank you for the opportunity to respond to your draft report. As requested, I have provided comments in response to the draft report in the enclosed document to provide clarification on the issues raised in the report.

I would also like to thank you for the opportunity for officers of my department to meet with you and your colleagues on 25 September 2013. I understand that a number of issues were discussed at the meeting. It should be noted that detailed project information and reports discussed are Commercial-in-Confidence and should not be published or provided to any party.

Progress on the Transport Network Reconstruction Program is progressing as planned with over \$4.5 billion out of a total of \$6.923 billion of work executed on the program to the end of August 2013 and 5,583 kilometres of damaged road now reconstructed. All remaining works are currently planned to be completed within the relevant natural disaster event funding deadline.

The Natural Disaster Relief and Recovery Arrangements (NDRRA) Determinations 2007, 2011 and 2012 state that restoration or replacement of an asset is to be undertaken to its pre-disaster standard, in accordance with current building and engineering standards.

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Website [www.tmr.qld.gov.au](http://www.tmr.qld.gov.au)  
 Email [neil.z.scales@tmr.qld.gov.au](mailto:neil.z.scales@tmr.qld.gov.au)  
 ABN 39 407 690 291

The Department of Transport and Main Roads (TMR) has developed the Transport Network Reconstruction Program Design Guidelines consistent with the NDRRA Determinations to ensure consistency across the state for the restoration works. While TMR has developed these guidelines, further clarification and agreement between state and federal agencies on current engineering standards to be adopted would increase the certainty for both the state and federal governments and the level of financial exposure.

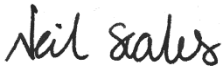
In summary, I would like to assure you that TMR is totally committed to ensuring that all works performed on the reconstruction effort are performed in a transparent manner and consistent with the high standards of accountability associated with such a program.

To ensure the appropriate transparency and accountability, TMR has utilised established systems which are used for its significant Queensland Transport and Roads Investment Program with adaptations where appropriate to meet the specific requirements of the reconstruction program. I also would like to assure you that TMR is committed to ensuring that the works performed offer the community best value.

I look forward to continuing to working collaboratively with the Federal Government on the delivery of this important program for the people of Queensland and Australia.

If you would like to discuss this matter further, please contact myself on (07) 3066 7112.

Yours sincerely



Neil Scales  
**Director-General**  
**Department of Transport and Main Roads**

Enc. (1)



LOCAL GOVERNMENT  
INFRASTRUCTURE SERVICES

3 October 2013

Ms Barbara Cass  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Ms Cass

Local Government Infrastructure Services (LGIS) thanks the Australian National Audit Office (ANAO) for the opportunity to comment on the proposed audit report on the Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland.

In December 2010, the Local Government Association of Queensland and LGIS met with representatives from the State Government to discuss options for assisting Queensland councils meet the latest requirements of the Natural Disaster Relief and Recovery Arrangements (NDRRA). LGIS subsequently developed service arrangements to assist councils progress works under those arrangements.

LGIS was engaged by 12 councils to assist with the assessment of damage and estimation of costs of eligible restoration works following the declared natural disasters of November 2010 to February 2011. The estimation of costs included:

- **direct costs of works** (based on unit rates built up by LGIS consulting engineers from first principles) and
- **indirect costs** (based on industry standards and consisting of contractor's overheads, council's project management costs, contingencies and price escalation) were added to the direct costs.

LGIS has reviewed extracts 4.26, 4.27 and 4.28 provided by the ANAO report and has some concerns with the paragraphs as written. LGIS considers that the proposed report would be enhanced by inclusion of further detail and correction of information in relation to the LGIS NDRRA service offering and in particular the development and use of cost estimates.

LGIS comments in relation to each extract are attached for inclusion in the final ANAO report.

Sincerely

John Curran  
Chief Executive

Cc: Mr Brian Boyd, Executive Director, Performance Audit Services Group

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#### EXTRACT PARAGRAPH 4.26

The following comments are provided in relation to ANAO extract paragraph 4.26

- **ANAO footnote 1 has incorrectly stated that “Queensland Treasury Corporation (QTC) is a for-profit, state government entity.”** This should be replaced with the following “Queensland Treasury Corporation (QTC) operates on a cost-recovery basis.”

#### Indirect cost estimates

During the development and assessment of NDRRA submissions, LGIS and QRA worked together to refine a relevant and acceptable approach to estimating the direct and indirect costs of restoration works. The principles agreed by the two organisations were set out in the ‘LGIS NDRRA Submission Development/Assessment Arrangements’ dated 24 November 2011, an extract of which is provided in attachment A.

The arrangements include the following agreed indirect costs as percentages of direct costs:

- Contractor’s overheads: 20%
- Contingency: 10%
- Project management (council) – including consultant fees: 10%
- Escalation: 0 to 8% depending on delivery timing.

The November 2011 agreement outlined above is the source of the estimate of 10 per cent for project management costs quoted in the letter from LGIS to QRA dated 3 February 2012.

**It should be noted that both parties (QRA and LGIS) understood that the indirect cost percentages were estimates for the purposes of funding submissions, and that funding claims would be based on actual costs.**

With regard to the following comment in paragraph 4.26, “the Taskforce also reported to the Inspectorate that councils assisted by Local Government Infrastructure Services (LGIS) also generally have higher indirect costs than those councils not assisted by LGIS”, it is unclear whether this statement relates to estimates or actuals. This should be clarified. **Again, both QRA and LGIS were very clear in the understanding that these were estimates only and claims would be based on actual costs.**

- **ANAO footnote 2 requires more clarity and further explanation.**

The 10 per cent fee referred to was an estimate for a number of costs, including:

- Project management costs (costs of consultants’ fees for contract administration and construction supervision, LGIS costs, office rental, telecommunication and cost for staff required to backfill for finance, purchasing and engineering): consultants’ fees and other costs.

Footnote 2 also states that council’s office rental and accommodation costs are not eligible for NDRRA funding. However, **QRA has advised LGIS and councils that these costs would be eligible for NDRRA funding if there were additional costs incurred by a council in supporting staff or contractors working on approved flood restoration works,**



and it is on that basis that the costs were included in the descriptions of project management costs quoted by QRA and LGIS. LGIS confirmed this understanding in an email to QRA dated 13 January 2012, and has always advised councils that only costs in addition to those normally incurred are eligible costs.

#### **EXTRACT PARAGRAPHS 4.27 and 4.28**

- **LGIS is not aware of a QRA letter to local governments referenced by ANAO in paragraph 4.27. This should be confirmed before such comment is made.**
- The “overheads” of 20-25 per cent referenced by ANAO in paragraph 4.27 appears to relate to the agreed “contractor’s overhead” estimate of 20 per cent, while the “overhead charges” Inspectorate’s benchmark rates mentioned may relate to project management costs. This needs further clarity.

**Again, it should be noted that both parties (QRA and LGIS) understood that the indirect cost percentages were estimates for the purposes of funding submissions, and that funding claims would be based on actual costs. As such, LGIS considers that actuals, not estimates, should be the key consideration.**

In this regard, the LGIS letter to the QRA dated 3 February 2012 also noted that the total cost of LGIS services at that time (including consultants’ fees passed on to councils with no margin) was less than 3 per cent of the estimated cost of restoration works across its client councils.

#### **Summary**

LGIS has worked closely with the QRA to ensure it can effectively assist councils meet the requirements of the NDRRA. This included agreeing with the QRA **acceptable estimates** for indirect costs such as additional costs incurred by council in managing their flood restoration programs, including consultants’ fees.

LGIS and QRA agreed to an estimate of 10 per cent of direct costs of works for council project management costs. The total actual costs of LGIS services for the 12 councils that engaged LGIS following the 2010-2011 events is significantly less than the cost estimate.

**Attachment A:**  
**Extract from LGIS NDRRA Submission Development / Assessment Arrangements**  
**As developed between LGIS and Queensland Reconstruction Authority (QRA)**  
**24 November 2011**

*Specific Inclusions*

Contingencies/Overheads

Allowance	Rate (%)
Contractor's overhead – direct costs	20
Contingency – direct costs and overheads	10
Project management (Council) – incl. consultant fees	10

Price Escalation

Rates to reflect expected timing of delivery of works, as per below  
 (applied to direct costs, overheads and contingencies)

Expected Delivery Timing	Escalation rate (%)
By 30 June 2012	0
1 July 2012 to 31 December 2012	4
After 31 December 2012	8





**Blackall-Tambo**  
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Reference No: 2012/392  
KLT:rm  
Enquiries: Ken Timms

11 OCT 2013

**Blackall-Tambo Regional Council**

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4 October 2013



Ms Barbara Cass *Barbara Cass 11/10/2013*  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
**CANBERRA ACT 2601**

Dear Madam

**RE: EXTRACT FOR BLACKALL-TAMBO REGIONAL COUNCIL - PROPOSED AUDIT REPORT ON THE CONDUCT OF VALUE FOR MONEY REVIEWS OF FLOOD RECONSTRUCTION PROJECTS**

Further to our telephone conversation on 3 October 2013, I wish to confirm that Council is of the belief that the Statements in Sections 5.17 and 5.19 of the proposed report on the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland are incorrect and should be amended.

In regards to Section 5.17, Council wishes to state that the paragraph is in error by asserting that the submitted value was \$31.56 million and the approved value was \$9.37 million. Council's original submission was for \$31 million. A **conditional** approval of \$9 million was approved to enable work to commence while the overall submission was considered and consequently approval was later granted for \$31 million. The cost of stabilisation was also only a minor cost in the overall project and is standard procedure on roads constructed by Council, the Department of Transport and Main Roads and by other local governments in surrounding regions.

In regards to Section 5.19, Council wishes to state that submissions were prepared based on restoration to the current engineering standards as directed by Council road hierarchy and design guidelines. These engineering standards were viewed by the Queensland Reconstruction Authority and considered to represent an enhancement to the network. Council believes that a clear definition of current engineering standards and enhancement is required, as the Queensland Reconstruction Authority appears to have gone from a current engineering policy to a replacement of what was existing policy, disregarding engineering standards.

Evidence supporting these claims has been attached for your reference. If you have any questions or require any further information, please do not hesitate to contact the undersigned.

Yours faithfully

**KL Timms**  
**CHIEF EXECUTIVE OFFICER**

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*Dedicated to a better Brisbane*

Brisbane City Council ABN 72 002 765 795

9 OCT 2013  
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2 October 2013

Ms Barbara Cass *Bar* 9/10/2013  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Ms Cass

Thank you for your letter of 5 September 2013 seeking Brisbane City Council's (Council) formal response to the extract of the proposed audit report on the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland.

As noted in the extract, Council has conducted NDRRA works through its Brisbane CityWorks (BCW) commercialised business unit. BCW service has a well-established history and was restructured in 1998 as part of Council's response to the National Competition Policy (NCP) reform agenda. Due to its scale and external competitive activities, BCW is categorised as a type 1 business for NCP purposes. Accordingly, BCW complies with NCP requirements and provides full disclosure in accordance with the *City of Brisbane Regulation 2012*. This includes full cost pricing and reporting of financial statements and budgets in the annual financial report and budget documents. BCW was incorporated into the newly formed Field Services Group (FSG) within Council in July 2011. The restructure has not changed the scope or nature of Council's NCP business activities.

The mobilisation of FSG resources and reimbursement of associated costs follows the precedent set by previous successful claims lodged by Council for FSG works related to the November 2008 storms, the March 2009 Moreton Bay oil spill, and the May 2009 floods.

FSG was best placed to provide responsive and optimal value in carrying out NDRRA works given the enormity of the task and its access to extensive resources, knowledge and expertise in areas such as road and park maintenance, street cleaning, high-level civil construction, asphalt manufacture, design and project management. It should be noted that in order to mobilise and provide a sustained response:

- FSG staff were re-directed from revenue generating work to undertake disaster recovery work.
- day labour employed via recruitment or labour agencies were engaged to complete disaster recovery work.

.../2

-2-

FSG undertakes significant commercial contestable external work as well as undertaking work for Council. Accordingly, FSG charges all customers, including Council on an arms-length basis, using full cost pricing and successfully attracts external work at commercially competitive rates. The NDRRA work was undertaken on a direct cost recovery basis only and did not include recovery of support costs and overheads. As such the reimbursed costs were a substantial reduction to full cost recovery, commercially competitive rates.

Council is of the view that, had it sought external providers other than FSG to carry out the NDRRA works, Brisbane would have captured a significant share of the available construction and engineering resources in South East Queensland (SEQ). This in turn would have negatively impacted on the surrounding local governments' capacities to respond to their own restoration works. Further, the shortage of available resources created by Brisbane's demand would have undoubtedly driven restoration costs upwards for the surrounding local governments.

FSG's ability to respond quickly coupled with discounted rates below market price to carry out NDRRA works represented the best value outcome not only for Brisbane, but also for the broader SEQ region and the Queensland and Australian Governments.

I note that the extract also makes reference to the approved extension for the completion of the Brisbane River Ferry Terminals project by a further 12 months to 30 June 2015. The extension resulted from a number of factors including the Australian and Queensland Governments launching an international design competition for the damaged terminals, as well as Council embarking on an extensive engineering exercise to ensure value for money during the design phase. Council is undertaking every effort to ensure that the project is completed as early as possible.

While the extract indicates that substantial advance payments were made to Queensland in 2011 and 2012 to ensure that recovery and reconstruction could commence as soon as possible, it should be noted that Council's total actual reconstruction and recovery costs to date exceed the advance payments received.

If you have any further questions regarding Council's response, please contact Mr Paul Oberle, Chief Financial Officer, on (07) 3403 7884.

Yours sincerely



Colin Jensen  
**CHIEF EXECUTIVE OFFICER**



GED.  
1 OCT 2013

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24 September 2013

Barbara Cross – Group Executive Director  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

110 2013

Dear Ms Cross

Re: Proposed Audit Report on the Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland

I refer to your letter dated the 05 September 2013 regarding the Extract for Bundaberg Regional Council of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland and provide this formal response. Council accepts the extract and wishes to provide the additional information in relation to section 6.18 of this report.

In January 2013 Council experienced Tropical Cyclone Oswald and associated rainfall and flooding. Due to this event, Council requested and has received extensions of time for our 22 Restoration of Essential Public Assets submissions under the 7L event, Tropical Cyclone Tasha and Anthony, November 2010 to February 2011. Council is currently on schedule to meet the extension of time deadlines with 19 of our submissions being due for completion on 31 October 2013; two (2) due to be completed on 31 December 2013 and the final submission due for completion on 30 April 2014.

Thank you for the opportunity to comment on this extract. Should you have any enquiries in relation to this matter please contact Council's Chief Financial Officer, Anthony Keleher, on 1300 883 699.

Yours faithfully

  
Glenn Hart  
Acting Chief Executive Officer

File No: FM/0004



GED  
20 SEP 2013  
9:30

ENQUIRIES: Stephen Agius  
PHONE: 07 4044 3387  
YOUR REF: 2012/392  
OUR REF: #4124237

20<sup>th</sup> September 2013

Barbara Cass  
Group Executive Director *Barbara Cass*  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Ms Cass,

**RE: Response to Proposed Audit Report**

I refer to your correspondence dated 5<sup>th</sup> September 2013 in which you outline relevant portions of the proposed audit report on the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland.

In response to the proposed report I provide the following comment:

Cairns Works was established in approximately 2000 to ensure the effective and efficient provision of Transport, Parks and Foreshore and Drainage services to the Cairns Community. Cairns Works is regularly benchmarked with private enterprise and has achieved strong outcomes in terms of both cost and quality. This structure was in place well before Business Units ever came under scrutiny.

Council strongly believes that at all times it has acted in good faith and in accordance with the NDRRA Guidelines.

Thank you for the opportunity of commenting on the proposed report.

Yours sincerely

*[Handwritten Signature]*  
Kelly Reaston  
Acting Chief Executive Officer

For all correspondence:  
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Council Chambers  
119-145 Spence Street, Cairns Q 4870  
P: 07 4044 3044 | F: 07 4044 3022

Mossman Administration Centre  
64-66 Front Street, Mossman Q 4873  
P: 07 4099 9444 | F: 07 4098 2902

SEP 2013  
9.30



PLEASE QUOTE

YOUR REFERENCE: 2012/392

OUR REFERENCE: TB:jlc-20130917215

ENQUIRIES TO: Mr Terry Brennan

17 September 2013

Ms Barbara Cass  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

2013 2013

Dear Ms Cass

**Proposed Audit Report - Australian Government Reconstruction Inspectorate - Value for Money Reviews of Flood Reconstruction Projects in Queensland**

I refer to your letter of 5 September 2013 advising that the Australian National Audit Office (ANAO) has prepared a proposed audit report on the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland.

It is noted that you have forwarded Council an extract from the proposed report containing specific references to approved NDRRA reconstruction projects being undertaken by the Cassowary Coast Regional Council and which were subject to review by the Inspectorate.

The Council has reviewed the extracts from the proposed report and does not have any comments to offer in relation to Chapter 4 - paragraph 4.43 relating to the Category B and Category D works associated with the Reconstructing Cardwell project.

With regard to the extract provided for Chapter 5, paragraphs 5.20 to 5.22, which relate to restoration works at aerodromes in the Cassowary Coast region, the Council does not agree with the paragraph heading of 'Excessive works in relation to damage' if it is meant to relate to the works undertaken at its aerodromes. The bulk of the approved package of works relates to restoration of damage to the taxiway at the Tully aerodrome, which work includes the restoration of grassed verges along the sides of the taxiway following the completion of the pavement repairs.

In a footnote to paragraph 5.21 a reference is made to funding received by Council under the Queensland Government Regional Airport Development Scheme (RADS) for works at the Tully and Mundoo aerodromes. There has been no overlap with the expenditure of these funds on the NDRRA approved works.

..2/..

CASSOWARY COAST REGIONAL COUNCIL

Address all correspondence to the Chief Executive Officer.

PO Box 887, Innisfail Q 4860

T: 07 4030 2222

F: 07 4061 4258

E: enquiries@cassowarycoast.qld.gov.au

W: www.cassowarycoast.qld.gov.au

OFFICE LOCATIONS:

Innisfail: 70 Rankin Street

Tully: Civic Centre, 38-40 Bryant Street

- 2 -

Proposed Audit Report - Australian Government Reconstruction Inspectorate - Value for Money Reviews of Flood Reconstruction Projects in Queensland

The works undertaken with the RADS funding at the Tully aerodrome involved reseal works to the existing runway and sealing of an extension of the runway at the southern end of the strip. The NDRRA restoration works at the Tully aerodrome involve the replacement of runway strip markers damaged in the cyclone and repairs to the taxiway which connects the aircraft parking area to the runway at the northern end of the strip.

The works undertaken with the RADS funding at the Mundoo aerodrome involved resealing and line marking works to the taxiway at the aerodrome, whilst the NDRRA restoration works involved the replacement of some runway strip markers at the aerodrome.

I trust the above comments are of assistance in finalizing the relevant extracts in the proposed report. Thank you for the opportunity to comment on the extracts.

Yours faithfully



**Terry Brennan**  
**CHIEF EXECUTIVE OFFICER**

## CHARTERS TOWERS REGIONAL COUNCIL

*Exceptional Service for an Exceptional Community*



1 October 2013

Our Ref: ECM Doc #  
File Ref: 11/PRO/40  
Enquiries: Tammy Power  
Director Corporate Services

Australian National Audit Office  
Emailed to Brian.Boyd@anao.gov.au  
GPO Box 707  
CANBERRA ACT 2601

Dear Brian

**Re: Proposed Audit Report on Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland**

Following is Council's formal response to the extract of the proposed report to be included in an appendix to the final audit report. The main objective of Council's response is to bring perspective to the message which the extract may deliver.

The emergent works reviewed were relative to Cyclone Yasi 2011. This was the event during which the management of NDRRA funding transferred from the Local Government Department across to the Queensland Restoration Authority. The transitional environment contributed to variations in understanding and reporting.

- The suggestion that the general ledger substantiation provided was less than the \$137,152 day labour claimed differs from Council records. Council records agree that \$137,152 was claimed, however, ledger substantiation was much higher than the \$137,152 claimed, as overtime and limited tenure wages were stripped off the total payroll reported to come back to the claim required to be reported as day labour.
- On-Costs are permitted for approved day labour components up to 56% for payroll, plus standard plant on-costs, while no on-costs are permitted for creditors and stores. However it was well over twelve months following the initial emergent claim before QRA were able to define what on-costs were permitted and what were not. As such, reasonable oncosts which had previously been approved under the former events were continued into the Yasi event. No intentional ineligible claims were submitted, and when guidelines were presented which resulted in changes to oncosts claimed, these changes were applied to existing and future claims.

Yours faithfully

MP Crawley  
Chief Executive Officer

PO Box 189  
CHARTERS TOWERS QLD 4820  
Administration: 12 Mosman Street  
ABN 67 731 313 583  
CTRC-000501

Telephone: (07) 4761 5300  
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Email: mail@chartersowers.qld.gov.au  
www.chartersowers.qld.gov.au





All correspondence addressed to:  
The Chief Executive Officer

17 Herbert Street  
**BEDOURIE QLD 4829**

**Telephone:** (07) 4746 1202  
**Facsimile:** (07) 4746 1272

 [www.diamantina.qld.gov.au](http://www.diamantina.qld.gov.au)

# Diamantina Shire Council

15 October, 2013

Mr Brian Boyd  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
**CANBERRA ACT 2601**

[brian.boyd@anao.gov.au](mailto:brian.boyd@anao.gov.au)

Dear Mr Boyd

DIAMANTINA SHIRE COUNCIL  
REPLY TO PERFORMANCE AUDIT OF THE AUSTRALIAN NATIONAL AUDIT OFFICE  
RECONSTRUCTION INSPECTORATE'S CONDUCT OF VALUE FOR MONEY REVIEWS OF FLOOD  
RECONSTRUCTION PROJECTS IN QUEENSLAND

In reference to your correspondence dated September 5, 2013 we wish to submit our formal reply in relation to this matter.

Unfortunately, your correspondence was not received at our office until October 10, 2013. The delay in receiving your correspondence was due to the recent replacement of the Chief Executive Officer. Unfortunately the letter in question was sent to the vacant house of the previous Chief Executive Officer, rather than the Council office. Council appreciates the opportunity to provide a response given the closing date for submissions had passed.

Council's formal responses to the proposed audit report as are follows:-

3. Project Sampling Approach

No Comment

4. Cost of Reconstruction Work

Benchmarking the estimates of Diamantina Shire Council against Rawlinsons and Black-Tambo Regional Councils is not appropriate and extremely unreliable.

Firstly, the Blackall-Tambo Regional Council is a not a neighbouring Council of the Diamantina Shire Council, as stated by the Taskforce. In fact, the Blackall-Tambo Regional Council Tambo office is located 700km east of Bedourie or 1072km by sealed road. There is a significant difference in the cost of road making materials and labour of the councils given the vast distance between them. Other factors such as the harsh climatic conditions experienced within the Diamantina Shire and the additional costs to attract and retain skilled staff impacts on its cost base.

Rawlinsons provides a theoretical cost of constructing infrastructure which in the view of this Council does not take into account the reality experienced within our shire.

FOR ENQUIRIES PLEASE CONTACT:

Leon Love

IN REPLY PLEASE QUOTE:

SB:LL:SR:172.2013

YOUR REFERENCE:

***SUSTAINABLY DEVELOPING THE OUTBACK***

Even comparing our Council against our neighbours (Boulia Shire Council and Barcoo Shire Council) will still result in different estimates given the factors mentioned above.

#### 6. Timeliness of Reconstruction Progress

Council does not support the view held by the Taskforce that ineligible oncosts have been claimed as per section (section 6.38). Our position is supported by the following extract taken from the Queensland Competition Authority website:-

*With the objective of improving the efficiency and productivity of the Australian economy, all Australian governments have agreed to adopt a number of competition initiatives with respect to government business activities, known collectively as National Competition Policy. Competitive neutrality is a key element of this policy.*

*Competitive neutrality requires that public sector business activities which are in competition with the private sector should not have competitive advantages or disadvantages simply by virtue of their government ownership or control.*

Diamantina Shire Council's oncosts are calculated in accordance with the competitive neutrality principles required by the National Competition Policy. Application of these principles results in a full cost pricing methodology being applied to reflect the full and accurate cost of providing relevant activities and services, including road construction and maintenance. Oncosts are used to apply full cost pricing to Council roadworks business activity.

Council has a robust model for determining the oncost percentage which is reviewed annually.

The Creditors oncost recovers the administrative costs associated with the payment of invoices, an indirect cost of Councils business activities. This oncost reflects the 'full cost' of the processing, payment and auditing functions in relation to Flood Reconstruction works. Given that Flood Reconstruction works can double or triple Diamantina Shire Councils budget this is a fair reflection of the true cost of providing this service.

The Plant oncost includes provision to recover indirect costs associated with the operation of Councils workshop, depots and mobile camp equipment as a part of its Plant business activity. The oncost percentage reflects the 'full cost' of provision, servicing and general maintenance of a plant fleet and these are costs which would be payable by any other entity (private or government owned) operating in our location.

The Stores oncost includes provision to recover expenditure related to the operation of the Council 'store' which contains over \$1.5M in inventories including items such as cement, gas, fuel, tyres and other consumables that are required to be readily available to ensure efficient council operations. Diamantina Shire is very remote and the holding of 'Stores' serves the crucial roll of procurement, delivery, storage and issuing of these materials when required (as these products are not available from a commercial entity located in the region).

The Wages oncost recovers costs associated with the employment of staff above their pure wage cost and includes superannuation, long service leave, annual leave, sick leave, workers compensation, training and workplace safety. This oncost reflects the 'full cost' of employing staff and these are costs would be payable by any other entity (private or government owned) operating in our location.

Care should be exercised when performing benchmarking in relation to oncosts. Each and every Council or business has a different operating model. For instance, a council with ready access to economical contract plant will have different maintenance support requirements to an organisation that relies almost entirely on internal plant. Similarly, an organisation with ready access to well serviced suppliers and short logistics chains will have different Stores requirements than a remotely located organisation with long and convoluted logistics chains.

It is Diamantina Shire Councils firm belief that the oncost details as outlined above reflect the concept of 'Full Cost Pricing' in accordance with the National Competition Policy principles and accurately reflect the true cost of providing services in one of the nations remotest locations.

We extend an invitation to the Australian National Audit Office to work with and visit Diamantina Shire Council to review in detail and work through our oncost calculations and modelling.

If you would like to discuss this matter further please contact me direct on 07 4746 1202 (extension 125).

Yours faithfully



Leon Love  
**CHIEF EXECUTIVE OFFICER**

cc Mr Stuart Bourne, Senior Engineer, George Bourne and Associates (gbourne@gbassoc.com.au)




Please address all correspondence to The Chief Executive Officer

GED  
20 SEP 2013  
7:30

Contact Officer: Rob Huth  
Reference: ECM#3310950; RD11.1; RHrv  
Your Reference: 2012/392

13 September 2013

  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Sir / Madam

**RE: PROPOSED AUDIT REPORT ON THE PERFORMANCE AUDIT OF THE AUSTRALIAN GOVERNMENT RECONSTRUCTION INSPECTORATE'S CONDUCT OF VALUE FOR MONEY REVIEWS OF FLOOD RECONSTRUCTION PROJECTS IN QUEENSLAND - GLADSTONE REGIONAL COUNCIL RESPONSE**

I refer to correspondence dated 5 September 2013 from your office (Ref:2012/392) pertaining to flood reconstruction works within the Gladstone Regional Council.

The extract of the report provided mentions submission GRC.3.11 in the context of road widening and other complementary works. Works in this submission predominantly involve grading and re-gravelling unsealed rural roads, as well as drainage works.

The approved submission value is \$6.30 million and the final cost of delivering the work is \$3.53 million.

It is confirmed that all widening (or complementary works) undertaken on existing flood damaged roads has been funded by Gladstone Regional Council. Gladstone Regional Council has made no application for funding through the Queensland Reconstruction Authority, nor has any funding been received for these activities.

If you require any further information relating to this matter do not hesitate to contact Rob Huth ([RobH@gladstonerc.qld.gov.au](mailto:RobH@gladstonerc.qld.gov.au)) or Kent Barnes ([kent.barnes@arecongroup.com](mailto:kent.barnes@arecongroup.com)).

Yours sincerely

ROB HUTH  
MANAGER ROAD SERVICES



PO Box 155  
Gympie QLD 4570  
Phone: 1300 307 800  
Fax: (07) 5481 0801  
ABN: 91 269 530 353

## Infrastructure Services

Technical Services Division  
Phone: (07) 5481 0899  
Email: works@gympie.qld.gov.au

9 OCT 2013  
10 GAD

Our Ref: 4-1-05-0001      BJS:GGC:KAT01088  
Your Ref:

3 October 2013

Ms Barbara Cass   
Group Executive Director  
Performance Audit Services Group  
GPO Box 707  
CANBERRA ACT 2601

Dear Barbara

**RE: Proposed audit report on the Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland**

Council acknowledges your correspondence and offers the following formal comments with respect to paragraph 4.48 provided.

- Council's correspondence of 4 April 2011 (attached) clearly shows the extent of the works proposed.
- The Queensland Disaster Relief and Recovery Arrangements 2009-10 state that *"Funds are provided to restore essential public assets, damaged by an eligible disaster event, to its pre disaster standard. This includes restoration in accordance with current engineering standards/requirements and building codes/guidelines."*
- The works as submitted were approved by the Queensland Reconstruction Authority in correspondence dated 6 May 2011 (attached). This correspondence states *"This application has been examined in terms of eligibility under the joint Commonwealth and Queensland Government Natural Disaster Relief and Recovery Arrangements (NDRRA) applying to the Gympie Regional Council. The Queensland Reconstruction Authority has concluded that Council's submission of works totalling \$657,271 is eligible for funding assistance under the NDRRA."*
- The works were constructed in accordance with the submitted drawings and the Geotechnical Report.

Council also offers the following additional commentary.

- Council notes that the Queensland Disaster Relief and Recovery Arrangements, and the processes of the Queensland Reconstruction Authority have matured over time.

www.gympie.qld.gov.au  
1/2  




## Infrastructure Services

Technical Services Division  
Phone: (07) 5481 0899  
Email: works@gympie.qld.gov.au

PO Box 155  
Gympie QLD 4570  
Phone: 1300 307 800  
Fax: (07) 5481 0801  
ABN: 91 269 530 353

- Page 2 -

- The April 2013 version of the Guidelines offers more clarity as to what the National Disaster Relief and Recovery Arrangements will pay for.
- The objective of Natural Disaster Relief and Recovery Assistance funding is to restore normality to the community. Local Governments and the Queensland Reconstruction Authority are practically in the best position to do this. These entities have the best understanding of each job and should be given some latitude to interpret the Guidelines and deliver value for money outcomes for the community.

Should you have any enquiries in relation to this matter, please contact council's General Manager - Technical Services Mr Grayden Curry on (07) 5481 0899.

Yours faithfully

**B.J. SMITH**  
**CHIEF EXECUTIVE OFFICER**

Enc



**HINCHINBROOK  
SHIRE COUNCIL**

25 SEP 2013

**ENGINEERING SERVICES**

25 Lannercost St  
Ingham QLD 4850

Telephone: (07) 4776 4605  
Facsimile: (07) 4776 3233

Your Ref: 2012/392  
Our Ref: BEL:RLS File No :  
O:\Built Environment\Floods\Cyclone Yasi - February 2011\AECOM - Yasi Recovery Works\Letters\Letter\_Performance Audit\_23.09.2013.doc  
Enquiries: **Mr Bruce Leach** ☎ (07) 4776 4605

23 September 2013

Ms Barbara Cass  
Group Executive Director  
Performance Audit and Services Group  
GPO Box 707  
CANBERRA ACT 2601

Copy to:-  
Brian Boyd  
Executive Director  
Email: brian.boyd@anao.gov.au

Dear Ms Cass

**RE: PROPOSED AUDIT REPORT ON THE PERFORMANCE AUDIT OF THE AUSTRALIAN GOVERNMENT RECONSTRUCTION INSPECTORATE'S CONDUCT OF VALUE FOR MONEY REVIEWS OF FLOOD RECONSTRUCTION PROJECTS IN QUEENSLAND**

Reference is made to your correspondence dated 5 September 2013 in regard to the above matter.

Following is our formal response to the proposed section of the Report concerning Hinchinbrook.

HSC 10.11 was a reconstruction package involving pavement repair works to a number of sealed roads in the Shire.

Discussion was had with Queensland Reconstruction Authority (QldRA) in regard to the eligibility of works on two fronts:-

- Width of reconstructed pavements – Many of the Shires rural roads feature 4m wide seals on 7m wide pavements. The philosophy of this treatment is that full width pavements are required to support the heavy cane "haulout" vehicles which make extensive use of the road network in the cane harvest season (normally about July to November). Council cannot justify full width seals on these roads and instead opts for the 4m seal which recognises the heavy traffic use is of a seasonal nature. The notion of excess pavement works based on the false assumption that pavement width matches seal width on these roads.
- Seal Width – Council has set aside an amount of Complimentary Funds to widen narrow seals to a 4m minimum standard as Natural Disaster Relief and Recovery Arrangement [NDRRA] works progress throughout the network. There are some narrow seals in the HSC 10.11 package which have been widened as complementary works.

Works are complete on HSC 10.11 and the scope has been settled.

All official correspondence should be addressed to the Chief Executive Officer

25 Lannercost St PO BOX 366 Telephone (07) 4776 4600 Email ceo@hinchinbrook.qld.gov.au  
Ingham QLD 4850 Ingham QLD 4850 Facsimile (07) 4776 3233 Web www.hinchinbrook.qld.gov.au



**RE: PROPOSED AUDIT REPORT ON THE PERFORMANCE AUDIT OF THE AUSTRALIAN GOVERNMENT  
RECONSTRUCTION INSPECTORATE'S CONDUCT OF VALUE FOR MONEY REVIEWS OF FLOOD RECONSTRUCTION  
PROJECTS IN QUEENSLAND**

Should you wish to discuss this matter, or require any further information or clarification, please contact Council's Executive Manager Engineering Services, Bruce Leach, on ☎ 4776 4605.

Yours sincerely

L E Mash  
CHIEF EXECUTIVE OFFICER



Per  
B E Leach  
EXECUTIVE MANAGER ENGINEERING SERVICES



Your reference  
Our reference  
Contact Officer Carl Wulff  
Telephone 07 3810 6209

3 OCT 2013  
To GED



**Ipswich City Council**

45 Roderick St  
PO Box 191  
Ipswich QLD 4305  
Australia

**Tel** (07) 3810 6666  
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**Email** council@ipswich.qld.gov.au  
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Australian National Audit Office  
Barbara Cass  
Group Executive Director  
GPO Box 707  
CANBERRA ACT 2601

30 September 2013

Dear Barbara

**Re: Proposed audit report on the Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland**

Ipswich City Council's (ICC) approach to the 2011 Flood Event was predicated on an understanding of "essential assets" as more than roads, drains and bridges. The position that ICC took in its discussions with the QRA addressed VfM submission requirements that included (from *QRA Form 6 – VfM*):

*"VfM Criteria – Value & Cost Objectives*

*A. Project Objectives*

*How the objectives are consistent with the key strategic milestones and the Lines of Reconstruction priorities described in the State Plan (Section five and Section six of "Operation Queensland – The State Community, Economic and Environmental Recovery and Reconstruction Plan 2011-2013")"*

The restoration of the City's flood-damaged recreational facilities addressed the following elements of the State Plan -

- Key Strategic Milestone 5 - "Reopening of critical infrastructure and services";
- Key Task 1 - "Reconnect people and communities"; and
- Key Task 4 - "Develop restoration projects and activities in the State Plan".

Local government is by its nature the level of government closest to the community. The range and type of its physical assets is generally more grass-roots than at the state and Federal levels of Government. Typical local government asset portfolios contain a very large number of asset types – community recreational facilities – that address social welfare objectives. They are facilities that are integral to the everyday lives of residents.

These assets are key “essential assets” of local government, and restoration specifically addresses the Key Milestones and Tasks noted above. These assets provide residents with a level of public amenity that contributes significantly to the social welfare of communities in terms of mental health, physical fitness and community engagement.

As such, they have been and remain a high priority for reconstruction after natural disasters. We note the significant community response that followed exclusion of these assets from eligibility in 2012 - as noted in the QRA response to the ANAO – supports Council’s position on the importance, or essential nature, of these assets.

Yours sincerely



Carl Wulff  
**CHIEF EXECUTIVE OFFICER**

When contacting Council please ask for  
Craig Barke  
Tel: 07 5540 5308  
Ref: 04/02/002  
Confidential

27 SEP 2013

TOGED



82 Brisbane Street  
PO Box 25  
BEAUDESERT QLD 4285

Tel 07 5540 5111  
Fax 07 5540 5103

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www.scenicrim.qld.gov.au

ABN: 45 596 234 931

20 September 2013

Ms Barbara Cass  
Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601 *21/9/2013*

Dear Ms Cass

**Proposed audit report on the Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland**

Thank you for your correspondence received 9 September 2013, advising of the proposed audit report on the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland, and providing an opportunity for Council to respond to chapter 3, section 3.31 of the proposed report.

In response, Council has had no role in the determination of the Project Sampling Approach. Therefore, Council offers no comment on the information contained in chapter 3 Project Sampling Approach, section 3.31 of the proposed report.

Once again thank you for the notification of the proposed report, and opportunity to respond. Should you require further information, please contact me on 5540 5308.

Yours faithfully

A handwritten signature in black ink, appearing to be "CB", written over the typed name of Craig Barke.

Craig Barke  
CHIEF EXECUTIVE OFFICER



7 OCT 2013  
o Red

## Tablelands Regional Council

Mareeba Service Centre  
PO Box 154, Mareeba QLD 4880  
Telephone: 1300 362 242

Infrastructure and Maintenance Services  
Trevor Adil  
General Manager  
Telephone: (07) 4043 4202  
Facsimile: (07) 4092 5138  
Email: marjoriea@trc.qld.gov.au

File Ref: AUD-DIS TSA:MJA  
Your Ref: 2012/392

2 October 2013

Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601  
7/10/2013

Attention: Ms Barbara Cass

Dear Ms Cass

**PROPOSED AUDIT REPORT ON THE PERFORMANCE AUDIT OF THE AUSTRALIAN  
GOVERNMENT RECONSTRUCTION INSPECTORATE'S CONDUCT OF VALUE FOR MONEY  
REVIEWS OF FLOOD RECONSTRUCTION PROJECTS IN QUEENSLAND**

I refer to your letter of 5 September 2013.

As requested please find attached Council's comments on points raised by the Inspectorate forwarded to Council under cover of your letter dated 5 September.

Should you wish to discuss any aspect of this matter further, please direct your enquiry to the author on 4043 4202.

Yours faithfully

**TREVOR ADIL  
GENERAL MANAGER INFRASTRUCTURE AND MAINTENANCE SERVICES**

Attachment: Audit Comments

**2.58** In the Tier One review completed in October 2012 for a Tablelands Regional Council project with an approved value of \$2.94 million involving the restoration of rural roads in the Mareeba area of the Far North Queensland region (TaRC.4.11), the Taskforce found that the proposed replacement of pavement to a depth of 300mm was excessive and recommended that unless further justification is provided, only a depth of 150mm was eligible under NDRRA. The Taskforce estimated that, combined with a reduced unit rate from \$138.80 to \$50-\$60 per square metre, the cost of this part of the works should be reduced by 71 per cent or by a total value of \$1.03 million.

In response to 2.58:

*It is stated above that 300mm gravel depth is considered excessive:*

For Springs and Chewko Roads both 2010 and 2011 restoration work was being undertaken.

- The guidelines for 2010 and 2011 restoration was that reconstruction was to be to current engineering standards.
- The Far North Queensland Regional Organisation of Councils (of which Tablelands Regional Council is a member) Manual requires a 250mm pavement depth
- Consulting engineers (RPEQ certified) design based on the sub-grade conditions recommended 300mm pavement depth
- In audit item 2.59, the auditors quote the actual TRC cost as between \$50 and \$55 per m<sup>2</sup>.
- The current QRA compulsory Form 4 has a set treatment which states, "Reconstruct roads full width -Trim to ≤440mm for full width of existing road including reformation of shoulders. Reconstruct using ≤ 200mm sub-base, ≤ 140mm Type2.3 granular sub-base and unbound base excl seal"
- Justification was provided to the auditors during their visit.

*It is stated above that there should be a reduction in the pavement part of works by \$1.03 million*

- The unit rate of \$138.80 quoted was the rate used in the restoration submission provided to the Queensland Reconstruction Authority (QRA).
- In discussions with QRA following Cyclone Yasi there was a concern that there could be an escalation of rates due to the limited number of contractors available to undertake the volume of work. Competitive tendering of small to medium contracts by TRC resulted in cost effective works delivery with minimal overhead costs. This was reflected in the TRC, and QRA estimated rates.
- Actual unit rates are based on tenders. For this contract the accepted tender price for the pavement per m<sup>2</sup> was \$62.47, (based on Chewko Road which was the more expensive of the two).
- The highest tendered price was \$136.50 per m<sup>2</sup>, demonstrating the prudence of the unit rates lodged with the submission.
- Based on the results of the tender accepted by Council, there has been a saving in actual costs against the approved submission value.

- The addition of component costs from the current QRA form 4 for the activities contained in the submission rate of \$138 per m<sup>2</sup> are:
  - Reconstruct roads full width - Trim to ≤440mm for full width of existing road including reformation of shoulders. Reconstruct using ≤ 200mm sub-base, ≤ 140mm Type 2.3 granular sub-base and unbound base excl seal \$90.14 m<sup>2</sup>
  - Resurface-Spray Seal-Place a new 7-14mm double seal surface treatment \$11.25 m<sup>2</sup>
  - Reshape table drain - Grade and reshape table drain including cleaning out existing drains \$13.05 m. Equated to \$45.68 m<sup>2</sup>
- Total of current QRA estimate rates for similar works \$147.07 m<sup>2</sup>

The TRC's submission unit rate of \$138 per m<sup>2</sup> is not inconsistent with this rate.

**2.59** A Tier Two review was recommended to further investigate these costs, as well as the eligibility of some road widening activities and pre-existing damage (potential reductions in costs for these two issues were not quantified in the Tier One report). The Tier Two review report was submitted to the Inspectorate in January 2013. It found that the actual costs for pavement restoration as reported by Council in December 2012 (between \$50 and \$55 per square metre) were in line with the restoration costs for similar activities in nearby regions. However, the Tier Two review also quantified the road widening activities as costing an estimated \$216 114. A Tier Three review was recommended. In May 2013, the Tier Three review report recommended that, due to the widening of roads beyond the pre-existing width, an amount of funding be excluded from the claim before it is submitted by the Queensland Government to the Attorney-General's Department. It stated that this amount will be determined when actual costs are provided; and was estimated at \$155 711, less any complementary funding provided by Council.

In response to 2.59:

*It is stated above that widening of roads occurred beyond pre-existing widths.*

- The guidelines for 2010 and 2011 restoration were that reconstruction was to be to current engineering standards. Widening, outside that allowed by QRA, was documented and paid for by TRC as complementary works.

**3.61** In relation to the Tier Two reviews then underway:

- the Taskforce has been conducting 'internal' Tier Two reviews for two projects (that is, an expert was not engaged to conduct the reviews):
  - the progression to a Tier Two review of a Tablelands Regional Council project was agreed by the Inspectorate in November 2012. The project involves the reconstruction of 28 sealed and unsealed roads in the Dimbulah area within the Far North Queensland region, with a submission value of \$10.77 million. The works include reconstruction of saturated pavement, bitumen spray sealing, minor culvert cleaning, re-gravelling and grading. (TaRC.17.12).

In response to 3.61:

No comment is provided as no issues have been raised in the statement.

**5.14** In cases where the Taskforce has identified road widening or other complementary works, instances have also come to attention where it appears that delivery agents have sought to contribute less than their fair share of the total project costs. For example, in March 2013 the Inspectorate wrote to QRA regarding road widening in a project submitted by the Tablelands Regional Council involving two roads in the Mareeba area in the Far North Queensland region (TaRC.4.11). Council agreed that complementary funding would be provided to cover the cost of widening one road. However, in calculating this contribution, the pre-existing width of the road was stated by Council as 4.5 metres (rather than 3.3 metres) and the width to which it was being widened was stated as 6.5 metres (rather than 7.0 metres). In addition, further road widening was being undertaken at other sites. The Inspectorate requested that QRA work with Council to resolve this matter. In August 2013, QRA advised the ANAO that:

QRA undertook a detailed review and, after investigation (of the) issues raised by the Tier 2 reviewer, found no evidence of road widening being claimed for eligible works but identified possible seal widening to the value of less than \$5000. This will be removed on close out.

In response to 5.14:

*It is stated above that pre existing widths of roads overstated by TRC (note road and not seal widths)*

- The guidelines for 2010 and 2011 restoration was that reconstruction was to be to current engineering standards. The FNQROC Development Manual Guidelines require a minimum formation width of 8 metres, a pavement width of 5.5 metres and a seal width of 4.5 metres.

- There is a challenge with bitumen spray widths in rural areas, and consequently it is inevitable that there will be some variations. This challenge is that bitumen sprayers generally used by spraying contractors in rural Far North Queensland do not have variable width spray bars.
- QRA undertook a detailed review, and found no evidence of road widening being claimed for eligible works.
- QRA identified possible seal widening to a value less than \$5000, which will be removed at close out.

**6.21** A primary concern with an extended reconstruction program is that the costs may escalate with the passage of time. In this regard, many of the projects being reviewed by the Taskforce include in their estimates an allowance for escalation in costs of around eight per cent per annum. Analysis of the proposed finish dates reported by QRA over the months preceding March 2013 indicates that, for a significant number of projects, the end dates are progressively being 'rolled forward'. For example:

- a project submitted by the Tablelands Regional Council involves the restoration of two rural roads in the Mareeba area of the Far North Queensland region, with a submitted value of \$3.58 million and approved value of \$2.94 million. The works include reconstruction of saturated pavement, bitumen spray sealing, minor culvert clearing and floodway repairs. Works were scheduled to commence in June 2012 with completion expected by mid-October 2012. In the five (QRA Chief Financial Officer) reports issued between November 2012 and March 2013, the expected completion dates reported for this project were 30 November 2012, 14 December 2012, 15 January 2013, 13 February 2013 and 18 March 2013 respectively (TaRC.4.11).

*The above indicates an estimate allowance for escalation in costs 8% per annum has been included*

- Incorrect, as the Tablelands Regional Council did not include any escalation estimate in any 2011 restoration submission.
- All contracts let by TRC have been fixed price lump sum or schedule of rates contracts.

*It is also stated that end dates progressively rolled forward*

The contract referred to is for Springs and Chewko Road.

- There seems to be some confusion in the auditor's perception between the completion of the works, as shown in the programme of works, and finish dates for the project.
  - Springs Road - Certificate of practical completion is dated 4 October 2012
  - Chewko Road - Letter stating practical completion is dated 20 December 2012



The auditor states that the financial reports go through until March 2013.

- There were outstanding commitments which would have been part of the reporting
  - The defects liability period carried over into this time with the defects liability period for Chewko finishing on 20 March.
- Because of the limited, experienced, contractor pool available, the TRC adopted a successful policy of building the capabilities of local contractors, consequently the construction of the two jobs was more consecutive than concurrent, which required a slightly longer construction time than the mid October quoted by the Auditors. The unit rates achieved demonstrate this practise has resulted in a considerable savings rather than an escalation of cost.
  - It is to be noted that the current predicted actual expenditure for the overall 2011 NDRRA Program for Tablelands Regional Council indicates a saving on the approved Program value of approximately \$12 million.

**INFRASTRUCTURE SERVICES**  
ENGINEERING SERVICES

GED.  
1 OCT 2013



Date >> 24 September 2013



**Barbara Cass**  
Group Executive Director  
Performance Audit Services Group  
GPO Box 707  
CANBERRA ACT 2601

A handwritten signature in black ink, appearing to read "Barbara Cass", with the date "1/10/2013" written below it.

TOWNSVILLE CITY COUNCIL  
ADMINISTRATION BUILDING  
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Dear Ms Cass

**SUBJECT >> Proposed audit report on the Performance Audit of the  
Australian Government Reconstruction Inspectorate's  
Conduct of Value for Money Reviews of Flood Reconstruction  
Projects in Queensland**

In response to the Australian National Audit Office's letter dated the 5 September, providing council the opportunity to provide commentary on the proposed audit report on the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland, please find attached council's formal comment to relevant extracts for Townsville City Council.

If you require any further information please contact Guy Raffe on 07 4727 8491 or alternatively you can contact me on 07 4727 8400.

Yours sincerely

A handwritten signature in black ink, appearing to read "B. Quabba".

**Brenden Quabba**  
Executive Manager - Engineering Services

## INFRASTRUCTURE SERVICES

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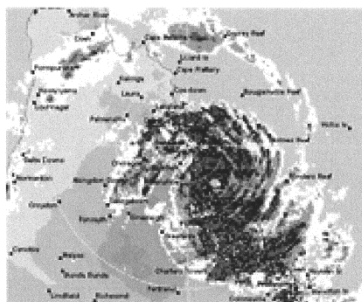
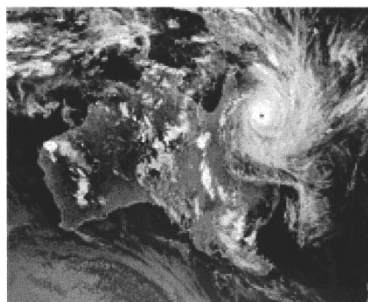
RESPONSE TO AUSTRALIAN NATIONAL AUDIT OFFICE REQUEST FOR COMMENTS SEPT 2013

### 3. PROJECT SAMPLING APPROACH

#### 3.26 TCC 2.11 CLEAN UP & RECOVERY WORKS BY TOWNSVILLE CITY COUNCIL – CYCLONE YASI

In response to the report's statement that Townsville City Council's claim of \$23.09M is well above the median of \$0.26m per Emergent Works projects, it is pertinent that TC Yasi is viewed as an extraordinary event.

According to the Australian Government Bureau of Meteorology (BOM), Tropical Cyclone Yasi was one of the most powerful cyclones to have affected Queensland since records commenced. Yasi crossed the coast as a Category 5 cyclone (the highest classification for a cyclone) near Mission Beach approximately 150 kilometres north of Townsville with estimated wind gusts of 285kph. Along with the destructive winds, heavy rainfall and treacherous storm surges were encountered. Due to its size, impacts from cyclone Yasi extended as far inland as Mount Isa.



BOM Satellite and Radar Images of Cyclone Yasi



A storm surge sea wave breaks over an embankment in Townsville and strong winds batter a section of The Strand in Townsville. Photos: Ian Hitchcock/Getty Images.

Queensland premier Anna Bligh described Cyclone Yasi to a group of reporters in Cairns as a "*catastrophic event*".

Therefore putting the magnitude of Cyclone Yasi in perspective in relation to its impact and the subsequent damage sustained, it is reasonable to expect that the extent of damage

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would be well above the damage sustained from an event of median proportion. The extended duration of the cyclonic winds for over ten consecutive hours was well beyond what had been experienced from previous events. The governance area of Townsville City Council is also extensive with much of the community housed along the coast. In total the length of coast line governed by Council is 205km which also includes Magnetic Island.

The emergent works across Townsville City involved repairs to urban and rural roads and recovery works coordinated by Parks Services that included clearing of fallen trees and clean-up of debris from the City's roads, streets and parklands. Approximately 87,000 trees were cleaned up from around the city. Due to the vast quantity of vegetation that was destroyed and subsequently cleared, a primary strategy adopted by Council to deal with this volume was to mulch the greenwaste and provide the mulch product free to the community. The amount of mulch generated from the tree debris was in excess of the cover material required over the medium term for Council's use, and therefore the extra quantity would have generated a landfill charge, therefore making the 'give-away' to the community the most cost effective option.



Cyclone Yasi brought down this giant tree in Townsville. Photo: Ian Hitchcock/Getty Images

Trees lie across Townsville roads in the wake of Cyclone Yasi. Photo: Ian Hitchcock/Getty Images



Uprooted tree and damaged curb as a result of Cyclone Yasi. TCC photo.

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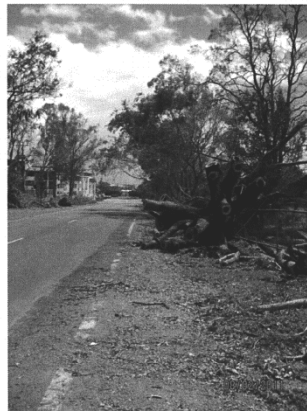


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Townsville's Strand devastated by Cyclone Yasi. TCC Photo.

First phase of the recovery works was to remove and clear any debris blocking the roadway as shown by this picture. The second phase was to remove remaining larger branches and trunks. TCC photo



Greenwaste debris was transported to a number of selected sites for mulching. Heavy duty mulching machinery was hired along with a significant number of other plant and trucks hired from local contractors.



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One of Council's greenwaste processing (mulching) sites. TCC photo.



Hired plant and mulcher in operation at one of Townsville sites processing greenwaste debris as a result of Cyclone Yasi. TCC photos.



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### 4. COST OF RECONSTRUCTION WORK

#### 4.39 TCC 6.12 RESTORATION OF PARK INFRASTRUCTURE

Outdoor play spaces play an important part in the lives of many people during various stages of their life cycle. Younger children enjoy the opportunity for imaginative play and social interactions with their family and other young children. Older children enjoy the physical challenges presented by some items of play equipment and also enjoy the opportunities play spaces create to socialise with their peers. Both groups of young people enhance their physical and coordination skills through their interactions with the various items of playground equipment. Playgrounds therefore are an important tool for the development of young people's cognitive, creative, social and physical development. Parents, grandparents and carers also derive pleasure from playgrounds as either an active participant or observer.

Skin cancer prevention in Townsville is a significant public health issue. With over 300 days of sunshine per year Townsville has one of the highest skin cancer rates not only in Australia, but in the world. Townsville City Council and Suncorp have partnered and established Townsville's Sunsafty Programme that recognises the importance of sun safety and addresses skin cancer prevention at a local level.

The provision of shade sails over play spaces and equipment is also critical in increasing the amount of time during the day the place spaces and equipment can be enjoyed by the community.

Shade sails also provide protection for the equipment from ultraviolet radiation thereby extending the lifespan of the equipment and saving on replacement costs.

Townsville City Council is committed to providing shaded recreation facilities and services such as playgrounds and play spaces in its parks for the community to use.

The value of \$0.75M claimed by Council for replacement of play equipment and shade sails represents a very small portion (less than 1%) of the total cost for all restoration works in Townsville as a result of the Yasi event.



Typical shade sail damage from Cyclone Yasi in Townsville. TCC photo.



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RESPONSE TO AUSTRALIAN NATIONAL AUDIT OFFICE REQUEST FOR COMMENTS SEPT 2013

**4.59 TCC 2.11 CLAIMS FOR INELIGIBLE SALARIES, WAGES & OTHER ADMINISTRATIVE EXPENDITURE**

## Payroll costs

In accordance with NDRRA guidelines, normal maintenance and administration costs such as salaries, day labour costs and other administrative type expenditure which would have been incurred even if the disaster had not occurred are deemed ineligible expenditure. Council considers that its claims were made in accordance with the guidelines and normal/ordinary day labour costs and labour oncosts were excluded.

Below is a summary explanation of the Townsville City Council's payroll codes:-

Pay type: N Pay Group: ONC	labour oncost
Pay type: N Pay Group: PAY	payments made to employees in accordance with Award provisions, e.g. normal time, normal time plus penalties, casual hours etc.
Pay type: O Pay Group: PAY	payments made to employees relative to overtime worked
Pay type: S Pay Group: PLNT	plant cost recovery
Pay type: T Pay Group: ALW	payments made to employees in accordance with Award provisions, e.g. claimable allowances such as MEALS, TRSA, BITU, DUMP etc.

In specific reference to \$2.2M payroll query and the subsequent reference to \$677,000 for ordinary time hours for Council employees, Council offers the following explanation/correction.

Based upon the payroll codes above the following table provides a detailed breakdown.

Pay Group	Description	Sub-Total
Pay type: N Pay Group: PAY	NORMAL	\$ 0.00
Pay type: N Pay Group: ONC	ONCOSTS	\$ 0.00
Pay type: O Pay Group: PAY	OVERTIME	\$ 1,350,135.49
Pay type: T Pay Group: ALW	ALLOWANCES	\$ 171,595.56
Pay type: S Pay Group: PLNT	PLANT	\$ 677,354.49
Total		\$ 2,199,085.54

Townsville City Council's method of costing Plant to a job/work order is by the operator through the payroll system via an electronic timesheet. So therefore while the source of the transaction is Payroll, it is necessary to understand the process by referring to the Description (Descr) and then to the Pay Group (Grp) PLNT which represents plant cost recovery.

In regard to the payroll transactions entered by employee (S Arnold) for week ending the 8th February for \$8829.22, \$6540.00 was for plant cost recovery (as explained above) and the

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remaining value of \$2,289.22 was for overtime and allowances relative to the overtime worked.

In reference to the query about entries for "double time" and "time & half" that did not show details of who was being claimed, all of these transactions refer to Adecco, one of Australia's leading provider of labour resources, from which Council sourced external staff to complement Council staff required for the clean-up works. All entries show a reference to a Council purchase order such as D/27801, either in the Reference 1 column or PO No/Ln column.

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