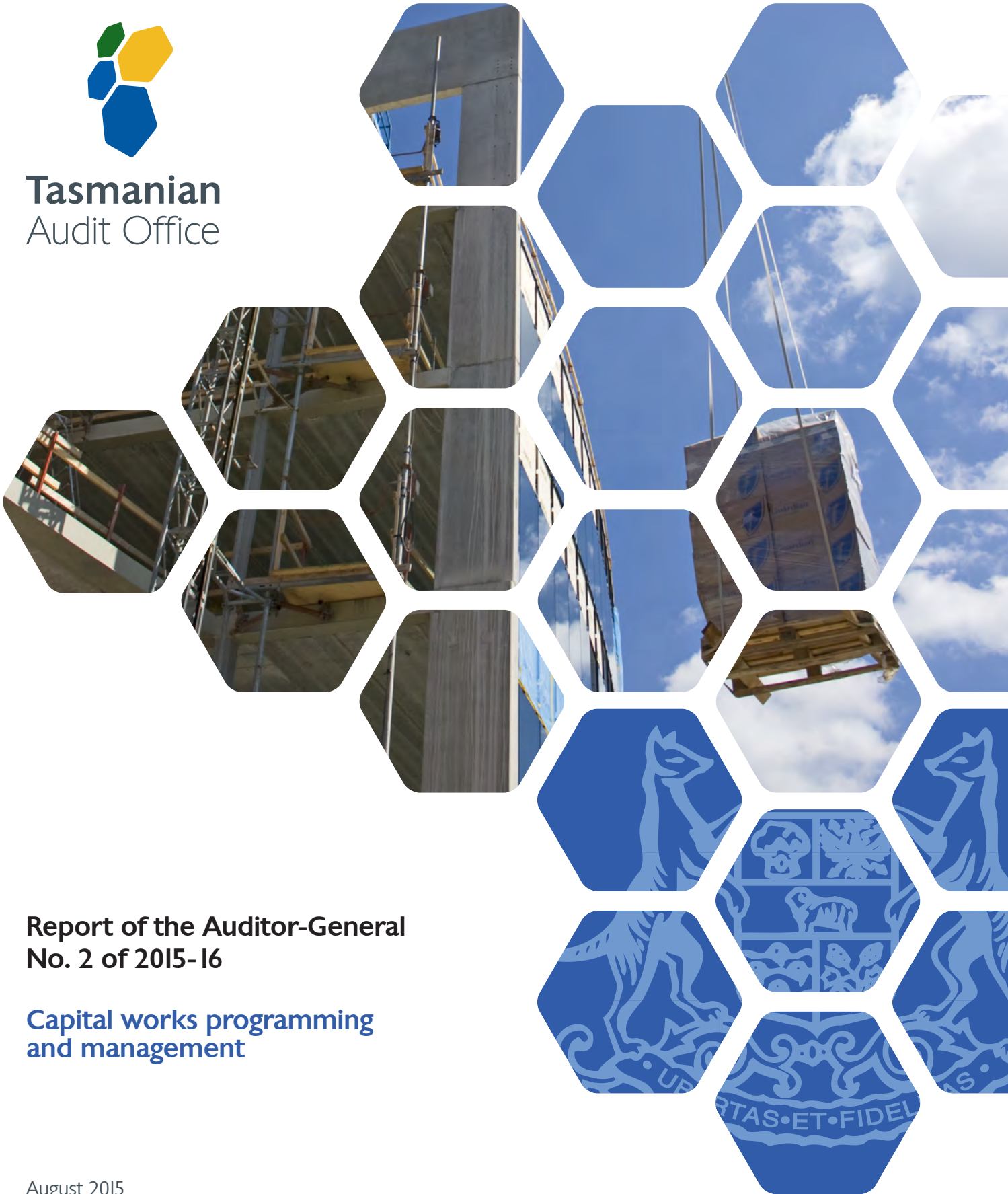




**Tasmanian**  
Audit Office



**Report of the Auditor-General  
No. 2 of 2015-16**

**Capital works programming  
and management**

August 2015

## THE ROLE OF THE AUDITOR-GENERAL

The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (Audit Act).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

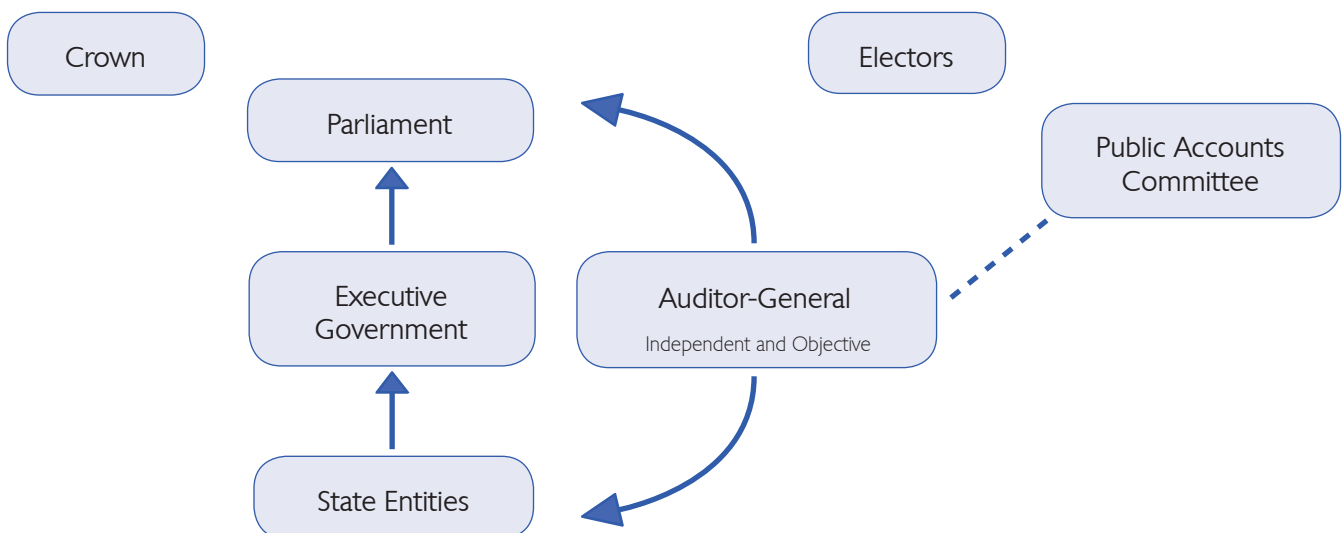
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

## The Auditor-General's Relationship with the Parliament and State Entities

The Auditor-General's role as Parliament's auditor is unique.





2015

PARLIAMENT OF TASMANIA

**REPORT OF THE  
AUDITOR-GENERAL  
No. 2 of 2015–16**

**Capital works programming and  
management**

**August 2015**

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18 August 2015

President  
Legislative Council  
HOBART

Speaker  
House of Assembly  
HOBART

Dear Mr President  
Dear Madam Speaker

**REPORT OF THE AUDITOR-GENERAL**  
**No.2 of 2015–16: Capital works programming and management**

This report has been prepared consequent to examinations conducted under section 23 of *the Audit Act 2008*. The objective of the audit was to assess the effectiveness of the state's capital works budgeting processes and departmental asset management.

Yours sincerely

H M Blake  
**AUDITOR-GENERAL**



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## Foreword

This performance audit examined two critical components of the management of public sector infrastructure:

1. Capital works budgeting processes.
2. Departmental asset management, in this case buildings, in the education and health sectors.

Appropriately maintaining our education and health infrastructure is an important element of service delivery while effective capital budgeting processes are fundamental in an environment of competing demands for available government resources. The departments of Education and Health and Human Services were selected for audit for the obvious reason that they manage significant parts of the state's infrastructure. The Department of Treasury and Finance was included because I was keen to assess the effectiveness of the first three elements the Structured Infrastructure Investment Review Process introduced in 2009–10.

It was pleasing to find that the Department of Education had effective systems to identify and promptly fix urgent and obvious problems with assets. However, it was less successful at identifying long-term requirements for renewal or replacement of ageing assets. In my view this component of managing infrastructure is essential particularly in times of potentially changing service delivery models and demographic influences.

Similarly pleasing was that the Department of Health and Human Services was effective in evaluating and prioritising potential capital projects and it demonstrated an ability to respond to asset-related service delivery problems in a timely manner.

In both departments I concluded that business cases submitted as part of the Structured Infrastructure Investment Review Process were not always persuasive with recommendations made to address this in future. Despite this, I noted Treasury were effectively reviewing and assessing business cases provided as part of this process.

H M Blake

Auditor-General

18 August 2015

## List of acronyms and abbreviations

Budget Committee	Cabinet Budget Committee
CIP	Capital Investment Program
DHHS	Department of Health and Human Services
DoE	Department of Education
SAMP	Strategic Asset Management Plan
SCIFs	Special Capital Investment Funds
SIIRP	Structured Infrastructure Investment Review Process
THOs	Tasmanian Health Organisations
Treasury	Department of Treasury and Finance

## **Executive summary**

## Executive summary

### *Background*

Infrastructure is a vital element of service delivery. Effective and efficient management of infrastructure investment is central in an environment where there are competing demands for government resources.

The Department of Treasury and Finance (Treasury) has responsibility for facilitating the preparation of the state's annual Budget in consultation with other government entities. Following consideration by the Cabinet, the Budget is then decided upon by government and approved by parliament.

The state provides funding for capital works through various funding sources including the Capital Investment Program (CIP)<sup>1</sup> and a number of Special Capital Investment Funds (SCIFs)<sup>2</sup>. Capital works expenditure includes large-scale infrastructure projects such as the redevelopment of the Royal Hobart Hospital, the Brighton bypass, construction of the Risdon prison and smaller scale-projects that include minor road repairs or modifications to state-owned office buildings.

Prior to consideration as part of the annual Budget process, capital projects may be assessed using the Structured Infrastructure Investment Review Process (SIIRP)<sup>3</sup>, introduced by the government in 2009–10.

The audit's focus was from the identification of capital projects by departments (prior to SIIRP Stage 1), through to the review of projects by Treasury, at SIIRP Stage 3. Whilst SIIRP documents were an important source of information for the audit, the audit was not intended to be a review of the SIIRP process itself or of agency compliance with SIIRP.

---

<sup>1</sup> Tasmanian Government, *Government Services, Budget Paper Number 2, Volume 1, 2015–16*, Hobart, p.25.

<sup>2</sup> *Ibid.*, p.43. The Hospitals Capital Fund, the Royal Hobart Hospital Redevelopment Fund and the Housing Fund are all examples of SCIF's.

<sup>3</sup> Department of Treasury and Finance, *Structured Infrastructure Investment Review Process (SIIRP)*. [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au).

### *Audit objective*

The objective of the audit was to assess the effectiveness of the state's capital works budgeting processes and departmental asset management.

### *Audit scope*

The audit included capital budgeting data from 2009–10 to 2013–14. State entities included in the audit were the Department of Education (DoE), Department of Health and Human Services (DHHS)<sup>4</sup>, and the Department of Treasury and Finance (Treasury).

### *Audit criteria*

Audit criteria included whether:

- DoE and DHHS were effectively identifying capital requirements [Sections 1.2 and 2.2]
- DoE and DHHS were effectively evaluating and prioritising potential capital projects [Sections 1.3 and 2.3]
- DoE and DHHS were preparing high-quality business cases for Treasury SIIRP Stage 3 consideration [Sections 1.4 and 2.4]
- Treasury was performing high-quality review of potential capital projects [Sections 1.5 and 2.5]
- DoE and DHHS were maintaining a list of prioritised future capital projects including previously deferred projects [Sections 1.6 and 2.6].

### *Audit approach*

We sought appropriate audit evidence through:

- examining reports
- reviewing records
- checking policies and plans
- interviewing staff.

---

<sup>4</sup> The scope included assets controlled or managed by DHHS, including assets controlled by the three Tasmanian Health Organisations (prior to 30 June 2015, now amalgamated into one entity) and Ambulance Tasmania, but managed by DHHS. However, assets controlled by Housing Tasmania were not included.

## Detailed audit conclusions

### DoE projects

DoE had effective systems to identify and promptly fix urgent and obvious problems with assets. It had been less successful at identifying long-term requirements for renewal or replacement of ageing assets.

Projects had been evaluated and prioritised using robust internal processes.

Business cases prepared by DoE for Treasury SIIRP Stage 3 consideration were not always persuasive. There was reasonable evidence that Treasury was thoroughly reviewing DoE's business cases, notwithstanding deficiencies in documentation.

### DHHS projects

DHHS was effective in evaluating and prioritising potential capital projects. The use of regular asset inspection programs enabled DHHS to identify its forthcoming capital requirements.

DHHS was also able to respond to asset-related service delivery problems in a timely manner.

Business cases prepared by DHHS for Treasury SIIRP Stage 3 consideration were reasonably persuasive, with Treasury thoroughly reviewing its capital works projects.

## Recommendations made

The Report contains the following recommendations:

Rec	Section	We recommend that ...
1	1.2	... DoE undertakes a five-yearly statewide process to identify required capital projects for SIIRP processing and capital funding.
2	1.2	... DoE use asset register data to flag assets approaching the end of their recorded useful lives for assessment of condition and possible capital expenditure. Where condition assessments indicate that assets are likely to exceed their recorded useful lives, the asset register should reflect the revised useful life.
3	1.3	... DoE explicitly uses its criteria for evaluation and prioritisation of potential capital projects and documents both individual and comparative ratings.

<b>Rec</b>	<b>Section</b>	<b>We recommend that ...</b>
4	1.4	<p>... DoE business cases for capital project funding include:</p> <ul style="list-style-type: none"> <li>▪ an explanation of why the service delivery should be continued</li> <li>▪ a detailed explanation of the need for the proposed infrastructure and an outline of the impact of not doing the project</li> <li>▪ information to show that the proposal is sufficient but not excessive to meet the need.</li> </ul>
5	1.4	<p>... Treasury modify the SIIRP process to maximise its application to potential projects, including packaging of proposals and a timelier processing of individual stages.</p>
6	1.5	<p>... Treasury improves documentation of its analysis. We further recommend that SIIRP requirements explicitly include:</p> <ul style="list-style-type: none"> <li>▪ an explanation of why the service delivery should be continued</li> <li>▪ a detailed explanation of the need for the proposed infrastructure</li> <li>▪ an outline of the impact of not doing the project</li> <li>▪ information to show that the proposal is sufficient but not excessive to meet the need.</li> </ul> <p>In the case of 'packaged' capital requirements, that documentation might take the form of evidence that the submitting agency had evaluated and prioritised the projects based on similar criteria.</p>
7	1.6	<p>... DoE develops a register of required capital works projects with estimates of when the works should be commenced.</p>

<b>Rec</b>	<b>Section</b>	<b>We recommend that ...</b>
8	2.2	... DHHS use asset register data for both departmental and client assets, to flag assets approaching the end of their recorded useful lives for assessment of condition and possible capital expenditure. Where condition assessments indicate that assets are likely to exceed their recorded useful lives the asset register should be amended.
9	2.2	... DHHS include in its financial records both gross value and depreciated value of non-current assets to facilitate monitoring of the sufficiency of its long-term capital program.
10	2.3	... DHHS ensure all units create service plans and strategic asset management plans (SAMPs) and that capital assets are aligned with service delivery needs.
11	2.4	... DHHS business cases for capital project funding include information to show that the proposal is sufficient but not excessive to meet the need.



**Audit Act 2008 section 30 — Submissions and comments received**

## Audit Act 2008 section 30 — Submissions and comments received

### *Introduction*

In accordance with section 30(2) of the *Audit Act 2008*, a copy of this Report was provided to the departments indicated in the Introduction to this Report.

A summary of findings, with a request for submissions or comments, was also provided to the Minister for Education and Training, the Minister for Health and the Treasurer.

Submissions and comments that we receive are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response. However, views were considered in reaching review conclusions.

Section 30(3) of the Act requires that this Report include any submissions or comments made under section 30(2) or a fair summary of them. Submissions received are included in full below.

### Department of Education

In summary, the Department accepts the recommendations to make improvements to its asset management framework which is in alignment with various actions outlined and being progressed in the Department's 2014–2016 Strategic Asset Management Plan.

It is considered important to give some additional context to the Department's asset management framework which has decentralised and centralised components under which capital works are occurring regularly to upgrade aging infrastructure and respond to service delivery needs.

Under the decentralised arrangements schools are funded through their SRP to undertake routine maintenance. The allocation of the SRP maintenance funds has in the past been on subjective condition assessments. The Department is currently working through a change to a method which allocates funding based on the age and condition of the buildings. This will ensure funding is allocated appropriately to deal with aging infrastructure. In terms of how the allocation is spent, the Department has developed a School Maintenance Plan template

with a 10 year focus. A training package to support implementation is in the process of being developed and will be piloted before a full roll-out.

Under the central arrangements there are four key elements:

- There is statutory maintenance where key elements are replaced or upgraded to extend the life of the building and ensure compliance with regulations e.g. roofs, heating and ventilation, fire safety, lifts and electrical. Contracts are held for these items and as part of the recent tenders, the contractual requirements include greater emphasis on identification and reporting on deferred maintenance.
- The annual Minor Works program is also used extensively to provide capital improvements. Facility Services works extremely closely with Learning Services and schools to respond to issues as they emerge. Many of these issues are capital in nature and result in an improvement to the particular asset and extend the life of the asset.
- Subject to approvals asset sales may be targeted to addressing major maintenance and refurbishment requirements.
- The final element is major works through the SIIRP and annual capital submission process. Submissions take account of both service delivery and aged infrastructure needs with the Department's SAMP stating the approach of "targeting funds to reduce repair and maintenance backlog on high priority issues including incorporating completion of deferred maintenance when a construction project occurs".

In respect of the specific recommendations:

#### Recommendation 1

As reflected in the report a state-wide process was undertaken in 2008 with an update undertaken in 2012 which took account of:

- initiatives such as Building the Education Revolution, which provided substantial capital funding to all primary schools and some funding for high schools
- school amalgamations which removed the demand for capital investment at sites such as Abbotsfield Primary School, Brent St Primary School, Claremont High School, Mt

Faulkner Primary School, Roseneath Primary School and Upper Burnie Primary School

- opportunities to further support consolidation of sites such as Springfield Primary School, Glenorchy Primary School, and Montrose Bay High School
- the major fire at Burnie HS which saw capital funds provided through the Tasmanian Risk Management Fund and the traditional Capital Investment Program. This redevelopment has been completed. The Burnie proposal was replaced in the priority list with a proposal for capital works at the neighbouring, aged Parklands HS
- emerging pressures for additional accommodation at North West Special School and South Hobart Primary School
- changes to strategic direction for the Department such as the significant opportunity for LINC Tasmania to undertake a major service delivery review to the Launceston community and a key element of this strategy will be the redevelopment of the Launceston LINC.

In addition during 2012 the process was extended to include consideration of applications from Senior Secondary sites.

The annual Capital Investment Program process also allows for emerging needs to be considered.

The Department's Strategic Asset Management Plan 2014–2016 recognises the need for a five-yearly state-wide process and this will be undertaken during 2015–16.

#### Recommendation 2

The Department supports the recommendation, which is one element in the direction the Department is taking towards implementing a more fully integrated asset management system to better utilise the range of information the Department holds. A roadmap has recently been developed that will utilise the Department's data warehouse system 'Edi' which already includes student data, finance and human resources dashboards. Valuations incorporating updated remaining useful lives have been undertaken for the Department's 2014–15 financial statements.

#### Recommendation 3

The report reflects that projects had been evaluated and prioritised using robust internal processes. This included:

- Stage 1 - projects were rated overall on a scale A-D
- Stage 2 - assessments were made following site visits with rankings made as: Immediate (top 5 in order), High, Medium (planning required), Low (those rated C and D from Stage 1)
- Stage 3 – central review.

The Department accepts that this process could be improved by more substantive documentation reflecting the discussions on individual criterion that resulted in the overall rating.

#### Recommendation 4

It is considered the Stage 3 templates, in addition to the context and broader business need provided in other documentation provided an adequate expectation of what was to be delivered, the service need, alternatives, stakeholder analysis etc. The projects flowing from the Building Better Schools process into SIIRP are in effect a package of high priority proposals, rather than other projects going through SIIRP which may be of a more specific stand-alone nature. Having said that, the Department has no concerns in future submissions directly including additional information as determined by the Department of Treasury and Finance.

#### Recommendation 6

The Department considers the required capital works register is effectively the list of projects provided in the most recent budget submission. The potential commencement is inherent in the rankings given to the projects in order to provide advice to Government about where to prioritise the limited funding for education capital. For example, those projects ranked as high are submitted on the basis of potential commencement within the current forward estimates. Those projects ranked as medium are submitted on the basis of commencement beyond the forward estimates.

As noted against Recommendation 2, the Department is in the initial investigation towards implementing a more fully integrated asset management system to better utilise the range of information the Department holds.

**Colin Pettit**  
**Secretary**

## Department of Health and Human Services

Thank you for the opportunity to respond to the draft report to Parliament on *Capital works programming and management*. I note that Departmental Officers have been working closely with the Tasmanian Audit Office (TAO) to ensure that TAO was able to conduct a thorough audit of DHHS processes.

I also note that the Department has been found to be working well in this area. The Department accepts and will implement all of TAO's recommendations relevant to the Department.

In response to the four (4) individual recommendations relating to the Department the following comments are provided:

### Recommendation 8

The Department closely monitors all of its assets to ensure they are effectively facilitating their service requirements. While the Department finds this approach to be an efficient way to monitor and manage its assets as they approach the end of their useful lives, it accepts TAO's recommendation to incorporate additional flags as the assets approach the end of their useful life.

### Recommendation 9

A full revaluation of Land, Buildings and Artwork was undertaken on 30 June 2013. This revaluation was performed prior to Treasury releasing the requirement to disclose the fair value of Buildings on a gross basis. As such, the 30 June 2013 revaluation did not provide the necessary information to accurately disclose the fair value of Buildings on a gross basis.

Revaluations are managed centrally for both the Department and Tasmanian Health Service (THS) and are scheduled on a five year cycle with index revaluations applied in the interim years between full revaluations. It is our intention to continue with this revaluation cycle which will mean the next revaluations will be performed for the 30 June 2018 financial year for the Department and the THS. These revaluations will be prepared on a gross basis.

### Recommendation 10

The Department and Housing Tasmania currently prepare SAMPs in accordance with Treasury's requirements. DHHS is in the process of preparing SAMPs at an individual service unit level with a number already completed or in progress. Where possible, these SAMPs are drafted by service delivery units with assistance and advice from DHHS Asset Management Services

(AMS), and as part of this process service delivery units must refer to their individual service delivery plan.

#### Recommendation 11

While the Department supports the recommendation that asset proposals should be sufficient but not excessive, DHHS asset plans and project proposals are developed to take account of estimated future demand levels for its services. This usually also takes into account the time lag between developing a capital proposal and its actual delivery. The Department will include a statement confirming this in future business cases.

**Michael Pervan**  
**Acting Secretary**

#### Department of Treasury and Finance

Treasury considers that the Structured Infrastructure Investment Review Process (SIIRP) plays an important role in improving the planning for infrastructure projects undertaken by General Government Sector Agencies. In undertaking this role it is noted that it is not the only process through which agencies undertake planning for infrastructure projects that are ultimately submitted to the Government for a funding decision. It is also important that the SIIRP be as flexible a process as possible to meet the different requirements of agencies, the different types of infrastructure under consideration and ensure that the Government continues to meet infrastructure investment demands within available Budget funding.

Following the initial years of operation of the SIIRP (introduced in 2009–10), Treasury has undertaken a general review of the process which involved consultation with agencies. The outcomes of this review are currently being finalised, however, it is expected that these will include proposals to consider:

- streamlining the current six stage process
- moving to an ongoing process rather than an annual process
- increasing the scope of projects that can be considered through the SIIRP.

Some of these changes are likely to be consistent with the report's Recommendation 5 that "Treasury modify the SIIRP process to maximise its application to potential projects,

including packaging of proposals and a timelier processing of individual stages”.

Treasury notes and accepts the recommendation made following a review of a sample of Department of Education SIIRP capital works projects that Treasury improve its documentation of its analysis (Recommendation 6, Section 1.5). Depending upon the nature of the project under assessment, the analysis may be based on documentation in addition to the specific SIIRP documentation that has been provided. For example, other policy documents, reviews, strategic asset management plans and other strategic planning documents may all form a broad basis for the assessment. Where relevant, Treasury will seek to make reference to these other sources of information more explicit in its analysis.

Treasury notes the Report’s conclusion following a review of a sample of DHHS SIIRP capital works projects at Section 2.6 that Treasury had thoroughly reviewed DHHS’s capital works projects.

In relation to the additional criteria detailed in Recommendation 6, Treasury is of the view that these criteria are generally able to be addressed within existing SIIRP assessment criteria. More specifically those existing criteria relating to:

- Scope;
- Reason for Project Proposal;
- Relationship to Government’s Policy Priorities;
- Benefits/Outcomes to be Achieved;
- Risks; and
- External Conditions and Critical Success Factors.

Treasury will, however, include reference to issues such as those proposed in general guidance to agencies on what information should be included in addressing the established criteria.

**Anton Voss**  
**Acting Secretary**



## **Introduction**

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## Introduction

### *Background*

Appropriate infrastructure is an important element of service delivery. Effective and efficient management of infrastructure investment is fundamental in an environment where there are competing demands for government resources.

The Department of Treasury and Finance (Treasury) has responsibility for facilitating the preparation of the state's annual Budget in consultation with other government entities. Following consideration by the Cabinet, the Budget is then decided upon by government and approved by parliament.

The total state Budget in Tasmania in 2015–16 was \$5.4bn, with around \$410m to be spent on infrastructure investment.<sup>5</sup> At 30 June 2014 the General Government Sector reported infrastructure, buildings and land (collectively referred to as infrastructure) at an amount of \$10.1bn, which represented 56 per cent of General Government Sector assets.<sup>6</sup>

The state provides funding for capital works through various funding sources including the Capital Investment Program (CIP)<sup>7</sup> and a number of Special Capital Investment Funds (SCIFs)<sup>8</sup>. Capital works expenditure includes large-scale infrastructure projects such as the redevelopment of the Royal Hobart Hospital, the Brighton Bypass, construction of the Risdon Prison and smaller-scale projects that include minor road repairs or modifications to state-owned office buildings.

Prior to consideration as part of the annual budget process, capital projects may be assessed using the Structured Infrastructure Investment Review Process (SIIRP)<sup>9</sup>, introduced

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<sup>5</sup> Tasmanian Government, *The Budget, Budget Paper Number 1, 2015–16*, Hobart, p.6.

<sup>6</sup> Treasurer of Tasmania, *Treasurer's Annual Financial Report, 2013–2014*, Hobart, 2014, p.24.

<sup>7</sup> Tasmanian Government, *Government Services, Budget Paper Number 2, Volume 1, 2015–16*, Hobart, p.25.

<sup>8</sup> *Ibid.*, p.43. The Hospitals Capital Fund, the Royal Hobart Hospital Redevelopment Fund and the Housing Fund are all examples of SCIF's.

<sup>9</sup> Department of Treasury and Finance, *Structured Infrastructure Investment Review Process (SIIRP)*. [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au).

by the government in 2009–10. SIIRP consists of the following six stages:

- Stage 1 — Investment Concept Outline
- Stage 2 — Strategic Assessment and Options Analysis
- Stage 3 — Business Case
- Stage 4 — Cabinet Budget Committee Consideration
- Stage 5 — Interim Project Review
- Stage 6 — Post Implementation Review.

The audit’s focus was from the identification of capital projects by departments (prior to SIIRP Stage 1), through to the review of projects by Treasury, SIIRP Stage 3. SIIRP documents were an important source of information for the audit. However, the audit was not intended to be a review of the SIIRP process itself or of agency compliance with SIIRP.

#### *Audit objective*

The objective of the audit was to assess the effectiveness of the state’s capital works budgeting processes and departmental asset management.

#### *Audit scope*

The audit included capital budgeting data from 2009–10 to 2013–14.

Figure 1 shows our view of the full asset life cycle, with stages included in the audit coloured green.

**Figure 1: Asset life cycle**



Source: Tasmanian Audit Office

State entities assessed in the audit included:

- preparation and submission of proposals:
  - Department of Education (DoE)
  - Department of Health and Human Services (DHHS)<sup>10</sup>
- review of proposals
  - Department of Treasury and Finance (Treasury).

---

<sup>10</sup> The scope included assets controlled or managed by DHHS, including assets controlled by the three Tasmanian Health Organisations (prior to 30 June 2015, now amalgamated into one entity) and Ambulance Tasmania, but managed by DHHS. However, assets controlled by Housing Tasmania were not included.

### *Audit criteria*

Audit criteria included whether:

- DoE and DHHS were effectively identifying capital requirements [Sections 1.2 and 2.2]
- DoE and DHHS were effectively evaluating and prioritising potential capital projects [Sections 1.3 and 2.3]
- DoE and DHHS were preparing high-quality business cases for Treasury SIIRP Stage 3 consideration [Sections 1.4 and 2.4]
- Treasury was performing high-quality review of potential capital projects [Sections 1.5 and 2.5]
- DoE and DHHS were maintaining a list of prioritised future capital projects including previously deferred projects [Sections 1.6 and 2.6].

### *Audit approach*

In line with the preceding audit criteria, we sought appropriate audit evidence through:

- examining reports
- reviewing records
- checking policies and plans
- interviewing staff.

### *Timing*

Planning for this audit began in April 2014 with fieldwork undertaken until June 2015. The report was finalised in August 2015.

### *Resources*

The audit plan recommended 1100 hours and a budget, excluding production costs, of \$167 131. Total hours were 948 and actual costs, excluding production, were \$149 133, which was within our budget.

### *Why this project was selected*

This audit was included in the *Annual Plan of Work 2013–14* because of the significant state expenditure on infrastructure.



## **1 DoE projects**

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## 1 DoE projects

### 1.1 Background

DoE had property, plant and equipment valued at \$1.471bn as at 30 June 2014<sup>11</sup>. The capital investment budget for 2014–15 was \$30.8m<sup>12</sup>. Larger ongoing capital works are listed in Table 1.

**Table 1: DoE capital works greater than \$3m as at 30 June 2014<sup>13</sup>**

Projects	Estimated total cost
Redevelopment of Brooks High School	\$7.3m
Development of 11 child and family centres	\$34.5m
Construction of new Dunalley Primary School	\$5.9m
Development of three new LINC's	\$11.0m
Refurbishment and new block at Rose Bay High School	\$3.3m
New gymnasium at Smithton High School	\$3.5m

### 1.2. Were capital requirements effectively identified?

Possible triggers to identify capital works requirements include:

- service delivery problems (Section 1.2.1)
- an asset nearing the end of its useful life (Section 1.2.2)
- new initiatives (not covered by this report).

#### 1.2.1 Identification of capital requirements: service delivery problems?

In addition to a long-term program to replace ageing assets, agencies need the capacity to identify when asset condition is unexpectedly impacting on service delivery.

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<sup>11</sup> Department of Education, *Annual Report 2013–14*, Statement of Financial Position, DoE, Hobart, 2014, p.119.

<sup>12</sup> Tasmanian Government, *Government Services, Budget Paper Number 2, Volume 1, 2014–15*, Hobart, p.2.15.

<sup>13</sup> Department of Education, *Annual Report 2013–14*, DoE, Hobart, 2015, p. 94. Note that this is a selection of larger items from the annual report, rather than a list of projects audited.



Some of these events will be sufficiently sudden, or have such an impact that an agency response is unavoidable. We noted that DoE routinely recognised many such problems and that these were generally fixed using annual maintenance funds, rather than entering a SIIRP or capital budgeting process.

Other asset impairments may be more unseen, such that the problem may not be promptly brought to the attention of planning staff. We regard it as good practice for agencies to have a regular process of seeking information about asset deficiencies and forwarding the information to asset managers for evaluation and prioritisation. Therefore, our focus in this Section is on whether or not DoE had effective processes to seek and process information about asset deficiencies that impact on service delivery.

We noted that at DoE, a process (Building Better Schools) was undertaken in 2008 to identify and prioritise capital works projects for schools. The process involved schools determining priorities and submitting proposals based on specific assessment criteria.

The process, run by DoE, led to 139 applications for project funding. Regional committees were convened to assess the relative needs and priorities of all schools.

However, the capital works identification process had not been repeated in the seven years since 2008, although a partial update had occurred in 2012. We consider that the 2008 process was a useful one, but it should be undertaken more frequently since new asset deficiencies would almost certainly have emerged or existing problems worsened since 2008.

### *1.2.2 Identification of capital requirements: timely replacement of ageing assets?*

The government required agencies to develop and maintain a strategic asset management plan (SAMP). A key output of the SAMP was a prioritised program of capital projects that addressed the most urgent asset needs based on condition, expected life and suitability.

We consider the use of the asset register as a key element in planning. Rather than just being an accounting record, the asset register can be used to construct long-term rolling projections of future capital requirements.

Developing and updating a prioritised capital works program requires:

- asset registers, including details of expected useful lives and renewal dates
- a system to ensure assets approaching the recorded end of their useful life, receive a condition assessment<sup>14</sup> and consideration of possible replacement or upgrade.

#### *Asset register*

The SAMP recognised the need to make use of information stored in the department's asset management information system (asset register).

We found that the asset register was being maintained and included estimated useful lives, which could potentially be used to trigger condition assessments for assets near the end of their useful lives and thus commence the process of potential replacement.

#### *Condition assessments for ageing assets*

DoE's SAMP noted the importance of the life-cycle approach to asset management and recognised the existence of:

... significant problems which require immediate review and attention. A significant number of buildings are also showing signs of structural problems.<sup>15</sup>

The SAMP also identified the age of the department's portfolio as a major issue, and in particular:

... the condition of high schools and colleges, which have received little in the way of capital funding in recent years.<sup>16</sup>

As at June 2014, DoE buildings had a replacement cost of \$2.42bn with a written down value of \$1.07bn, indicating that on average only 44 per cent of useful lives remained.<sup>17</sup> On that basis, we thought it particularly important that DoE had a

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<sup>14</sup> Condition assessments are routinely performed to identify maintenance needs. However, the type of condition assessment we are referring to is one designed to determine whether an asset is reaching the end of its useful life. We are more focused on whether a classroom is suitable for learning than whether there are leaking roofs.

<sup>15</sup> Department of Education, *Strategic Asset Management Plan 2014-16*, DoE, Hobart, p.30.

<sup>16</sup> *Ibid.*, p. 26.

<sup>17</sup> Department of Education, *Annual Report 2013-14*, DoE, Hobart, p.155.

process for recognising assets approaching the end of their useful lives and orderly planning for renewal.

We noted that DoE's SAMP advocated a full condition assessment every five years. However, we were advised that DoE had subsequently determined that regular assessment of each asset's condition was cost prohibitive and that condition reports for individual properties were out-of-date. We also noted that all of the capital projects we examined had originated with either a new initiative or identified service delivery problems, rather than orderly replacement of an ageing asset.

DoE advised that it was moving to a new approach to predict maintenance requirements based on:

... the expected life of known building elements in the portfolio and the various decay curves that are applicable to those elements.<sup>18</sup>

It was not clear whether the information in the asset register would be used for, or be consistent with, this approach. We found that a sample of assets, recorded as being at the end of their useful lives, had been assessed as suitable to maintain current use. No revised end of useful life or renewal date had been recorded for those assets. This test indicated to us a misalignment between recorded expected lives in the asset register and actual condition.

No opinion is expressed with respect to the system under development, other than to recognise that:

- at the time of the audit there was no effective system to systematically identify ageing assets for replacement
- DoE was committed to developing such a system and recognised that ageing assets in poor condition were a significant problem for the department.

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<sup>18</sup> Ibid., p. 30.

### **Section 1.2 conclusion**

DoE had effective systems to identify and promptly fix urgent and obvious problems with assets. It had been less successful at identifying long-term requirements for renewal or replacement of ageing assets.

#### **Recommendation 1**

We recommend that DoE undertakes a five-yearly statewide process to identify required capital projects for SIIRP processing and capital funding.

#### **Recommendation 2**

We recommend DoE use asset register data to flag assets approaching the end of their recorded useful lives for assessment of condition and possible capital expenditure. Where condition assessments indicate that assets are likely to exceed their recorded useful lives, the asset register should reflect the revised useful life.

### **1.3** *Were potential capital projects effectively evaluated and prioritised?*

Having identified potential capital works projects, processes are needed to determine if the projects are suitable. Projects then need to be prioritised by the department for scarce capital funding prior to consideration by government.

To test effectiveness of evaluation and prioritisation, we selected a sample from a priority list of 18 projects, which was established as part of the 2013–14 budget submission. The bulk of the 2013–14 priority list came from the 2008 Building Better Schools process. This process led to 139 applications being received by the department. Committees were convened to assess the relative needs and priorities of all schools. We noted that the Building Better Schools process required submitted projects to:

- be linked to student outcomes
- address space needs and facility optimisation
- improve the condition of the building
- provide community benefits
- be equitable with regard to other schools.

We considered the criteria to be reasonable. We found that most applications for our tested SIIRP projects had addressed the criteria, either explicitly or in general terms, but no evidence of

evaluations against the criteria. We did not see any evidence of unreasonable overall ratings.

We were satisfied that reasonable arguments existed for commencement of SIIRP processing for all but one of our sampled projects.<sup>19</sup> We also noted evidence of separate reviews within the department, which contributed to the final rankings.

On the other hand, in the absence of ratings for criteria it was not clear on what basis the successful projects had been differentiated from unsuccessful projects.<sup>20</sup>

### **Section 1.3 conclusion**

Projects had been evaluated and prioritised using robust internal processes.

### **Recommendation 3**

We recommend DoE explicitly uses its criteria for evaluation and prioritisation of potential capital projects and documents both individual and comparative ratings.

#### *1.4 Were high quality SIIRP business cases prepared for Treasury consideration?*

It is generally accepted that no major expenditure should occur in the absence of a persuasive business case. That is particularly true for capital investment decisions because of their cost and ongoing impact.

The SIIRP process requires preparation of a business case at Stage 3. In this Section, we assess whether the business cases were of sufficient quality to provide a basis for funding.

We tested six SIIRP business cases against criteria that we considered relevant. The results are shown in Table 2.

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<sup>19</sup> A Building the Education Revolution project that was part of the 2009 Commonwealth Government's stimulus measures.

<sup>20</sup> The sections within the SIIRP guidelines include: Title, Description, Recommended Option, Information Update, Reason for Project Proposal, Relationship to Government's Policy Priorities, Benefits/Outcomes to be Achieved, and Risks.

**Table 2: Appropriate and comprehensive proposals — DoE**

TAO criteria	Glenorchy Primary: redevelopment after merger with Brent St Primary	Brooks High: redevelop general learning areas <sup>21</sup>	Smithton High: new gymnasium	NW Special School: new classroom and library	Lauderdale Primary: partial redevelopment of school	New Town High: toilet block, admin roof
Estimated cost	\$4.0m	\$9.3m	\$3.5m	\$0.8m	\$2.9m	\$2.8m
Clear description of the project?	✓	✓	✓	✓	✓	✓
Need for service explained?	✓	✓	✗	✗	✓	✗
Need for proposed infrastructure explained?	✗	✓	✓	✗	✓	✓
Outline of the impact of not doing the project?	p*	p**	✓	✓	✓	✓
Information that the proposal is sufficient but not excessive?	✗	✗	✗	✗	✗	✗

P\* It was argued that accommodation would be insufficient, but no detail of enrolment or capacity was provided.

P\*\* It was argued that accommodation would be insufficient, but that issue did not appear to be addressed by the business case, other than that the risks of not proceeding were at too high a level to be persuasive.

Some business cases were generally lacking in detail and seemed to assume that readers had a thorough knowledge of the school, its condition, its area, its facilities and its future growth or contraction.

Reasons provided in support of some project proposals were high-level and gave little idea of how service delivery would

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<sup>21</sup> We note that the Brooks High School development was approved by the Joint Standing Committee on Public Works, which evaluates projects over \$5m.

benefit from the proposal or how service delivery would be impacted if the proposal was rejected. An example of a reason for some proposals was that:

... the general learning areas ... are undersized and unable to provide the flexibility for delivery of secondary educational services.

We were unclear as to whether proposed infrastructure was sufficient or excessive in meeting its objectives. For example, if adding two classrooms, would less or more classrooms be more appropriate.

We also found that the most recent DoE submission for capital funds included some non-SIIRP projects, including packaged infrastructure projects that were individually too small or too urgent to be suitable for the SIIRP process. We were advised by DoE, DHHS and Treasury that changes were being considered to the SIIRP process to better accommodate urgent and smaller amount projects.

#### **Section 1.4 conclusion**

Whilst some business cases prepared by DoE for Treasury SIIRP Stage 3 consideration were persuasive, others lacked sufficient detail and did not adequately explain the need for service.

#### **Recommendation 4**

We recommend DoE business cases for capital project funding include:

- an explanation of why the service delivery should be continued
- a detailed explanation of the need for the proposed infrastructure and an outline of the impact of not doing the project
- information to show that the proposal is sufficient but not excessive to meet the need.

#### **Recommendation 5**

We recommend that Treasury modify the SIIRP process to maximise its application to potential projects, including packaging of proposals and a timelier processing of individual stages.

### 1.5 *Was Treasury thoroughly reviewing DoE's business cases?*

We consider a thorough review of project business cases by Treasury prior to submission to the Cabinet Budget Committee (Budget Committee) is important to ensure that:

- a consistent standard of presentation is achieved so that worthwhile projects are not disadvantaged by weak business cases
- Budget Committee clearly understands the costs, risks and benefits of the proposal
- business cases presented are consistent with government policy and directions
- a whole-of-government perspective is included
- Budget Committee has the benefit of an objective analysis and evaluation by Treasury to assist in its decision making.

We tested a sample of four business cases for evidence that Treasury had reviewed whether cases included:

- a clear description of the project
- evidence of an ongoing need for the service being delivered
- evidence of the need for the capital project
- an outline of the impact of not doing the project
- evidence that the proposal was sufficient to meet the need, but was not excessive.

In each case, Treasury had prepared documentation of its review. However, for DoE business cases, the assessments were generally only summaries with no commentary on adequacy.

In addition, Treasury had indicated for each of our sampled projects that there was a need for more information to be provided in future proposals with respect to project reasons, government priorities and costs. As discussed in Section 1.4, we had also expressed concerns about DoE's submitted business cases, particularly regarding reasons for the project. Despite this, in each case Treasury approved the business case to advance to SIIRP Stage 4.

Both DoE and Treasury officers commented that there had been additional informal discussion and review, including a site inspection. In addition, Treasury advised that it was of the view that the SIIRP applications submitted by DoE were based on a thorough internal evaluation and prioritisation process.



However, no documentation of those processes was available. Discussion with DoE and Treasury officers indicated that effective review had occurred, but we are nonetheless critical that more substantial and complete documentation was not available as evidence of analysis to assist Budget Committee review.

### **Section 1.5 conclusion**

There was reasonable evidence that Treasury was thoroughly reviewing DoE's business cases, notwithstanding deficiencies in documentation.

### **Recommendation 6**

We recommend that Treasury improves documentation of its analysis. We further recommend that SIIRP requirements explicitly include:

- an explanation of why the service delivery should be continued
- a detailed explanation of the need for the proposed infrastructure
- an outline of the impact of not doing the project
- information to show that the proposal is sufficient but not excessive to meet the need.

In the case of 'packaged' capital requirements, that documentation might take the form of evidence that the submitting agency had evaluated and prioritised the projects based on similar criteria.

## **1.6 *Was DoE effectively managing its required future projects?***

We verified that all of the projects evaluated in 2008 as requiring 'immediate' attention had been completed, were in the SIIRP process or had been approved for construction. We also noted that most projects included in the 2013–14 budget submission had been identified in the 2008 process or were required for new government or department initiatives. This indicated that DoE was effectively managing its required future projects in that:

- identified high-priority projects were being managed
- most funded projects resulted from a systematic identification and evaluation process rather than being 'ad hoc' insertions into the program.

On the other hand, we noted that DoE did not maintain a register of current and future capital works projects.

**Section 1.6 conclusion**

We were satisfied that DoE was effectively managing its required future projects. However, management of future projects would be enhanced by a capital works register.

**Recommendation 7:**

We recommend that DoE develops a register of required capital works projects with estimates of when the works should be commenced.

**1.7 Conclusion**

DoE had effective systems to identify and promptly fix urgent and obvious problems with assets. It had been less successful at identifying long-term requirements for renewal or replacement of ageing assets.

Projects had been evaluated and prioritised using robust internal processes.

Business cases prepared by DoE for Treasury SIIRP Stage 3 consideration were not always persuasive. There was reasonable evidence that Treasury was thoroughly reviewing DoE's business cases, notwithstanding deficiencies in documentation.

## **2 DHHS projects**

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## 2 DHHS projects

### 2.1 Background

DHHS had property, plant and equipment valued at \$1.76bn as at 30 June 2014<sup>22</sup>. It also provided support to the Tasmanian Health Organisations (THOs) for the key elements of planning, procurement and sustainability.

DHHS's capital investment budget for 2014–15 was \$106.3m<sup>23</sup>. Larger ongoing capital works are listed in Table 3.

**Table 3: DHHS capital works greater than \$5m as at 30 June 2014<sup>24</sup>**

Projects	Estimated total cost
Flinders Island Multi-Purpose Centre	\$6.1m
Glenorchy Community Health Centre	\$21.0m
Hospital Equipment Fund	\$25.0m
Kingston Community Health Centre	\$6.5m
Launceston General Hospital Acute Medical and Surgical Unit	\$41.2m
Launceston Integrated Care Centre	\$22.5m

As at 30 June 2014, Asset Management Services, a division within DHHS, were coordinating 27 proposals for inclusion in future capital works programs, in addition to nine projects that were at the final stage of SIIRP and waiting on funding.

### 2.2. Were capital requirements effectively identified?

Possible triggers to identify capital works requirements include:

- service delivery problems (Section 2.2.1)
- an asset nearing the end of its useful life (Section 2.2.2)

<sup>22</sup> Department of Health and Human Services, *Annual Report 2013–14*, Statement of Financial Position, DHHS, Hobart, 2014, p.103

<sup>23</sup> Tasmanian Government, *Government Services, Budget Paper Number 2, Volume 1, 2014–15*, Hobart, 2015 p.4.29. Excludes redevelopment of the Royal Hobart Hospital.

<sup>24</sup> Department of Human Services, *Annual Report 2013–14*, Statement of Financial Position, DHHS, Hobart, 2014, p. 34. Note that this is a selection of larger items from the annual report, rather than a list of projects audited.

- new initiatives (not covered by this report).

### *2.2.1 Identification of capital requirements: service delivery problems?*

In addition to a long-term program to replace ageing assets, agencies need the capacity to identify when asset condition is unexpectedly impacting on service delivery.

DHHS advised that if an asset is still in use, and is working satisfactorily, it will continue to be used. If an asset can no longer deliver a service then Asset Management Services will make an assessment.

We found that monthly one-on-one operational meetings were held between DHHS and users of its asset services to discuss asset planning and requirements. In addition, quarterly meetings of DHHS's Capital Planning and Management Committee ensured that asset requirements of DHHS and THO units were routinely considered.

We further noted that most of the SIIRP Stage 3 projects sampled had resulted from recognition of service delivery problems.

### *2.2.2 Identification of capital requirements: timely replacement of ageing assets?*

Asset management planning should provide a framework for decisions to acquire, maintain and replace capital assets. We see the use of the asset register as a key element in that planning. Rather than just being an accounting record, the asset register can be used to construct long-term rolling projections of future capital requirements.

Developing and updating a prioritised capital works program requires:

- asset registers, including expected useful lives and renewal dates

- a system to ensure assets approaching the recorded end of their useful life receive a condition assessment<sup>25</sup> and consideration of possible replacement or upgrade.

#### *Asset registers*

We found that DHHS maintained asset registers for buildings, plant and equipment and information communications technology. The registers included assets owned by DHHS but used by THOs and Ambulance Tasmania, as well as assets held by DHHS's internal units.<sup>26</sup>

The registers included estimated useful lives of individual assets, which could potentially be used to trigger condition assessments for assets near the end of their useful lives and thus commence the process of potential replacement.

#### *Condition assessments for ageing assets*

We were advised that recorded useful lives were not used to make decisions about assets or initiate condition assessments. DHHS indicated that it had a preference for routine refurbishment every 20 years when assets come to the end of their useful lives, but was constrained by limited funding availability.

Routine assessments of DHHS assets were performed approximately every five years in accordance with its SAMP. While this partially addressed our criterion, regular inspections tended to be more focused on maintenance rather than developing a rolling program of future capital requirements.

All the capital works projects in our sample arose from either new initiatives or recognition of service delivery problems, rather than from a systematic check of ageing assets or five-yearly condition assessments. DHHS confirmed that service delivery changes take priority. These projects were also sometimes used as opportunities to upgrade end-of-cycle infrastructure issues.

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<sup>25</sup> Condition assessments are routinely performed to identify maintenance needs. However, the type of condition assessment we are referring to is one designed to determine whether an asset is reaching the end of its useful life. We are more focused on whether a hospital is suitable for providing modern care rather than whether there are leaking roofs.

<sup>26</sup> Assets controlled by Housing Tasmania were not included in our sample.

We accept that reacting to service delivery problems is an important component of an asset management system. However, such an approach in isolation does not facilitate long-term planning for renewal of infrastructure, or effective prioritisation, integration or budget management.

We would have liked to calculate the average proportion of assets' useful lives remaining to determine the extent to which the current capital program was likely to meet long-term requirements (as we have done for DoE in Section 1.2). However, DHHS's reporting of non-current assets in financial statements included only written-down values and not replacement values.

### **Section 2.2 conclusion**

DHHS was identifying infrastructure problems impacting on service delivery, in a timely manner, through its Capital Planning and Management Committee. It was also systematically identifying capital requirements, using a five-yearly inspection of assets.

### **Recommendation 8**

We recommend DHHS use asset register data for both departmental and client assets to flag assets approaching the end of their recorded useful lives for assessment of condition and possible capital expenditure. Where condition assessments indicate that assets are likely to exceed their recorded useful lives the asset register should be amended.

### **Recommendation 9**

We recommend that DHHS include in its financial records both gross value and depreciated value of non-current assets to facilitate monitoring of the sufficiency of its long-term capital program.

## **2.3** *Were potential capital projects effectively evaluated and prioritised?*

Having identified potential capital works projects, processes are needed to determine if the projects are suitable and prioritised for scarce capital funding.

We found that DHHS was using SIIRP to ensure that proposals met evaluation criteria rather than using internal criteria to select proposals for the SIIRP process.

Clients and units of DHHS generally worked with DHHS's Asset Management Services to develop a SIIRP Stage 1 application. There was no central evaluation and prioritisation at this stage.

DHHS Asset Management Services held concerns that some units had not developed SAMPs or service plans, which impacted on their capacity to provide reasons for capital proposals that aligned with service needs.

Treasury reviewed each project at Stage 1 and prepared an options analysis, typically based on three options presented. We were satisfied that DHHS had adequate processes through its regular meetings of the Capital Planning and Management Committee to keep track of SIIRP submissions and, in some cases, to contribute to the preparation and submission of proposals.

After SIIRP proposals had been advanced to Stage 3 (the business case stage), they were returned to DHHS for evaluation and prioritisation. Evaluation and prioritisation was performed by the Capital Planning and Management Committee. Criteria used included the asset's current condition, fitness for purpose, and expected impact of the proposal on service delivery and integrated health care. From that process a priority list was forwarded to Treasury.

We were satisfied that all SIIRP projects were rated and that the rating process was thorough, objective and likely to produce realistic priorities.

In response to our queries, Treasury advised that departmental priority lists were not part of the SIIRP process, which focused on ensuring individual proposals met SIIRP criteria rather than prioritising between them. Treasury's view was that departmental priorities are taken into account in the annual Budget process. We reviewed the 2014–15 Budget and were satisfied that it reflected the department's priority list.

We also considered whether the lack of an early central evaluation and prioritisation process could lead to unbalanced numbers or levels of submission from some units or clients with possible consequences of inequity and inefficiency. However, inspection of the DHHS' capital works master list indicated that:

- only one unit had 'flooded' the process with 'excessive submissions' and that the problem had been resolved
- informal discussions had ensured reasonable consistency in proposals
- most proposals had been programmed for future capital work indicating that the number of proposals had not been excessive.



Our view is that in practice the DHHS approach of SIIRP Stage 3 internal evaluation and use of the priority list in the budget setting process was effective.

**Section 2.3 conclusion**

DHHS was effectively evaluating and prioritising potential capital projects.

**Recommendation 10:**

We recommend that DHHS ensure all units create service plans and SAMPs and that capital assets are aligned with service delivery needs.

**2.4** *Were high quality SIIRP business cases prepared for Treasury consideration?*

It is generally accepted that no major expenditure should occur in the absence of a persuasive business case. That is particularly true for capital investment decisions because of their ongoing and large funding impacts.

The SIIRP process requires preparation of a business case at Stage 3. In this Section we assess whether the business cases that had reached Stage 3 were of sufficient quality to provide a basis for funding.

We sampled five projects that went to Treasury as part of DHHS's 2014–15 forward program, and tested their SIIRP Stage 3 business cases against criteria that we considered relevant. The results are shown in Table 4.

**Table 4: Appropriate and comprehensive proposals — DHHS**

	<b>Relocate and redevelop Scottsdale Dental Clinic</b>	<b>Integrated Centre for Alcohol, Drugs, and Mental Health Services</b>	<b>Replace Northern Adult Disability Respite Centre</b>	<b>Redevelop RHH Pharmacy Sterile Production Facility</b>	<b>Redevelop St Helens District Hospital</b>
<b>Estimated cost</b>	\$245 000	\$12.7m	\$1.9m	\$3.8m	\$11.6
<b>Clear description of the project?</b>	✓	✓	✓	✓	✓
<b>Need for service explained?</b>	✓	✗	✓	✓	✓
<b>Need for proposed infrastructure explained?</b>	✓	✓	✓	✓	✓
<b>Outline of the impact of not doing the project?</b>	✓	✓	✓	✓	✓
<b>Information that the proposal is sufficient but not excessive?</b>	✗	✗	✗	✓	✗

The results for DHHS were generally good, with projects well described and persuasive arguments provided for the underlying service delivery and the infrastructure to support it. The impact of not performing the capital project was also explained in all cases.

Our only concern with the sampled SIIRP projects was the lack of evidence that the size of the projects was appropriate; that is, sufficient to achieve the project's objective but not excessive.

We also found at DHHS that in addition to SIIRP projects, submissions for capital funds included substantial capital projects that were not part of SIIRP, including collections of

infrastructure projects that were individually too small or too urgent to be suitable for the SIIRP process. We were advised by DoE, DHHS and Treasury that changes were being considered to the SIIRP process to better accommodate these needs.

#### **Section 2.4 conclusion**

Business cases prepared by DHHS for Treasury SIIRP Stage 3 consideration were reasonably persuasive although it was not always clear that the project would achieve its objective without being excessive.

#### **Recommendation 11**

We recommend DHHS business cases for capital project funding include information to show that the proposal is sufficient but not excessive to meet the need.

#### **Restatement of recommendation 5**

We recommend that Treasury modify the SIIRP process to maximise its application to potential projects including packaging of proposals and timelier processing of individual stages.

### **2.5** *Was Treasury thoroughly reviewing DHHS's business cases?*

A thorough review of project business cases by Treasury prior to submission to the Budget Committee is important for ensuring that:

- a consistent standard of presentation is achieved so that worthwhile projects are not disadvantaged by under-developed business cases
- the Budget Committee clearly understands the costs, risks and benefits of the proposal
- business cases presented are consistent with government policy and direction
- the Budget Committee has the benefit of an objective analysis and evaluation by Treasury to assist with informed decision making.

We tested a sample of business cases for evidence that Treasury had required:

- a clear description of the project
- evidence of an ongoing need for the service being delivered
- evidence of the need for the capital project

- an outline of the impact of not doing the project
- evidence that the proposal was sufficient to meet the
- need, but not excessive.

We found that analysis of DHHS projects was generally good and demonstrated thorough understanding of the proposals. We also noted that Treasury had required a number of improvements to submissions including our Section 2.4 concern that some proposals did not indicate that the proposed infrastructure would meet the need.

**Section 2.5 conclusion**

Treasury was thoroughly reviewing DHHS's capital works projects.

**2.6** *Was DHHS effectively managing its required future projects?*

We found that DHHS maintained an active list of capital proposals in the form of an eight-year forward program. The list included current SIIRP status, costs and proposed action. The list does not include priorities, however a supplementary priority list was maintained.

**2.7** *Conclusion*

DHHS was effective in evaluating and prioritising potential capital projects. The use of regular asset inspection programs enabled DHHS to identify its forthcoming capital requirements.

DHHS was also able to respond to asset-related service delivery problems in a timely manner.

Business cases prepared by DHHS for Treasury SIIRP Stage 3 consideration were reasonably persuasive, with Treasury thoroughly reviewing its capital works projects.

## **Independent auditor's conclusion**

## Independent auditor's conclusion

This independent conclusion is addressed to the President of the Legislative Council and to the Speaker of the House of Assembly. It relates to my performance audit on assessing the effectiveness of capital works budgeting processes and departmental asset management.

### *Audit objective*

The objective was to form an opinion on the effectiveness of the state's capital works budgeting processes and departmental asset management.

### *Audit scope*

The audit was limited to the preparation and submission of capital project bids by the Department of Education (DoE) and the Department of Health and Human Services (DHHS) and the review of those bids by the Department of Treasury and Finance (Treasury).

### *Responsibility of the Secretaries of DoE, DHHS and Treasury*

The Secretaries of DoE and DHHS are responsible for the effectiveness of the preparation and submission of their respective departmental capital works bids and the associated budgeting and asset management processes. The Secretary of Treasury is responsible for the effective review of departmental capital works bids.

### *Auditor-General's responsibility*

In the context of this performance audit, my responsibility was to express a conclusion on the effectiveness of the state's capital works budgeting processes and departmental asset management.

I conducted my audit in accordance with Australian Auditing Standard ASAE 3500 *Performance engagements*, which required me to comply with relevant ethical requirements relating to audit engagements. I planned and performed the audit to obtain reasonable assurance on the effectiveness of the state's capital works budgeting processes and departmental asset management.

My work involved obtaining evidence that:

- DoE and DHHS were effectively preparing and submitting capital works bids and managing their respective budgeting and asset management processes.

- Treasury was effectively reviewing departmental capital works bids.

I believe that the approach I adopted and evidence I obtained was sufficient and appropriate to provide a basis for my conclusion.

*Auditor-General's conclusion*

Based on the audit objective and scope and for reasons outlined in this Report, it is my conclusion that:

- DHHS was effective in evaluating and prioritising potential capital projects
- whilst DoE had effective systems to identify and fix urgent and obvious problems it was less successful at identifying long-term requirements for renewals or replacements
- DoE projects had been evaluated and prioritised using robust internal processes
- business cases prepared by DoE for Treasury SIIRP Stage 3 consideration were not always persuasive
- DHHS was able to respond to asset-related service delivery problems in a timely manner
- there was reasonable evidence that Treasury was thoroughly reviewing DoE's and DHHS business cases, notwithstanding deficiencies in DoE documentation.

My report contains 11 recommendations aimed at addressing my conclusions.

H M Blake  
Auditor-General  
18 August 2015





## **Recent reports**

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## Recent reports

<b>Tabled</b>	<b>No.</b>	<b>Title</b>
June	No.12 of 2013–14	Quality of Metro services
June	No. 13 of 2013–14	Teaching quality in public high schools
Aug	No. 1 of 2014–15	Recruitment practices in the Tasmanian State Service
Sep	No. 2 of 2014–15	Follow up of selected Auditor-General reports: October 2009 to September 2011
Sep	No. 3 of 2014–15	Motor vehicle fleet management in government departments
Nov	No. 4 of 2014–15	Financial Statements of State entities, Volume 3 — Government Businesses 2013–14
Nov	No. 5 of 2014–15	Financial Statements of State entities, Volume 2 — General Government and Other State entities 2013–14
Dec	No. 6 of 2014–15	Financial Statements of State entities, Volume 1 — Analysis of the Treasurer’s Annual Financial Report 2013–14
Feb	No.7 of 2014–15	Financial Statements of State entities, Volume 4 — Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14
Mar	No.8 of 2014–15	Security of information and communications technology (ICT) infrastructure
Mar	No.9 of 2014–15	Tasmanian Museum and Art Gallery: compliance with the National Standards for Australian Museums and Galleries
May	No.10 of 2014–15	Number of public primary schools
May	No.11 of 2014–15	Road management in local government
June	No.12 of 2014–15	Financial Statements of State entities, Volume 5 — State entities 30 June and 31 December 2014, findings relating to 2013–14 audits and other matters
July	No. 1 of 2015–16	Absenteeism in the State Service

## **Current projects**

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## Current projects

The table below contains details performance and compliance audits that the Auditor-General was conducting and relates them to the *Annual Plan of Work 2015–16* that is available on our website.

<b>Title</b>	<b>Audit objective is to...</b>	<b><i>Annual Plan of Work 2015–16</i> reference</b>
<b>Follow up audit</b>	... ascertain the extent to which recommendations contained in the <i>2013 Tasmanian Bushfires Inquiry</i> have been implemented. In addition, follow up the implementation of recommendations contained in <i>Special Report 99 Bushfire management</i> and those recommendations contained in <i>Financial Audit Services Report No. 11 of 2012–13</i> that relate to the Department of Health and Human Services and the three Tasmanian Health Organisations.	Page 17 Topic No. 2
<b>Vehicle fleet usage and management in government businesses</b>	... review the efficiency and effectiveness of the use of motor vehicles, and testing compliance with applicable guidelines by: government businesses, University of Tasmania and the Retirement Benefits Fund.	Page 18 Topic No. 4
<b>Provision of social housing</b>	... form conclusions as to the effectiveness, efficiency and economy of the provision of social housing and other government assistance provided by Housing Tasmania and non-government organisations to Tasmanians in housing stress	Page 18 Topic No. 5

## AUDIT MANDATE AND STANDARDS APPLIED

### Mandate

Section 17(1) of the *Audit Act 2008* states that:

‘An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.’

Under the provisions of section 18, the Auditor-General:

- (1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).’

Under the provisions of section 19, the Auditor-General:

- (1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards
- (2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity’s appropriate Minister and provide a copy to the relevant accountable authority.’

### Standards Applied

Section 31 specifies that:

‘The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.’

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.



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