



PERFORMANCE AUDIT

8 APRIL 2021

# Delivering school infrastructure

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

# THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

© Copyright reserved by the Audit Office of New South Wales. All rights reserved. No part of this publication may be reproduced without prior consent of the Audit Office of New South Wales. The Audit Office does not accept responsibility for loss or damage suffered by any person acting on or refraining from action as a result of any of this material.

Cover image: Supplied by Department of Education.



GPO Box 12  
Sydney NSW 2001

The Legislative Assembly  
Parliament House  
Sydney NSW 2000

The Legislative Council  
Parliament House  
Sydney NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983* I present a report titled '8 Y Jj Yf Jb [ 'gW cc'' ]bZ Ugfi Wfi fY'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

**Margaret Crawford**

Auditor-General  
8 April 2021

# contents

---

## Delivering school infrastructure

### **Section one – Delivering school infrastructure**

Executive summary	1
Introduction	6
Prioritisation and planning	10
Developing business cases	17
Project governance and management systems	24

### **Section two – Appendices**

Appendix one – Response from agency	31
Appendix two – About the audit	34
Appendix three – Performance auditing	36

## **Section one**

Delivering school  
infrastructure

---

# Executive summary

In 2016, the Department of Education prepared a School Assets Strategic Plan (2016 SASP) which outlined long-term funding needs to support the expected growth in enrolments to 2031. Following the release of the 2016 SASP, the NSW Government substantially increased funding for new and upgraded schools from \$2.4 billion in the 2016–17 State Budget to \$4.2 billion in 2017–18.

In 2017, the Department of Education established School Infrastructure NSW (SINSW) to lead the delivery of the 2016 SASP and the 123 new projects announced in the 2017–18 Budget. This significantly larger program of work required rapid development of internal capacity, governance arrangements, and project management systems. This needed to be done at the same time as scoping and planning for the list of announced projects.

As there are limited funds available to meet growing needs across the State, it is important that SINSW has effective methods to prioritise projects to communities with the greatest need. To ensure that projects deliver value for money, business cases need to have robust estimates of project costs and benefits. Business cases also need to account for the inherent risks in delivering infrastructure projects. Unplanned cost escalations can reduce the number of new or modernised classrooms SINSW can deliver. Unforeseen delays may also impact families who make significant life choices based on their expectations that a school will open at the beginning of the school year.

The objective of this audit was to assess the effectiveness of planning and delivery of new, upgraded and redeveloped schools to meet demand for public school education in New South Wales. To address this objective, the audit examined whether the Department:

- has effective procedures for planning and prioritising school capital works to meet present and future demands
- develops robust business cases for school capital works that reliably inform decision-making
- has effective program/project governance and management systems that support delivering projects on-time, within budget and achievement of intended benefits.

The audit examined business cases for 12 projects as case studies. These include a mix of projects initiated before and after the establishment of SINSW.

This audit commenced in June 2020 and examined strategies and demographic projections developed prior to the emergence of COVID-19. This audit did not examine potential longer-term impacts of COVID-19 on future demands for public school education.

## Conclusion

**School Infrastructure NSW has been focused on delivering existing projects, election commitments and other government announcements. This has diverted attention from identifying and delivering projects that would have better met present and future student and classroom needs. While it has developed a long-term strategic plan that advises government of ongoing funding requirements, it has not presented a list of priorities to meet these needs.**

In its first years of operation, SINSW has focused on delivering existing projects and the 123 new projects announced in the 2017–18 Budget. Further NSW Government announcements in the 2018–19 Budget and election commitments in the 2019–20 Budget made up the majority of new projects, rather than projects prioritised by SINSW.

In early 2020, SINSW advised the NSW Government that the currently funded infrastructure program would not meet forecast classroom requirements for 2023 and beyond. The School Asset Strategic Plan 2020 estimates the annual level of investment needed over the next 20 years to meet growth, update and upgrade facilities to meet compliance obligations. However, SINSW's ten-year Capital Investment Plans for 2018–19, 2019–20 and 2020–21 only identified priorities over a two-year horizon.

Developing a longer-term pipeline of priorities would signal the areas of greatest need and allow greater scope to consider a range of options to best meet those needs.

**SINSW has made progress in planning across geographic areas but needs to better prioritise which projects move forward.**

Given the current and projected needs for new classrooms, it is vital that SINSW provides long-term advice based on thorough state-wide analysis to help prioritise projects that best meet this demand.

SINSW has improved its capabilities, processes, and systems to support planning in 'School Community Groups', which are clusters of between 5 to 15 schools in a geographic area. This addresses a key direction identified in the School Assets Strategic Plan 2016. It has developed a planning tool which allows it to prioritise School Community Groups based on weighted criteria. It has also developed an approach to identify potential projects within School Community Groups but has not yet put in place a structured process to prioritise which projects move to the business case stage to seek funding for delivery.

**Business cases we examined established service needs, but several had shortcomings in scope definition, cost estimation and risk identification.**

Most business cases we examined demonstrated the service need and consultation with stakeholders helped to incorporate educational requirements. Common templates and specific cost-benefit guidance developed in partnership with NSW Treasury has helped to promote consistency across business cases.

However, there were shortcomings in several business cases we reviewed. Business cases for projects already announced by government presented a limited number of options, and the process for eliminating other options was not transparent. Cost increases and contingency drawdowns for several projects indicate that scoping, costing and risk assessments could be improved, especially for complex projects.

**Standard program management systems and governance arrangements support project delivery, however, there is scope for better ongoing oversight of benefits.**

SINSW applies standard governance arrangements to projects based on their size. Higher value projects have executive oversight while lower value projects are overseen on a regional basis. SINSW has improved its project management systems to provide more consistent data and greater transparency to senior management over project status, cost and use of contingencies.

SINSW has worked with NSW Treasury to define a consistent set of benefits for new and redeveloped schools. Estimated benefits are currently based on international contexts but SINSW advises it is undertaking further research to improve the evidence base in this area. The current approach to ongoing monitoring, reporting and evaluation of project benefits places responsibility on the infrastructure delivery team. This team is not the most appropriate area to monitor ongoing benefits, which are expected to accrue many years after delivery and depend on actions in other areas of the Department.

## 1. Key findings

### **SINSW delivered projects against an established program of works in its first years of operation**

At establishment, SINSW inherited a portfolio of existing projects and 123 new projects announced as part of the 2017–18 Budget (to commence over 2017–18 and 2018–19). It has progressively worked through individual project planning to deliver against these projects.

The 2018–19 Budget funded three new projects that had not already been announced. One of the three projects was identified by SINSW as a priority. The 2018–19 Budget also allocated funding for 'planning' 22 new projects. Seventeen of the 22 projects had been identified by SINSW as a priority.

SINSW identified 33 priority projects in its Capital Investment Plan for 2019–20. Thirteen of these projects were funded in that year with a further 27 projects included as election commitments. SINSW identified 20 new projects in its Capital Investment Plan for 2020–21 but only two of these were funded. SINSW advised this was due to a constrained budget environment.

### **There is an anticipated shortfall of classrooms based on the current funded program**

Despite increased funding since 2017–18, SINSW advised the NSW Government in early 2020 that the currently funded infrastructure program would not meet forecast classroom requirements for 2023 and beyond. Accordingly, it is vital that new funding is prioritised to projects which best meet demand.

SINSW only identified specific priorities over a two-year horizon in its Capital Investment Plans for 2018–19, 2019–20 and 2020–21. The School Assets Strategic Plan 2016 and the 2020 update make the case for sustained funding for school building and redevelopment. These plans estimate annual funding requirements and show geographic areas with increasing forecast enrolments. Detailing how priorities over a ten-year timeframe fit within a ten-year capital planning limit would create more certainty about meeting growth demands.

### **There has been progress in formalising prioritisation frameworks, data tools and supporting governance arrangements**

SINSW committed to planning for new and redeveloped schools in 'School Community Groups' in the School Assets Strategic Plan 2016. This is a new way of planning which considers the educational needs over a defined geographical area. It has developed a planning tool to prioritise School Community Groups based on weighted criteria. It has also established governance frameworks to improve transparency over decisions to reprioritise this list.

SINSW has refined its approach to planning in School Community Groups over the past four years. It now prepares Service Needs Reports to investigate needs, identify projects, prioritise, determine scope and timing, and assess non-capital options. SINSW has yet to finalise arrangements for how needs identified in Service Needs Reports progress to the strategic business case stage.

### **Projects announced prior to developing a business case have less opportunity to consider a range of options to meet the service needs**

Business cases for projects already announced by government (or announced for planning) go through the same process of determining the service need and impacts on surrounding schools. However, for some announced projects, the range of options considered in the business case is influenced by the parameters of the announcement. This makes it more difficult to genuinely pursue alternate options that could better meet the identified service need.

Projects identified by SINSW have a more rigorous process of considering options. Service Needs Reports explore a wide range of asset and non-asset interventions across the School Community Group. Options are narrowed as the projects move through the strategic and final business case stages. SINSW uses its Investment Review Committee to engage key stakeholders early in the process so that they are informed about how non-asset solutions have been considered and why SINSW is progressing the business case for a capital solution for particular projects.

### **Several business cases underestimated project costs and risks, leading to scope and budget increases**

Several business cases we reviewed did not adequately identify the initial scope requirements, project-specific risks or the likely project cost. For two business cases, this appeared to be due to an attempt to fit the project within a predetermined amount. Announcing a project's scope, budget and timeframe before proper planning increases risks to successful delivery against expectations.

Several of the projects we examined required drawdowns on contingency funds due to inadequate consideration of scope, costs and project risks at the planning stage. Contingency funds are intended for unanticipated extra costs rather than those that could have or should have been identified at the planning stage.

### **Guidance on benefit calculations has provided a consistent framework for business cases**

Business cases we examined presented a consistent set of benefits based on guidance developed in partnership with NSW Treasury. Following this guidance helps to compare cost-benefit analyses across business cases. However, the evidence for the estimated benefits is based on contexts outside of NSW. SINSW has the tools and data sources to calculate benefits more suited to the context of particular schools. Doing so would improve the accuracy of cost-benefit analyses. SINSW advised that it is currently updating the guidance in partnership with NSW Treasury.

SINSW involves school principals, executives and teaching staff in developing education rationales when commencing projects. These documents help align projects with education outcomes. They also provide a baseline for post-occupancy evaluation, which is important to determine whether the new school infrastructure is being used in the ways that were anticipated in the business case.

### **SINSW could elevate its existing assurance review process to consolidate lessons learned**

SINSW engages external peer reviewers to conduct assurance reviews on its projects at multiple stages of planning and delivery. It has established a Community of Practice for external reviewers to keep them up to date on new developments and requirements. Higher value projects are also subject to review by Infrastructure NSW under the Investor Assurance Framework.

By looking at all projects at all stages, assurance reviews can identify systematic issues across the full portfolio of projects. A recent assurance review analysed common findings from reviews of strategic and final business cases. This provides a helpful way to improve internal processes. SINSW advised that it is implementing a continuous improvement program, which will be able to take findings from assurance reviews to build organisational capabilities.

## 2. Recommendations

### By September 2021, the Department of Education should:

1. finalise the investment prioritisation approach with agreement from key stakeholders
2. finalise and update on an ongoing basis a ten-year list of priorities to meet the forecast demand for new classrooms and contemporary fit for purpose learning environments, which identifies individual projects and programs in the short-term and priority geographic areas and programs in the medium-term
3. seek a ten-year Capital Planning Limit from NSW Treasury to ensure the needs identified in the ten-year list of priorities are met and are coordinated with the forward capital programs of other agencies
4. improve the quality of data on cost benchmarks that underpin the annual ten-year Capital Investment Plan and updates to the School Assets Strategic Plan
5. embed an evidence-based cost benefit analysis framework for school investment, in consultation with NSW Treasury, by:
  - validating benefits estimated in previous business cases with actual results
  - building the evidence base in relation to contemporary learning environments
6. regularly share data on forecast needs with relevant planning agencies to promote strategic opportunities for servicing education needs
7. implement the continuous improvement program for service planning, options assessment, business case development, project delivery and handover. The program should be informed by findings from assurance reviews, post-occupancy evaluations and project lessons learned
8. establish benefits realisation processes and practices that:
  - ensure business cases set baselines and targets for benefits
  - review benefits during delivery, prior to handover and as part of Post Occupancy Evaluations
  - identify which part(s) of the Department are best placed to develop, manage and evaluate benefits on an ongoing basis.

#### **Note:**

The Department's formal response to this report at Appendix one states that while it 'supports the recommendations, it considers the proposed six-month timeframe to be an unreasonably short period for a large and complex organisation to effectively implement many of these recommendations'. It suggests 12 months would be needed to implement the recommendations.

The recommendations stemming from this audit are core business for SINSW. The Audit Office considers it important for SINSW to place priority on implementing the recommendations in time to inform the 2022–23 budget cycle. Extending the deadline to April 2022 would place action outside of that budget cycle.

---

# 1. Introduction

## 1.1 Overview of school capital works in New South Wales

### New South Wales Government school portfolio

The NSW Department of Education had 805,000 students enrolled in over 2,209 primary, secondary and specialist schools across the state in 2019. To meet the needs of these students, it has over \$33.0 billion invested in school infrastructure and land throughout New South Wales. The current footprint of the school portfolio is approximately 8.6 million square metres in over 20,000 structures of varying condition, age and functionality. Currently, 55 per cent of permanent buildings are over 40 years of age with around 80 per cent over 25 years. There is a separate program to address the maintenance backlog in NSW public schools that was not in the scope of this audit.

School infrastructure investment has significantly increased each year since 2016–17 (Exhibit 1). The 2019–20 Budget announced \$6.7 billion for 190 new and upgraded schools over four years.

#### Exhibit 1: Annual capital expenditure in the Education cluster 2016 to 2020

	2016	2017	2018	2019	2020
Value of assets at 30 June (\$ billion)	24.0	23.9	32.5	33.3	35.2

	2015–16	2016–17	2017–18	2018–19	2019–20
Capital expenditure (\$ million)	404.6	482.3	826.6	1,674.5	2,242.6

Note: The Department completed a revaluation of land and building assets during 2017–18 which contributed to the change between 2017 and 2018.  
Sources: NSW Department of Education Annual Reports and NSW Budget Papers.

### Forecast growth in student population

Under the *Education Act 1990* the Department is required to ensure that every child can enrol at their local school and receive a high-quality education. The Department therefore needs to ensure that it is planning and delivering sufficient places in government schools now and into the future.

Based on 2019 projections, the Department forecasts that it will need to accommodate an additional 180,000 students in the government school system in the years to 2039. The majority of the increased forecast enrolments are expected in already established areas of metropolitan Sydney, rather than new land release areas or in regional and rural New South Wales.

### Our previous audit of planning for school infrastructure

Our 2017 audit 'Planning for school infrastructure', assessed whether the Department of Education had a strategy and implementation model to ensure it has sufficient fit-for-purpose student learning spaces when and where needed. The audit found there had been chronic under-investment in school infrastructure for a decade and deficiencies in asset planning.

The Department developed a School Assets Strategic Plan (SASP) in 2016. The SASP identified a need for an additional 7,200 classrooms to meet forecast population growth over 15 years. The plan set out the challenges in meeting demand for school infrastructure and proposed new approaches. It made the case for a longer-term vision and funding envelope, a new model for planning based on groups of neighbouring schools, and other policies to make better use of existing resources and lower the costs of new builds. For more information on cluster planning, or planning in School Community Groups, see Exhibit 2.

We found the SASP covered important issues and benefited from expert input and independent validation of assumptions, proposed solutions and likely costs. We also noted the SASP had elements that may be confronting for the community, included conservative funding estimates and carried many risks to successful delivery.

## Exhibit 2: Cluster planning or planning in School Community Groups

### What is cluster planning?

Cluster planning entails identifying the best opportunities for asset utilisation, new builds, upgrades and redevelopments across School Community Groups. These are groups of five to 15 schools in geographic proximity to each other. SINSW was tasked with implementing this planning model.

### Why is it useful?

Planning across School Community Groups is a useful approach because schools are embedded within connected communities. Each school's utilisation depends on not just its own capacity, strategy, catchment boundaries, enrolment policies, transport accessibility and popularity, but on these factors in the schools that surround it. The strategic planning and prioritisation process is improved when it reflects these complexities, captures the interdependencies between schools, and addresses the most pressing service need first.

Source: Audit Office analysis of SINSW documentation.

## Establishment of School Infrastructure NSW (SINSW)

School Infrastructure NSW (SINSW) was established in August 2017 as a division of the Department of Education with responsibility for planning, procurement, construction and maintenance of school facilities to meet changes in population growth, accommodate new ways of teaching and learning, and help foster better educational outcomes for students.

The School Infrastructure Advisory Council was established in October 2017 to support the Secretary and the Department of Education through providing independent expert advice to guide the activities of SINSW and the implementation of the School Assets Strategic Plan.

SINSW has structured its branches across the project lifecycle. These are:

1. **Service planning** – updates projections, establishes service needs reports and strategies through cluster planning, coordinates non-asset solutions, develops educational rationales, researches innovative learning environments and undertakes post occupancy evaluations.
2. **Infrastructure planning** – developing business cases, provides technical advice on stakeholder engagement, statutory planning, sustainability, property and transactions.
3. **Infrastructure delivery** – leads projects through delivery phases, ensures the consistent use of project management systems and reporting, manages consultants and contractors, and provides approval at each level of the governance structure for project risks and issues.
4. **Business enablement** – responsible for SINSW processes that overarch planning and delivery. This includes procurement, quality assurance, investor assurance, communications, risk management, systems/IT and design/technical standards.
5. **Partnerships** – responsible for developing and delivering partnership opportunities for the local community and non-education stakeholders (such as Local Government). A key objective is to make school facilities more accessible to local communities.

## 2018 State Infrastructure Strategy

The State Infrastructure Strategy 2018 provides advice on the current state of infrastructure in New South Wales and the needs and priorities for the next 20 years. The strategy emphasises that the government will need to make more efficient use of existing and new infrastructure.

In relation to school infrastructure, the strategy notes the anticipated surge in public school enrolments and that many existing schools require renewal and refurbishment to improve their functionality and support contemporary teaching and learning practices. The strategy makes 11 recommendations specific to education. In response, the NSW Government committed to:

- develop and implement a comprehensive School Assets Strategic Plan management and reporting framework
- establish a consultation framework to consider community views, and whole-of-government and place-based outcomes in the delivery of new and upgraded schools
- develop a program to progressively convert existing permanent learning spaces to future learning environments.

## School Assets Strategic Plan Update (2020)

The 2020 School Assets Strategic Plan Update (the 2020 Update) is the first of what is planned to be an ongoing series of updates. It draws on the experience of SINSW since its establishment in 2017. It also incorporates the latest population growth projections to advise on the anticipated infrastructure requirements to 2039. The 2020 Update focuses on delivering an infrastructure program that balances the need to build for growth and the need to bring existing facilities up to a contemporary standard (Exhibit 3).

### Exhibit 3: School Assets Strategic Plan Update (2020)

#### **Meeting the forecast growth in enrolments will require significant additional teaching spaces**

The 2020 Update forecasts an additional 180,000 enrolments in government schools by 2039. A large portion of growth is expected in established areas of Sydney. These forecasts are sensitive to changes in overall population growth and the share of students attending government and non-government schools.

Accommodating the forecast growth in enrolments will require significant additional teaching spaces.

Meeting growth in metropolitan areas is usually done through expansions at existing schools, which requires removing some existing infrastructure to deliver the overall increase in capacity.

#### **A significant number of teaching spaces also require upgrades to be fit-for-purpose**

A growing number of government schools no longer meet modern service delivery expectations and are not considered fit-for-purpose. Of the more than 2,200 schools, 55 per cent of buildings are over 40 years old with around 80 per cent over 25 years old. The 2020 Update states that quality school infrastructure supports student wellbeing and leads to better outcomes for students.

The 2020 Update estimates that around 34,000 teaching spaces require upgrading to be fit-for-purpose. This includes activities to renew general and specialist teaching spaces (such as science, and hospitality spaces), bring core facilities (such as toilets and administration facilities) up to a modern standard, and to replace existing demountable buildings with permanent teaching spaces.

#### **There are strategies to reduce the overall funding required to meet the forecast needs**

To meet demand to 2039, the 2020 Update advises the current level of annual capital expenditure will need to be maintained to cater for student growth projections, with additional funding required for maintenance and to bring facilities up to a fit-for-purpose standard.

To reduce the overall funding required, the 2020 Update proposes several strategies:

- minimising infrastructure requirements by increasing existing operational utilisation (e.g. resolving local issues to make under-utilised schools more desirable, adjusting local enrolment boundaries)
- enhancing internal business practices (e.g. streamlining business cases, refining benchmarking costs, progressing precinct opportunities, developing an ongoing pipeline of projects)
- developing more commercial delivery options (e.g. rationalising design requirements, piloting new construction techniques, bundling contracts for multiple projects)
- piloting new approaches to engage the private sector (e.g. exploring models to integrate schools into private developments, examining partnership opportunities before deciding the procurement model).

Source: Audit Office analysis of SINSW documentation.

## NSW Department of Education Strategic and Business Plans

The Department of Education's Strategic Plan 2018–2022 sets a vision 'to be Australia's best education system and one of the finest in the world'. One of the ten goals in the plan is that 'school infrastructure meets the needs of a growing population and enables future-focused learning and teaching'. This goal has associated performance measures for the 'number of new and upgraded schools and classrooms'.

The Department of Education Business Plan and Accountability Framework sets out priorities, targets and the governance and accountability framework to drive strategic planning in order to achieve the Strategic Plan's vision.

With regards to school infrastructure, the plan defines success as 'delivering the capacity we need in the system to meet enrolment growth, improving renewal opportunities ... and ensuring our assets are fit-for-purpose and compliant, while also ensuring value for money'.

The plan sets out nine measures to track performance:

1. Improve school utilisation within high-growth areas every year, maximising existing infrastructure in response to new student demand.
2. Delivery of additional new classrooms.
3. New additional classrooms represent value for money.
4. Students, parents and teachers satisfaction with school facilities improves.
5. Increased proportion of facilities which meet community expectations.
6. Increased number of schools with community/wellness hubs.
7. Increased proportion of all classrooms in NSW public schools that are able to deliver contemporary learning through upgrades/refurbishment since 2017.
8. Portfolio-level energy consumption reduces every year.
9. Increased percentage of accessible buildings.

### 1.2 About the audit

This audit assessed the effectiveness of planning and delivery of new, upgraded and redeveloped schools to meet demand for public school education in New South Wales. The audit focused on School Infrastructure NSW, a division of the NSW Department of Education responsible for prioritising, planning and delivering major school capital works across the State.

The audit examined how SINSW implements policies, guidelines and frameworks supporting the prioritisation of school infrastructure capital works and related investments. It also considered if funded projects are based on robust analysis of options and benefits, and if there are effective arrangements for delivering projects.

To inform our assessments, we also examined 12 school infrastructure projects. We chose the projects to examine as case studies in consultation with SINSW and they reflect a range of criteria including metropolitan and regional locations; new, redeveloped and upgraded schools; primary and secondary schools; construction completion stages; budget and commencement date. Some of the chosen projects commenced before the establishment of SINSW in mid-2017.

Further information on the audit scope, criteria and approach is at Appendix two.

---

## 2. Prioritisation and planning

There have been significant increases in funding for education infrastructure since the 2017–18 Budget and further growth in demand for places in schools is forecast. SINSW has the challenge, not only of meeting the need for new classrooms due to population growth, but also upgrading facilities to enable modern teaching techniques. In addition, community expectations of what constitutes a vibrant and successful school community continues to increase.

Given growing demand and budget constraints, projects must be selected to best meet the needs of the community and planning and prioritisation are vital. SINSW has been progressing planning for announced projects as well as implementing a new type of strategic state-wide planning and prioritisation, cluster planning, where options are developed for School Community Groups.

### 2.1 Planning for announced projects and progressing the school building agenda

#### **Existing projects, election commitments and government announcements have led planning and prioritisation**

The SASP 2016 identified a considerable shortfall in the number of classrooms needed in the short, medium and longer-term. In response, the 2017–18 Budget announced funding for 123 new and upgraded schools to commence in 2017–18 and 2018–19. Delivering against these projects, as well as projects already underway, was an immediate focus for SINSW as it built internal capabilities to advise on strategic priorities for future years.

Over the next three budget cycles, new projects nominated by SINSW in its Capital Investment Plans made up only a portion of projects that received funding (Exhibit 4). This has meant projects prioritised from 2018–19 to 2020–21 were not always based on rigorous analysis to meet the highest needs.

Given limited resources, planning for projects should be led by strategic, state-wide prioritisation to select the most effective investments before projects are funded or announced. In 2020, SINSW advised the NSW Government it did not have committed funding to build enough classrooms to accommodate the growing need for public education infrastructure and bring all existing classrooms to a compliant modern standard.

## Exhibit 4: Alignment between SINSW priorities and projects announced in budgets

### 2018–19 Budget

The 2018–19 NSW Budget announced funding for an additional 43 new and upgraded schools to commence works in 2018–19. Of the 43 projects:

- 1 was identified by SINSW as a priority in its Capital Investment Plan (SINSW requested funding for one new project)
- 40 had already been announced
- 2 were new announcements (not identified as a priority by SINSW in its Capital Investment Plan).

The 2018–19 Budget also announced funding for planning a further 22 projects. 17 of the 22 projects were identified by SINSW as priorities.

### 2019–20 Budget

The 2019–20 NSW Budget announced funding for an additional 40 new and upgraded schools as election commitments. Of the 40 election commitment projects:

- 13 were identified by SINSW as priorities in its Capital Investment Plan (SINSW requested funding for a total of 33 new projects)
- 27 were new announcements (not identified as a priority by SINSW in its Capital Investment Plan).

### 2020–21 Budget

The 2020–21 NSW Budget announced funding for an additional 14 new and upgraded schools to commence in 2020–21. Of the 14 projects:

- 2 were identified by SINSW as priorities in its Capital Investment Plan (SINSW requested funding for a total of 20 new projects)
- 8 had already been announced
- 4 were new announcements (not identified as a priority by SINSW in its Capital Investment Plan).

Source: Audit Office analysis of SINSW documents and NSW Budget Papers.

## SINSW has not adequately reported on progress towards meeting expected demand

Through the modelling in the SASP 2016 and its update in 2020, SINSW has forecast the service need requirements to 2039, subject to changing data and trends. It is important that SINSW tracks and reports its progress in using allocated funding to meet demands. This helps to advise government of what future investment may be required to meet long-term demand.

The SASP 2016 forecast the need for an additional 7,200 teaching spaces by 2031 based on expected population growth. In 2019, the Department updated and increased this forecast. It expects that the \$6.7 billion in funding since the 2016 SASP will deliver an additional 1,700 teaching spaces. Future updates to the SASP should report greater detail on how the funded infrastructure program has contributed towards meeting those forecast requirements.

SINSW reported on its progress to meet the long-term demand for school infrastructure in its 2020–21 Budget submission. Despite increased funding over the past four years, it advised the currently funded infrastructure program would not meet forecast classroom requirements for 2023 and beyond. This shortfall is due to growth alone and does not address fitness-for-purpose or proactively address compliance issues across the portfolio.

The Department of Education Business Plan for 2020 identifies the number of additional classrooms required to 2039 and it will report on delivery of those classrooms. The Business Plan also includes a measure for 'utilisation in high growth areas', 'value for money' and several measures on asset conditions. In combination, these measures provide for a balance in incentives but depend on available funding and the capacity to influence prioritisation decisions.

### **The proposal for a ten-year capital planning limit has not been finalised**

The Capital Investment Plan forms a key part of SINSW's annual budget submission. The purpose of the Plan is to demonstrate a long-term approach to infrastructure planning. Plans can include priorities for up to ten years, however, SINSW only included priorities for one year in the 2018–19 and 2019–20 plans and two years in the 2020–21 plan.

Since 2017–18, there has been an interim Capital Planning Limit for education capital works. This is an allocated notional amount of funding over ten years to create more certainty for long-term planning. The Capital Planning Limit is revised each year as part of the Budget process. SINSW advised it is still working towards a strategic planning approach that will demonstrate priorities based on service need over a ten-year horizon.

As the ten-year Capital Planning Limit is 'interim', the only certain funding is that allocated yearly through the Budget. Certainty of funding over a longer period would allow SINSW to better plan for, track and report how the long-term demand for school infrastructure will be met. Transitioning the capital planning limit to a ten-year horizon is in keeping with other clusters such as Health and was a recommendation of the SASP 2016, endorsed by our previous audit in 2017.

### **SINSW has invested resources in improving cost estimates**

In 2020, SINSW updated and adapted the School Assets Strategic Plan in light of its experience in delivering school infrastructure projects. The SASP 2016 took a high-level approach to identifying the shortfall of school infrastructure. It anticipated that implementing cluster planning at the local level would provide further detail about the cost and complexities of infrastructure delivery in practice. This would allow better estimates of the funding required to meet the demand for school infrastructure. SINSW has used what it has learned so far to update the SASP.

More could be done to improve the accuracy of cost estimates, both for benchmarks to include in project business cases and to inform longer-term projections. Over 2020, SINSW has dedicated resources to capturing project cost information and understanding cost estimates in more detail.

Design for Manufacture and Assembly (DfMA) is a repeatable approach to building that can offer more certainty over costs. SINSW has already completed multiple projects using a DfMA approach with more projects identified for the future pipeline of works. These projects have been used to improve SINSW's cost benchmarking data.

As SINSW builds more accurate cost estimates, it should inform the annual ten-year Capital Investment Plan and future iterations of the SASP. This will help SINSW to better demonstrate the amount of capital expenditure required to meet medium and long-term demand.

## **2.2 Prioritisation and planning based on state-wide needs**

### **SINSW has improved its planning approach based on examining groups of schools**

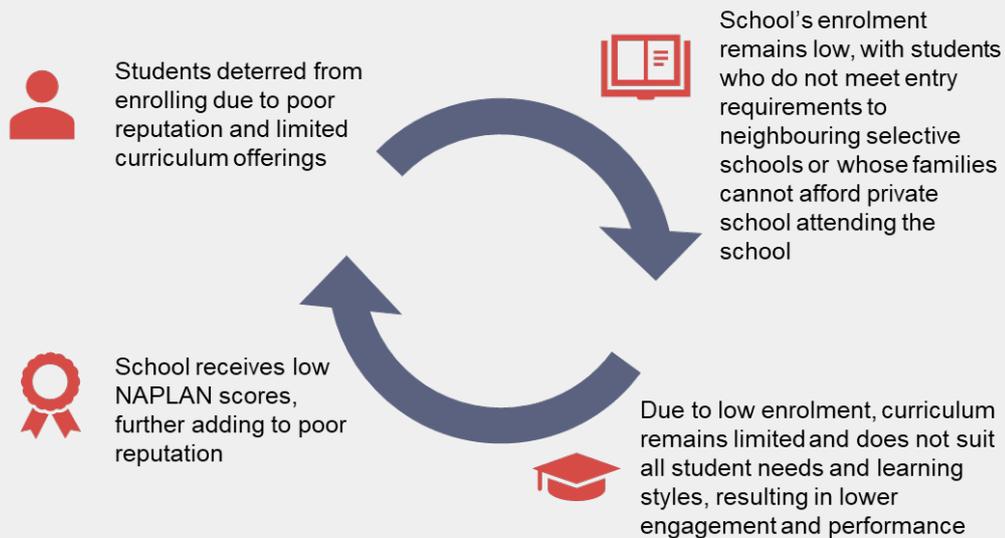
The SASP 2016 identified a new model for planning schools – cluster planning or planning in School Community Groups. This model allows planners to more thoroughly consider the impacts on neighbouring schools when making decisions on new projects. Exhibit 5 demonstrates the importance of planning in community groups and addressing underutilisation.

## Exhibit 5: Example of an under-utilised high school

### Overview

High School A is located in a community with a growing population. The number of children who live in the school's catchment area is projected to exceed its capacity by 2021. However, only 15 per cent of students in the catchment attend the school, with others attending neighbouring public and non-government schools. While the school is under-capacity, surrounding schools are at, or over, capacity. It is vital for the school to enrol more students from its catchment to break the 'vicious cycle' in which it is trapped (shown below).

The school has undersized teaching spaces and there are inadequate library and creative spaces. Core facilities are in poor condition. However, the school is located on a large site with room for upgrades.



### Options to respond

Catchment boundary changes and interventions to expand already popular schools across the School Community Group are options. Another option is to upgrade the underutilised high school to attract staff and students to the school. Doing so would improve the reputation of the school and break it from the 'vicious cycle'. This would rectify what is currently a poorly utilised government asset and take pressure off the demand for school places across the School Community Group.

Note: We have not identified the specific high school because this project has not yet been funded.

Source: Audit Office analysis of SINSW documentation.

SINSW has tried different approaches to planning in School Community Groups over the past four years and has refined its approach to increasingly direct resources towards the areas of greatest need. It has adjusted its cluster planning model to negotiate tensions between focussing on depth of planning and breadth of planning. There are trade-offs between both approaches:

- **Depth of planning** – requires a detailed understanding of assets and the local situation of each school. This is complex because there are 367 School Community Groups across the State covering over 2,200 schools.
- **Breadth of planning** – can include planning across common issues such as contemporary learning environments or issues facing regional and remote schools, to ensure coverage and scalability of interventions across all of NSW.

Exhibit 6 demonstrates the evolution of cluster planning and how approaches have become more thorough, with increased use of data and ability to model interventions. The most recent approach is to produce Service Needs Reports. This was attempted for the first time for the 2020–21 budget, so it is not yet a settled approach.

### Exhibit 6: Evolution of cluster planning approaches

Year	Approach	What this looked like
2016–17	<b>Planning with input from Regional Directors</b>	<p>Regional Planners and Regional Directors nominated ten projects and evaluated them using a 'balanced scorecard' approach. The planners would then write full business cases for the top three.</p> <p>This approach was opaque, relied on less robust data, did not fully consider state-wide service need, and was variable across regions.</p>
2017–18 2018–19	<b>High level School Community Plans</b>	<p>The highest demands for each School Community Group were identified through 'live-in catchment' projections. Schools that could be upgraded to meet that demand were then identified. Regional Directors finalised project nominations for scoping.</p> <p>Each School Community Group was assessed for the 'criticality' of intervention and how much it would reduce pressure on classrooms.</p>
2019–20	<b>Preliminary Infrastructure Plans</b>	<p>Preliminary Infrastructure Plans were developed for 365 School Community Groups across the State. They detailed demand, potential supply responses and preliminary cost estimates.</p> <p>The Plans compared options for intervention, used a 'School Planning Assistance tool' for consistency, and were peer reviewed.</p> <p>While the Plans covered all School Community Groups, they did not allow enough detail to fully investigate options to meet service needs.</p>
2020–21	<b>Service Needs Reports for School Community Groups Service Need Strategies</b>	<p>Service Needs Reports assess how each school in a School Community Group is currently utilised, project utilisation over the next 15 years, and model various solutions.</p> <p>The reports are produced using the Eagle Eye planning tool and include consultation and assurance. SINSW must prioritise them based on need as each report takes three months to develop.</p> <p>Service Needs Strategies have been proposed to cover broader geographical areas and specific issues. For example, a Rural and Regional Service Needs Strategy.</p>

Source: Audit Office analysis of SINSW documentation.

### Service Needs Reports help to identify options and priorities for investment

Until recently SINSW has focused on investigating service need for projects that have been previously announced or announced for planning. Prioritising which School Community Groups to investigate first is a key part of a system where planning and prioritisation is based on strategic, state-wide service needs. Going forward, SINSW plans to prioritise Service Needs Reports for the School Community Groups it identifies as having the highest needs.

Service Needs Reports are developed to investigate needs, identify projects, prioritise, determine scope and timing, and assess non-capital options. It currently takes around three months to complete and assure each report. Because of these timeframes, it is not practical for SINSW to prepare and maintain up-to-date reports for all School Community Groups across the State.

SINSW uses data from Eagle Eye (a bespoke planning tool) and weighted criteria to inform the prioritisation of the highest need School Community Groups. The criteria include:

- estimated teaching space needs
- number of demountable classrooms
- average condition and functionality of existing assets
- socio-economic advantage/disadvantage
- government and non-government school share
- play space (for metropolitan areas only).

SINSW uses separate weightings to determine metropolitan and regional priorities. Using a single set of weightings would otherwise put emphasis on metropolitan areas under pressure due to population growth. Separate weightings help to provide a more robust basis to identify the highest priority regional areas based on the condition and functionality of classrooms.

SINSW has recently examined service needs across a broader area of several School Community Groups in a precinct approach (Exhibit 7).

### **Exhibit 7: Precinct approach to a Service Needs Report**

#### **Overview**

This Precinct consists of more than 20 schools across three school community groups in the Sydney metropolitan area. SINSW projected a shortfall in capacity of around 2,400 primary school spaces and 8,300 secondary school spaces across the precinct by 2036.

#### **Strategic responses identified in the Service Need Report**

SINSW assessed each school for its capacity to accommodate growth, current functionality and condition. It found that no individual intervention could address the service needs identified. Consequently, it proposed a combination of asset and non-asset interventions across multiple schools. The long list of interventions included catchment boundary changes, joint use of existing and new assets, redesignating schools, functional upgrades, additional capacity building works, acquiring land, and new schools.

#### **Risks of this approach**

The approach better allows SINSW to consider a range of interventions that take into account the relationships between schools. Any proposed projects still require separate final business cases and requests for funding. There is a risk that the overall objectives for the precinct will not be met if one or more individual projects are not approved (or not approved within planned timeframes).

Note: We have not named the Precinct in this example because it has not yet been funded.

Source: Audit Office analysis of SINSW documentation.

### **SINSW is trialling broader, state-wide service need strategies**

SINSW is developing Service Need Strategies to cover broader geographic areas and issues. This approach may help include more schools across NSW in the strategic planning process that would otherwise not be covered based on the prioritisation framework.

SINSW advised it is planning to develop strategies for 14 geographical regions and six issues:

- Rural and Regional NSW
- Inclusive Education
- Intensive English Centres
- Contemporary Learning Environments
- Environmental Education Centres
- Improving School Utilisation.

### **Prior arrangements for making decisions about planning priorities were not transparent but SINSW has set up a new governance structure to address this**

Prior to 2020, the process to determine priorities for service planning and business case development was opaque and documentation was lacking for why some projects were reprioritised. For example, Executive Directors across the Department of Education reprioritised certain School Community Groups for planning in 2020–21.

In July 2020, SINSW established an Investment Review Committee to provide oversight of the prioritisation and planning approach to ensure that infrastructure outcomes meet the needs of a growing student population as well as state-wide priorities. The Committee includes representatives from Treasury, the Department of Premier and Cabinet and Infrastructure NSW.

In July 2020, the Committee approved criteria and weightings to prioritise Service Needs Reports for metropolitan and regional areas. The Committee, however, has not yet endorsed an approach to prioritise business cases to address the needs identified through these reports. Going forward, SINSW will be drawing from its Service Needs Reports to determine which projects to prioritise, so there is a pressing need to clarify how projects are chosen to proceed to the business case stage.

## **2.3 Data and tools to support prioritisation decisions**

### **New technology helps SINSW better use data to identify service needs, prioritise and plan**

SINSW has invested in technology so it can use uniform and objective data to decide how to prioritise investments. SINSW's technology (called Eagle Eye) generates projections of which schools, School Community Groups and regions have the greatest pressures due to population growth and asset condition. Eagle Eye has been developed over the past two years and has allowed SINSW to automate much of the complex, manual analysis that was required to model potential infrastructure solutions for Service Needs Reports. The tools are improving the quality and rigour of planning.

In 2020, SINSW commissioned Infrastructure NSW to review its planning tools. The review recommended consolidating documentation as the tools moved into business-as-usual.

### **Data from official population projections are supplemented with on-the-ground information**

SINSW uses common planning assumptions from the Department of Planning, Industry and Environment to project the number of students in school catchments, local government areas and regions. This data source can be problematic because it is based on census data which can become out-of-date toward the end of the five-year cycle. Because of the length of time required to develop a proposal, it is important SINSW has the best available information on population growth.

SINSW is aware of other limitations to its data, for example housing supply forecasts are unavailable for regional areas and non-government school data is not current. Because of these limitations, SINSW engages with operational areas of the Department and with external stakeholders to supplement its in-house planning tools. SINSW also analyses data on current school enrolments to validate information in official data sources.

---

## 3. Developing business cases

The primary role of a business case is to reliably inform an investment and/or policy decision. Over the period of review, the NSW Government's guidelines for business cases have established this requires recommendations based on convincing arguments, sufficient evidence, and accurate costing of alternatives and expected benefits. Business case guidelines are underpinned by guides for economic appraisal and cost-benefit analysis.

As SINSW moves to prioritise business cases for interventions in School Community Groups, it will increasingly need to demonstrate rigour in its assessment of all options. It will also need to ensure that scope identification, cost and risk planning and the setting of contingencies are accurate. This will help decision-makers better understand, plan for and manage the investment required to meet the demand for school infrastructure.

For this audit, we examined business cases and related documentation for 12 projects. Several of these projects were developed before School Infrastructure NSW was established in mid-2017.

### 3.1 Development of options to meet service needs

#### **Some final business cases we examined did not demonstrate a rigorous and transparent assessment of the range of feasible options, including non-capital options**

Final business cases we examined presented a comparison of one or two capital alternatives to the base case. They were inconsistent in demonstrating how a long list of options were considered before arriving at the short list of options. Treasury guidance emphasises that business cases should canvass a range of realistic options and a full financial appraisal should be conducted on a short list of options.

SINSW processes consider a range of feasible options at the service need report and strategic business case stages, which are shortlisted in the final business case for more detailed analysis. SINSW starts the process with a standard long list of options. These options are shortlisted using a multi-criteria analysis, which is confirmed in a Value Management Workshop. SINSW recently commissioned a review of these procedures, which recommended strengthening the process to counter the risk of subjectivity and project bias influencing this shortlisting process.

In some examples, the process of shortlisting options is explained well. For example, the Fort Street Public School Strategic Business Case details 11 options and the criteria against which they were assessed. These options included meeting capital compliance obligations only, alternative sites, expansion to meet in-catchment growth only and expansion to meet demographic projections. The process was documented again in the final business case.

In other examples, there is no meaningful long list of options. For example, the Ashtonfield Public School Business Case mentions three 'discarded options' in the final business case. The first was a real, but unsuitable option, of diverting students to nearby schools. The other two were financing arrangements with the private sector operator of the school rather than alternate interventions.

#### **Government announcements prior to business case development make it more difficult to pursue alternate options to meet the service need**

SINSW's approach to developing a range of options in business cases we examined varied depending on whether a project had already been announced by government or whether it was initiated by SINSW through its service needs planning tools. Business cases for announced projects we examined tended to limit consideration of alternative capital or non-capital solutions.

It is appropriate that SINSW investigates the service needs and a range of options even when a project has been announced. This will provide more comprehensive advice to government on the best ways to meet the needs in the School Community Group and achieve the strategic priorities of the School Assets Strategic Plan.

SINSW uses the 'SASP filter' to shortlist options at the Strategic Business Case stage by assessing the appropriateness of an intervention in each school in the School Community Group through six criteria. The first three criteria are mentioned in the SASP, while the latter three are not:

1. **Capacity** – whether existing primary/secondary school capacity could be feasibly upgraded to its theoretical maximum i.e. 1,012 students for primary, and 2,000 for secondary schools.
2. **Land area** – whether the existing school meets minimum land area requirements i.e. 1.5 hectares for primary schools, and 2.5 hectares for secondary schools in urban areas.
3. **Play space** – whether existing primary and secondary schools offer a minimum of ten square metres play space per student.
4. **Recent interventions** – schools with recent interventions have been omitted, to avoid repeated interruptions and create equity of interventions.
5. **Election commitment** – whether an election commitment has been confirmed at the school.
6. **Announcements** – whether a ministerial announcement has been made for the school.

The Chatswood Schools Upgrade is an example of a project where alternate options were constrained because the site had already been announced by the NSW Government (Exhibit 8).

### Exhibit 8: Chatswood Schools upgrade

#### Overview

The Chatswood Public School upgrade was announced in the 2017–18 Budget. A High School upgrade was added in the 2018–19 Budget. The primary purpose of the upgrade was first described as being 'to cater for future changes in student enrolment' but later changed to 'improving educational outcomes'.

The Chatswood Schools Upgrade project was initiated because the primary school was over capacity and under further pressure due to population growth. Years 3 and 4 of the primary school had been relocated to the high school site. Even with the relocation, the play space per student for the primary school was below guidelines. Otherwise, the overall facilities for both schools were rated as 'good' to 'excellent'.

#### Analysis of options to meet the need in the School Community Groups

SINSW projected that without intervention, there would be a shortfall of 124 primary and 1,329 secondary places in the local School Community Groups by 2036. In order to prioritise which interventions would best meet the demand in the School Community Groups, SINSW used the SASP filter (discussed above).

Chatswood Public School met three of the six criteria of the SASP filter for intervention. The primary school was not a good candidate to meet the growing demand as it was already over capacity and on a small block with limited play space. Four other primary schools in the School Community Group were considered more appropriate for intervention. Chatswood High School met all the criteria for intervention.

#### The business case indicates the project will not meet the overall service demand in the area

While the business case shows that other schools were better candidates to meet the growing demand, these were not recommended as the Chatswood site had already been announced by the government.

The business case states that 'additional capacity will be required, which will need to be met by further upgrades and/or new schools, together with catchment boundary changes to realign capacity and demand to efficiently utilise assets'.

Source: Audit Office analysis of SINSW documentation.

## 3.2 Specific guidance for business cases

### **SINSW has recently developed standard templates to help business cases comply with relevant policies and guidelines**

SINSW needed to develop many project business cases soon after it was established to address the needs identified in the SASP 2016. Between August 2017 and December 2018, over 50 business cases were submitted for the Treasurer's approval for the 2018–19 Budget. Given the large number of projects being approved concurrently, it is important decision-makers can have confidence that each business case meets relevant policies and guidelines.

Various service providers had previously been engaged to write business cases for specific projects. This had resulted in variability across business cases, making it harder to compare projects and ensure business cases met relevant policies and guidelines. To improve this, SINSW established a standing offer with one consultancy firm for greater consistency and to help build internal capabilities. Since August 2018, SINSW has also had internal review and assurance processes over business cases.

In 2020, SINSW developed additional guidance to improve the quality of business cases. The guidance outlines common elements to be included in every business case. Several business cases produced in 2020 we reviewed use the approach specified in the guidance, including those for the Rydalmere Education Precinct and for North Sydney Demonstration School. Other business cases for older projects that were finalised in 2020 do not use the approach, including those for Chatswood Public and High School and for Fort Street Public School.

### **Further work is needed to enhance the evidence base for project benefits**

Quantifying benefits for social infrastructure is complex but important to guide decision-making. SINSW and NSW Treasury developed the Cost-Benefit Analysis Framework for School Investment in January 2018. The guidance aims to provide a consistent and replicable method to assess costs and benefits of options for school infrastructure projects. Applying default assumptions and parameters helps with a more consistent and transparent selection of options.

The guidelines state the prime objective of investment in school infrastructure is to enable improved educational outcomes for a growing student population. Benefits are split between quantified and non-quantified. The main categories of quantified benefits are:

- increased quality of education – spatial density
- increased quality of education – future focussed classrooms
- travel time savings.

A key quantifiable benefit is an increase in lifetime wages from improved educational attainment. A one standard deviation increase in test scores is assumed to increase lifetime earnings by 14 per cent for primary students, and by 7.5 per cent for secondary students. The guidelines cite multiple Australian and international research papers to support these values.

The guidelines say that benefits should only be included for the proportion of students with below-average NAPLAN results. A state-wide average is used to calculate this proportion rather than local data. Doing this inflates benefits for projects in areas with higher-achieving students and reduces benefits for projects in areas with lower-achieving students. NAPLAN data is readily available at a school level and can be used to remove this distortion.

The benefit from improved spatial density is based on a premise that when the number of enrolments exceeds the initial design of the school, classes are taught in inappropriate areas. The evidence cited is from two studies in the United States and is not compelling. The first study found there was no discernible impact on math achievement from overcrowding and the second found achievement gains were only evident in primary schools, not secondary schools.

The guidelines set that having access to a 'future focused classroom' will improve lifetime earnings by two per cent for primary students and one per cent for secondary students. These estimates are based on research that does not appear relevant to the NSW public school context. Of the six research studies cited, four are based on undergraduate courses in the United States and one is based on a small study of Year 7 students from an Independent School in Brisbane.

The shortcomings in the available evidence mean that the anticipated benefits should be monitored over time to assess the extent to which they are accurate. This information should then be used to update the assumptions used in the cost-benefit guidelines. At the time of writing, SINSW advised it was working on updating the guidelines in consultation with NSW Treasury.

### 3.3 Educational requirements

#### SINSW works with stakeholders to integrate educational needs into business cases

SINSW has established governance arrangements to involve operational areas of the Department from identifying service needs to design and delivery of schools. SINSW has learned from mistakes in legacy projects where there was insufficient early engagement with educators, which led to budget overruns and time delays. The Arthur Phillip High School and Parramatta Public School project, which commenced prior to the establishment of SINSW, is an example of this (Exhibit 9).

#### Exhibit 9: Arthur Phillip High School and Parramatta Public School

##### Overview

The Arthur Phillip High School and Parramatta Public School project aimed to deliver multi-storey education facilities in response to increasing residential density in the Parramatta region. The new High School accommodates 2,000 secondary students and the new primary school accommodates 1,000 students.

##### Cost increases and delays

The schools were announced in early 2015 with a budget of \$100 million. With more analysis of the sites and plans, this was increased to \$175 million in November 2015 and increased again to \$225 million in December 2016. In 2018, this was revised up to \$325 million after a commercial reset. The schools opened around one year after the initially planned opening date.

##### Lessons learned from review of project benefits

A review of the project by INSW in August 2020 investigated the extent to which project benefits had been delivered. The review attributed some of the challenges experienced by the project to limited experience in school design and school operations in a more complex high-rise school operating environment. It recommended proposed plans for future high-rise schools be reviewed, challenged, and scrutinised by school executive and teaching staff, especially in regard to vertical movement within the school.



Source: Audit Office analysis of SINSW documentation.

The School Learning Environments and Change group was integrated into SINSW in 2019. This group involves teachers in school infrastructure projects to better manage change through a consultative approach. This begins with the development of an Education Rationale so the strategic goals of the school are integrated into infrastructure project planning. The Education Rationale documents the current state of the school and its future education vision. This document informs the design in a business case and provides a baseline for post occupancy evaluations.

This new approach was used in North Sydney Demonstration School to explicitly consider educational needs and desires of school staff in the business case (see Exhibit 10).

### Exhibit 10: North Sydney Demonstration School Education Rationale

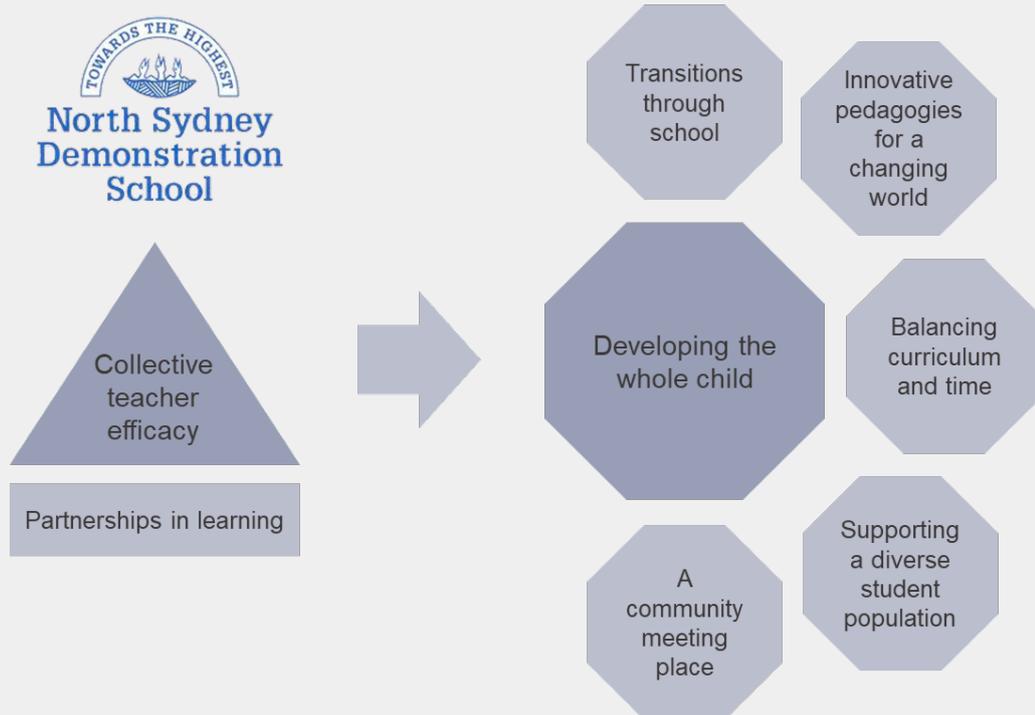
#### Overview

In 2019, an election commitment was made to allocate funding for planning an upgrade of North Sydney Demonstration School. The planned upgrade will provide 44 new learning spaces, replaces demountable buildings, upgrades the hall, library and staff accommodation.

#### Developing the Education Rationale

SINSW prepared an education rationale with the school between June 2019 and January 2020. The education rationale sets out how overall trends in school education apply to the circumstances of the school. The rationale is then used as an input into the planning and design process.

#### North Sydney Demonstration School's Education Model



To develop the education rationale, SINSW held a preliminary meeting and four workshops with the school executive and teachers. The workshops explored the school's vision for future focused learning and teaching and what this would mean for the desired learning spaces.

For example, participants indicated they wanted students to be independent learners. This implies the learning environment needs to have 'personal spaces for independent work and one to one feedback'.

Participants also considered spatial constraints that currently limit the effectiveness of their teaching practices and potential solutions. For example, the school currently does not have enough space or access to technology to expand its STEM (Science, Technology, Engineering and Maths) club.

Source: Audit Office analysis of SINSW documentation.

## 3.4 Costs and risks in business cases

### **Increases in scope and adverse site conditions have led to the drawdown of contingencies**

Several business cases we reviewed had issues in accurately identifying the initial scope requirements and the likely cost. Having an accurate estimation of the scope and total cost of a project is critical in allowing decision-makers to compare various investment options.

Several business cases we examined appeared to be reverse-engineered in order to fit to a pre-announced funding amount. Rather than determining the required scope of the project and then estimating the cost of that scope, a set amount means that the project may be scoped to fit within a funding envelope. This could lead to over scoping, where 'gold plating' occurs to reach the budget, or it could lead to under scoping, where important components are left out.

If the project is not appropriately scoped in the planning phase because of efforts to fit the project within a predetermined amount, then there is greater risk that items will be added later, increasing costs. This could lead to draw downs on contingency funds, which are intended for unanticipated extra costs rather than those that could have or should have been identified at the planning stage. It can also lead to timeframe delays. Examples from the projects we reviewed include:

- Arthur Phillip High School and Parramatta Public School: \$100 million to \$325 million due to failures in early design development and contractor procurement.
- Ashtonfield Public School: \$13.9 million to \$15.3 million due to the requirement of additional space identified during concept design.
- Jordan Springs New School: \$37.3 million to \$55.0 million due to need for a larger school and land acquisition costs.
- Fort Street Public School: requested additional funding due to the cost of moving students to another school so construction could take place and site condition costs.

### **Earlier business cases did not adequately account for project-specific risks that impact cost**

Several business cases we examined applied a generic set of risks that did not adequately recognise the unique aspects of the projects. Identifying the full range of project-specific risks, and estimating their likelihood and consequence, is a key part of project planning. It should also form the basis of setting adequate project contingencies, which is discussed in next section.

SINSW assurance reviews of preliminary and final business cases from January to June 2020 most commonly rated 'risk management' as one of the weakest areas. Risk registers in business cases we examined had an under-representation of 'cost' and 'budget overrun' as an identified impact from risks that were identified. For example, the Chatswood Public and High School Business Case identified certain risks as only having 'time' or 'quality' implications, where the impact was likely to also increase costs. Identified risks for this project included:

- Risk: 'Design/Scope changes result in the project no longer being aligned to the Treasury approved Business Case'
  - the impact is identified as 'quality', but scope changes usually have cost and time impacts (depending on when the change occurs)
- Risk: 'Site investigations identify latent conditions or site limitations'
  - the impact is identified as 'time' whereas cost is also a likely outcome
- Risk: The 'Contractor tenders are above the pre-tender estimate'
  - the impact is identified as 'time' where the risk description primarily relates to cost.

In addition, the risk register for the Chatswood Public and High School business case appeared optimistic in that there was a relatively low number of risks rated as 'high'. The history of budget overrun and cost growth identified in the section above suggests that such assessments undervalue the risks and/or the mitigation actions are not proving as effective as anticipated.

Fort Street Public School is an example of where in a matter of months after the final business case was submitted to Treasury for approval, SINSW sought additional funding, above the project contingency amount, to address matters that were or should have been considered significant risks in the initial business case (Exhibit 11).

## **Exhibit 11: Fort Street Public School upgrade**

### **Overview**

The Fort Street Public School upgrade aims to increase the school's capacity to 550 students through new and refurbished buildings, which will be sensitive to the area's character and heritage. Redevelopment has been considered since 2014. The project aims to help meet the demand for new school places in the area, bring classrooms to a modern standard, and better integrate the school with the Observatory Hill Precinct.

### **The final business case**

The final business case was completed in May 2020. It presented two options against the base case. The preferred option was within the already announced budget. An alternate option was also presented that exceeded this amount.

### **Identifying risks in business case development**

The Fort Street Public School site has significant heritage and historical context. The site also has limited access for construction as it is effectively an island surrounded by a major expressway.

An internal assurance review conducted before finalisation of the business case recommended:

- reviewing the risk register, customising it for Fort Street Public School, and re-evaluating the inherent risk ratings (deemed essential)
- reviewing the cost plan to ensure costs have been allowed for known risks with adequate contingency for unknown risks (deemed essential)
- reconfirming the quantum and adequacy of the overall project contingency allowance by the project team, in liaison with the quantity surveyor (deemed essential).

The risk register in the final business case identified 467 risks, of which only 19 had been identified with a cost impact. After 'mitigation control' the residual rating of these risks was either 'low' (ten) or 'medium' (nine).

### **A request to increase the budget within months**

In September 2020, the project sought release of project and executive contingency funds, within the capital delegation of the Department. The reasons were consultant fee increases, costs of moving students to a new site, health and safety mitigation measures and site condition costs. These issues had already been identified and discussed at governance meetings prior to business case finalisation. This suggests that both the risks ratings and the contingency amounts estimated to manage them were not appropriately captured in the business case.

For example, the risk of remediation of a particular building which was likely to be contaminated, was labelled a 'safety' risk and, before mitigation, was rated as 'high'. After mitigation, it was rated as 'low'. Costs associated with that risk were a large percentage of the increased cost.

Source: Audit Office review of SINSW documentation.

## 4. Project governance and management systems

Over the period of review, NSW Government policies for business case development and submission have emphasised that effective governance arrangements are critical to a proposal's successful implementation.

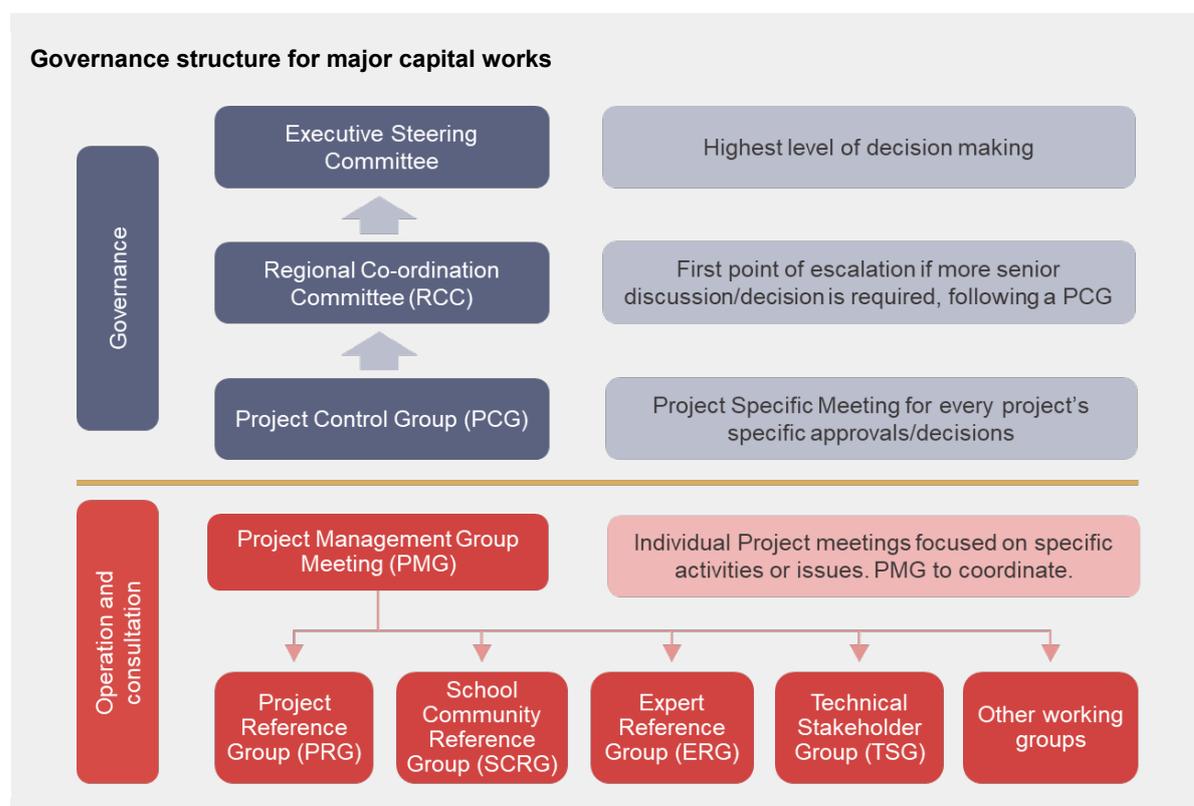
SINSW's guidance similarly highlight the importance of effective governance and project management for achieving good outcomes. It prescribes a general governance structure managed by SINSW that can be tailored to the planning and delivery of school infrastructure projects.

### 4.1 Standard governance and reporting arrangements

#### Governance arrangements are standardised based on the size of the project

Standard project governance arrangements have been applied to all SINSW capital projects since late 2018 (Exhibit 12). The objectives of governance arrangements are to establish clear roles and accountabilities of key stakeholders, define processes for decision making and reporting, and provide a consistent project management approach. Consistency in governance arrangements can help set clearer expectations for how project-based issues are to be resolved.

#### Exhibit 12: Standard project governance arrangements



Source: Audit Office analysis of SINSW documentation.

SINSW's documentation of procedures sets out governance objectives and standard Terms of Reference templates for committees and groups. The standard structure includes:

- The Executive Steering Committee (projects over \$75.0 million) or Regional Coordination Committee (projects below \$75.0 million) endorses key deliverables and provides strategic direction and oversight of project delivery. The committees can approve any expenditure outside the original scope of the business case within delegated limits.
- The Project Control Group oversees the planning and delivery of the project. The group manages project objectives, communications, stakeholder engagement, key deliverables, program, budget, scope and risk.
- The Project Reference Group is conducted as two separate groups during the development and delivery phases of projects. The groups provide information from an operational, educational, change and logistics perspective into planning, design and construction phases.

### **Standard project management system improves consistency of project reporting**

SINSW uses a customised web-based platform to develop, manage and report to key stakeholders. Reporting is against the status, cost and details of major capital works projects. It provides an account of progress, finances and risks for individual projects and develops reports at a portfolio level. The system manages the approval process for matters such as variations and release of project contingencies. This provides a record of reasons for requests, approvals and rejections. It enhances accountability for projects meeting budgets and timeframes with documented reasons for access to project contingencies.

Project management procedures are documented with additional practice notes on particular topics. As at October 2020, around half of the practice notes SINSW had developed were not yet finalised or endorsed. It is important for SINSW to document clear ways of working as it engages external project managers to be responsible for the day-to-day running of a project.

## **4.2 Ongoing oversight of costs, benefits and timelines**

### **Arrangements for calculating and managing contingency have been unclear**

The setting of project contingencies has been inconsistent in business cases we examined. For example, the Fort Street Public School business case set 17 per cent contingency (two per cent for planning, five per cent for design and ten per cent for construction). The amount appears low given the known complexities of the site. The Armidale Secondary College Consolidation business case set a much higher contingency of 35 per cent. In that business case, the risk register does not identify any risk above 'medium' which does not match with the relatively high contingency amount.

Rather than demonstrating analysis, the basis for setting contingencies was referred to as usual SINSW practice, a requirement of SINSW guidelines, or direction from SINSW in several business cases we examined. Because SINSW undertakes projects that differ in complexity, standardised approaches to setting contingencies do not adequately recognise project-specific risks.

An INSW review in 2018 suggested that SINSW should move away from using a standardised approach to contingency (i.e. 'deterministic') to a 'probabilistic' method based on a risk assessment that identifies the likelihood and consequence of risks occurring.

In May 2020, SINSW developed a practice note on the management of project contingency. This sets out a standardised approach to setting contingencies and greater controls for contingency draw down. The practice note requires a 'deterministic' approach to be used up to the point of business case approval, at a standard rate of 30 per cent: 20 per cent for total of Planning, Design and Construction (project-based), and ten per cent for Executive Contingency.

Project-based contingencies are for use on items included in the risk register and can be released in line with delegations. Executive contingency is for use on unforeseen changes and discretionary items. Release of Executive Contingency requires approval by the Chief Executive.

The new arrangements set a relatively high level of contingency at the business case stage – 30 per cent. The new approval arrangements aim to ensure more discipline around drawdowns. Over time, as SINSW gains greater insights into costs and there is a cultural shift towards variations, SINSW could look to align contingency settings and delegations to project requirements.

### **Ongoing arrangements for monitoring and reporting on project benefits are unclear**

Business cases for case study projects we reviewed included common templates for benefits realisation plans and benefits registers but did not define baselines or targets. Benefits realisation management is the process of organising and managing a project or program so that potential benefits are achieved. Under the NSW Government Benefits Realisation Framework, it is good practice to identify benefits at the early stages of project planning and business case preparation.

Business cases for case study projects we examined included benefits realisation plans from 2018 onwards. However, these plans deferred activities to define baselines and set school-specific targets until the projects are underway. This means business cases were approved without a full understanding of the anticipated benefits for those particular school sites.

For most case study projects we examined, SINSW was unable to demonstrate that benefit registers were updated after the business case was approved. SINSW did finalise the benefits register for Arthur Philip High School and Parramatta Public School following a review by INSW.

Benefits realisation plans we examined from 2018 onwards list the project sponsor as the benefits owner and project manager as the benefits realisation manager. These staff are responsible for monitoring, reporting and evaluating project benefits up to ten years after delivery. SINSW was unable to demonstrate it has the systems to ensure this is done over these long timeframes.

One of the main benefit categories in plans, 'increased quality of education', depends on approaches taken by operational areas of the Department. Given the early involvement of school principals, executives and teaching staff in developing Education Rationales and considering how infrastructure upgrades and design will impact teaching and learning, there is potential for ongoing engagement to track benefits realisation of school infrastructure projects.

### **Earlier consultation with stakeholders would reduce risks to timeframes**

Once a project has been announced, parents and school staff make decisions based on when they expect a school will open. This places pressure on SINSW to move projects quickly through planning approval processes so it can commence building to meet the announced opening date.

School capital works over \$20.0 million are classified as State Significant Developments and require planning approval from the Department of Planning, Industry and Environment. A public exhibition process allows government agencies and the community to make submissions and SINSW is required to respond. New schools and major school upgrades can affect neighbours and the community. For example, there may be increased traffic, overshadowing, and pressure on drainage systems. As part of approval, conditions may be placed on the delivery of the project to mitigate stakeholder concerns. These conditions can delay projects and increase costs.

SINSW prepares business cases for funding prior to gaining planning approval. It must then deliver the project in line with the scope and funding allocated through the final business case. Business cases identify risks that the planning approval process may affect timelines and costs as a result of design changes or need for accompanying works. Consulting with relevant stakeholders (local councils, the Department of Transport and the Department of Planning, Industry and Environment) prior to finalising the business case could identify likely objections earlier. SINSW processes do not always allow for early consultation because doing so may raise stakeholder expectations the project will proceed where funding is still uncertain.

Postponing consultation with stakeholders increases the level of risk that the project is delayed. If designs are largely finalised, then significant change to those designs based on issues uncovered during the public consultation process can increase costs and delay the project. Working with approving agencies parallel to business case development could help improve communication and ensure approving agencies have all the documentation needed.

## 4.3 Assurance systems and continuous improvement

### Project assurance reviews provide advice and recommendations for all projects

SINSW has developed an Assurance Review Framework which is mandatory for all school infrastructure projects. Reviews provide advice and recommendations on issues that would benefit the project as it moves from needs analysis, to business case and through delivery. Reviews are done at seven points through the life of the project. The reviews are conducted in addition to the INSW Investor Assurance Framework requirements, which take a risk-based approach to reviews.

The first internal assurance review was conducted in August 2018. At October 2020, SINSW had only conducted four stages of the internal assurance process:

- 65 projects at Assurance Review Point stage 0 – Service Needs Report
- 24 projects at Assurance Review Point stage 1 – Strategic Business Case
- 48 projects at Assurance Review Point stage 2 – Business Case
- 2 projects at Assurance Review Point stage 5 – Readiness for Service.

SINSW assurance reviews are conducted by external peer reviewers appointed by the SINSW Office of the Chief Executive. SINSW has also established a Community of Practice for external reviewers, which meets quarterly to discuss the review program. This helps SINSW update external reviewers on new requirements and share common findings.

By looking at all projects at all stages, assurance reviews can identify systematic issues across the full portfolio of projects. In September 2020, SINSW conducted a thematic assurance review on 'value for money'. This was done in response to project-specific reviews commonly rating this area as weak. The review confirmed there were systemic issues causing the low ratings and recommended a series of improvements to address these issues for future projects.

As SINSW conducts more assurance reviews at different project stages, this will provide it with greater opportunity to analyse common findings and use them to improve internal processes. SINSW advised that it is developing a continuous improvement program, which will be able to take findings from assurance reviews to build organisational capabilities.

### Assurance review recommendations are not always sufficiently addressed

Internal and external assurance reviews typically make a series of recommendations and require SINSW to respond with actions that will be taken to implement the accepted recommendations. Several assurance reviews we examined repeated findings between strategic and final business case stage, indicating the recommendations were not adequately addressed. For example:

- An assurance review for the strategic business case for Fort Street Public School identified that a generic risk management approach was taken for this complex project and recommended reviewing and further evaluating the specific risks associated with the complexity of the project. The subsequent assurance review identified the same issue, assessing that the requirement for a Risk Management Plan that includes sufficient consideration of risks and their mitigations had not been met.
- An assurance review of the Chatswood business case recommended reviewing the project costings to include probabilistic risk estimates and then updating the final business case. The response indicated that the risk register had been revised and that a probabilistic risk estimate would be included in the business case. The business case only included the new estimates as an appendix and not in the cost-benefit assessment of options.
- An assurance review of the North Sydney Public School business case found that recommendations from the previous review had only been 'partially' addressed. The main concern related to a risk of an overall shortfall in capacity in the School Community Group, even after the upgrade had taken place. The review made another recommendation for the final business case to improve its analysis of the capacity of a neighbouring school to meet expected overflow from North Sydney Public School.

## **Section two**

### Appendices

---

# Appendix one – Response from agency



Margaret Crawford  
Auditor-General  
Audit Office of New South Wales  
Level 19, Darling Park Tower 2, 201 Sussex Street  
SYDNEY NSW 2000

By email to: [REDACTED]

Dear Ms Crawford

**Re: Performance Audit – Delivering School Infrastructure**

Thank you for your letter of 16 March 2021 and the opportunity for the NSW Department of Education to provide formal comment on the Delivering School Infrastructure performance audit.

I have reviewed the Final Report and have attached comments overleaf in response to each of the eight recommendations made by the Audit Office.

First, I wish to extend my thanks to your team for their efforts in conducting this review. Their work has provided the Department with a number of important findings and recommendations, helping it to continue delivering more than 200 new and upgraded schools to support communities across NSW.

However, in furtherance of this goal, the Department expresses concern over the proposed September 2021 timeframe in which to implement the Audit Office's recommendations. Although the Department otherwise supports the recommendations, it considers the proposed six-month timeframe to be an unreasonably short period for a large and complex organisation to effectively implement many of these recommendations.

If this timeframe remains unchanged, the Department can only accept the Audit Office's recommendations in principle, reflecting the inherent difficulties it faces in implementing required changes in such a short timeframe. Earlier discussions with the Audit Office had raised the possibility of an April 2022 timeframe – if this could be adopted in place of the September 2021 timeframe, I would have far greater confidence in the Department's ability to implement these recommendations.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Mark Scott'.

Mark Scott AO  
**SECRETARY**  
**DEPARTMENT OF EDUCATION**  
30 March 2021



NSW Department of Education

105 Phillip Street Parramatta NSW 2150

GPO Box 33 Sydney NSW 2001

1300 679 332

education.nsw.gov.au

Recommendation	Response	Comment
<b>By September 2021, the Department of Education should:</b>	Not accepted	The Department considers a six-month timeframe to be unreasonable to implement many of the recommendations, and does not accept this six month timeframe. The Department believes an April 2022 timeframe to be a more appropriate timeframe, as discussed previously with the Audit Office.
1. finalise the investment prioritisation approach with agreement from key stakeholders	Accepted in principle	The Department accepts this in principle. It notes that work is underway and will be agreed upon through a governance process led by the School Infrastructure NSW Executive. However, the September 2021 timeframe will not provide SINSW with adequate time to finalise the approach.
2. finalise and update on an ongoing basis a 10-year list of priorities to meet the forecast demand for new classrooms and contemporary fit for purpose learning environments, which identifies individual projects and programs in the short-term and priority geographic areas and programs in the medium-term	Accepted in principle	The Department is working with NSW Treasury on this proposal, and will inform an update to ERC on the feasibility of a 10-year Capital Planning Limit.
3. seek a 10-year Capital Planning Limit from NSW Treasury to ensure the needs identified in the 10-year list of priorities are met and are coordinated with the forward capital programs of other agencies	Accepted in principle	The Department notes that this work is underway. The Capital Planning Limit was taken to the 2020 SASP update, and will be re-prosecuted in 2021.
4. improve the quality of data on cost benchmarks that underpin the annual 10-year Capital Investment Plan and updates to the School Assets Strategic Plan	Accepted in principle	The Department agrees that cost benchmarking should continually improve. It notes that SINSW has already developed benchmark data, which will become a default input into the broader data that will inform interventions identified, prioritised and selected through the infrastructure planning phase. Qualified and experienced external consultants will also be utilised for this purpose.
5. embed an evidence-based cost benefit analysis framework for school investment, in consultation with NSW Treasury, by: <ul style="list-style-type: none"> <li>validating benefits estimated in previous business cases with actual results</li> <li>building the evidence base in relation to contemporary learning environments</li> </ul>	Accepted in principle	The Department notes that the Treasury benefits policy is currently being updated. However, there is a limit to the research base that constrains investment analysis for social infrastructure.
6. regularly share data on forecast needs with relevant planning agencies to promote strategic opportunities for servicing education needs	Accepted in principle	-
7. implement the continuous improvement program for service planning, options assessment, business case development, project delivery and handover. The program should be informed by findings from	Accepted in principle	The Department notes that action is already underway to address this matter. A post occupancy evaluation report for findings to date is on track to be released March 2021 and a framework to be implemented in 2021 to support strategic post occupancy evaluations incorporating all projects.

NSW Department of Education

105 Phillip Street Parramatta NSW 2150

GPO Box 33 Sydney NSW 2001

1300 679 332

education.nsw.gov.au

Recommendation	Response	Comment
assurance reviews, post-occupancy evaluations and project lessons learned		A continuous improvement program has commenced for parts of service planning, focusing initially on the asset utilisation function which informs interventions to reduce the need for major capital works. The report is due for completion in the first quarter of 2021.
<p>8. establish benefits realisation processes and practices that:</p> <ul style="list-style-type: none"> <li>• ensure business cases set baselines and targets for benefits</li> <li>• review benefits during delivery, prior to handover and as part of Post Occupancy Evaluations</li> <li>• identify which part(s) of the Department are best placed to develop, manage and evaluate benefits on an ongoing basis.</li> </ul>	Accepted in principle	<p>The Department agrees that benefits realisation processes and practices require whole of government direction. Currently there is not an adequate or consistent approach for assessing realised benefits, and this matter cannot be resolved by the Department. We would welcome the opportunity to work on this in a coordinated approach across government.</p> <p>Nevertheless, the Department acknowledges that it should continually improve its application of the agreed policy/guideline. In the absence of a whole of government response, SIN SW is currently developing its own benefits realisation elements and indicators. This will inform the school prioritisation from the bank of benefits they wish to gain from the learning space. This will provide a measure to determine if these benefits are realised.</p>



**NSW Department of Education**

105 Phillip Street Parramatta NSW 2150

GPO Box 33 Sydney NSW 2001

1300 679 332

education.nsw.gov.au

---

# Appendix two – About the audit

## Audit objective

This audit assessed the effectiveness of planning and delivery of new, upgraded and redeveloped schools to meet demand for public education in New South Wales.

## Audit criteria

We addressed the audit objective by examining whether the Department of Education:

1. has effective procedures for planning and prioritising school capital works to meet present and future demands
2. develops robust business cases for school capital works that reliably inform decision-making
3. has effective program/project governance and management systems that support delivering projects on-time, within budget and achievement of intended benefits.

## Audit scope and focus

This audit focused on SINSW's processes for prioritising, planning and overseeing the delivery of school capital works. We completed a detailed review of a selection of 12 projects managed by SINSW.

## Audit exclusions

The audit did not:

- examine state-wide inter-agency strategic planning initiatives for growth, regional, and local government areas
- examine management of New South Wales Government capital funding for non-government schools
- validate the assumptions of service needs analyses
- examine the procurement of architects, design consultants and construction contractors for school capital projects
- examine the management of design and construction contracts for capital projects
- examine asset maintenance systems, programs, policies and procedures
- question the merits of government policies.

## Audit approach

Our procedures included:

1. interviewing
  - relevant Department of Education staff
  - key stakeholders
2. examining relevant data and documents, including legislation, policies, strategies, plans, guidelines, reviews and evaluations
3. examining in-depth documents related to a selection of 12 projects managed by SINSW.

We used a judgemental sampling approach to select projects for the in-depth review based on the following criteria:

- location (Sydney and regional New South Wales)
- project type (new school, school upgrade or redevelopment)
- school type (primary and secondary)
- timing (completed projects and projects still being delivered).

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

## **Audit methodology**

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983*.

## **Acknowledgements**

We gratefully acknowledge the co-operation and assistance provided by SINSW. In particular, we would like to thank our liaison officers and staff who participated in interviews and provided evidence for the audit.

## **Audit cost**

The estimated cost of the audit is \$350,000.

---

# Appendix three – Performance auditing

## What are performance audits?

Performance audits determine whether state or local government entities carry out their activities effectively, and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole Local Government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Public Finance and Audit Act 1983* for state government entities, and in section 421D of the *Local Government Act 1993* for local government entities.

## Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, state and local government entities, other interested stakeholders and Audit Office research.

## How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

## What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

## **Who checks to see if recommendations have been implemented?**

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

## **Who audits the auditors?**

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

## **Who pays for performance audits?**

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

## **Further information and copies of reports**

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website [www.audit.nsw.gov.au](http://www.audit.nsw.gov.au) or contact us on 9275 7100.

## OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

## OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

## OUR VALUES

Pride in purpose  
Curious and open-minded  
Valuing people  
Contagious integrity  
Courage (even when it's uncomfortable)

Level 19, Darling Park Tower 2  
201 Sussex Street  
Sydney NSW 2000 Australia

**PHONE** +61 2 9275 7100

[mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

Office hours: 8.30am-5.00pm  
Monday to Friday.