

# Auditor General's Report

Reports of the Performance Audit of the  
Redevelopment of Bruce Stadium

Report 1          Summary Report

PA98/11

September 2000

The Speaker  
ACT Legislative Assembly  
South Building  
London Circuit  
CANBERRA ACT 2601

Dear Mr Speaker

In accordance with section 17 of the *Auditor-General Act 1996*, I transmit to the Speaker my Report titled *Bruce Stadium Redevelopment: Report 1 Summary Report* for presentation to the Legislative Assembly by the Speaker. This Report is one of twelve reports arising from my performance audit of the Bruce Stadium redevelopment.

The following Performance Audit Managers conducted the performance audit of the redevelopment:

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Yours sincerely,

John A Parkinson

# **REPORT 1**

## **SUMMARY REPORT**

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*Appendix 1: Overview of the Stadium Redevelopment*

*Appendix 2: Bruce Stadium Prior to the Redevelopment*

# **SECTION 1**

## **AUDIT OVERVIEW**

# 1. INTRODUCTION

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## INITIATION OF THE AUDIT

1.1 On 18 June 1999 the Auditor-General wrote to all Members of the Legislative Assembly to advise them the Audit Office would be conducting a performance audit of the redevelopment of Bruce Stadium. The Auditor-General outlined tentative objectives for the Audit.

1.2 At the time the Auditor-General indicated that the objectives may be modified or extended as a result of further information gained through the audit process. The Auditor-General also indicated that the total cost of the redevelopment would be identified and reported.

1.3 As foreshadowed, as more information became available the Audit objectives were revised. They are set out in *Chapter 3*.

## AUDIT REPORTS PREPARED

1.4 Several interacting components needed to be addressed in the Audit as well as the overall outcomes from the redevelopment project. To aid the reader's consideration of the issues raised in the various parts of the Audit, it was decided to prepare and issue a series of reports rather than one large report.

1.5 The reports prepared, including this Report, are as follows:

<b>Report No.</b>	<b>Title</b>
1	Summary Report
2	Value for Money
3	Costs and Benefits
4	Decision to Redevelop the Stadium
5	Selection of the Project Manager
6	Financing Arrangements
7	Stadium Financial Model
8	Actual Costs and Cost Estimates
9	Market Research and Marketing
10	Stadium Hiring Agreements
11	Lawfulness of Expenditure
12	Governance and Management

1.6 The Reports are shown in diagrammatic form on *page 3*.

## **STRUCTURE OF THIS REPORT**

1.7 This Report summarises the results of the Audit. Readers should also consult the detailed reports which accompany this summary Report. A complete understanding will only be gained through a reading of the relevant detailed reports.

1.8 This Report contains:

- summary descriptions of the redevelopment project's outcomes, and its components as addressed in the Audit (*Chapter 2*);
- the Audit's objectives and the independent opinions formed on those objectives (*Chapter 3*);
- outcomes and contributing factors (*Chapter 4*); and
- summaries of the reasoning supporting each Audit opinion (*Chapters 5 to 15*).

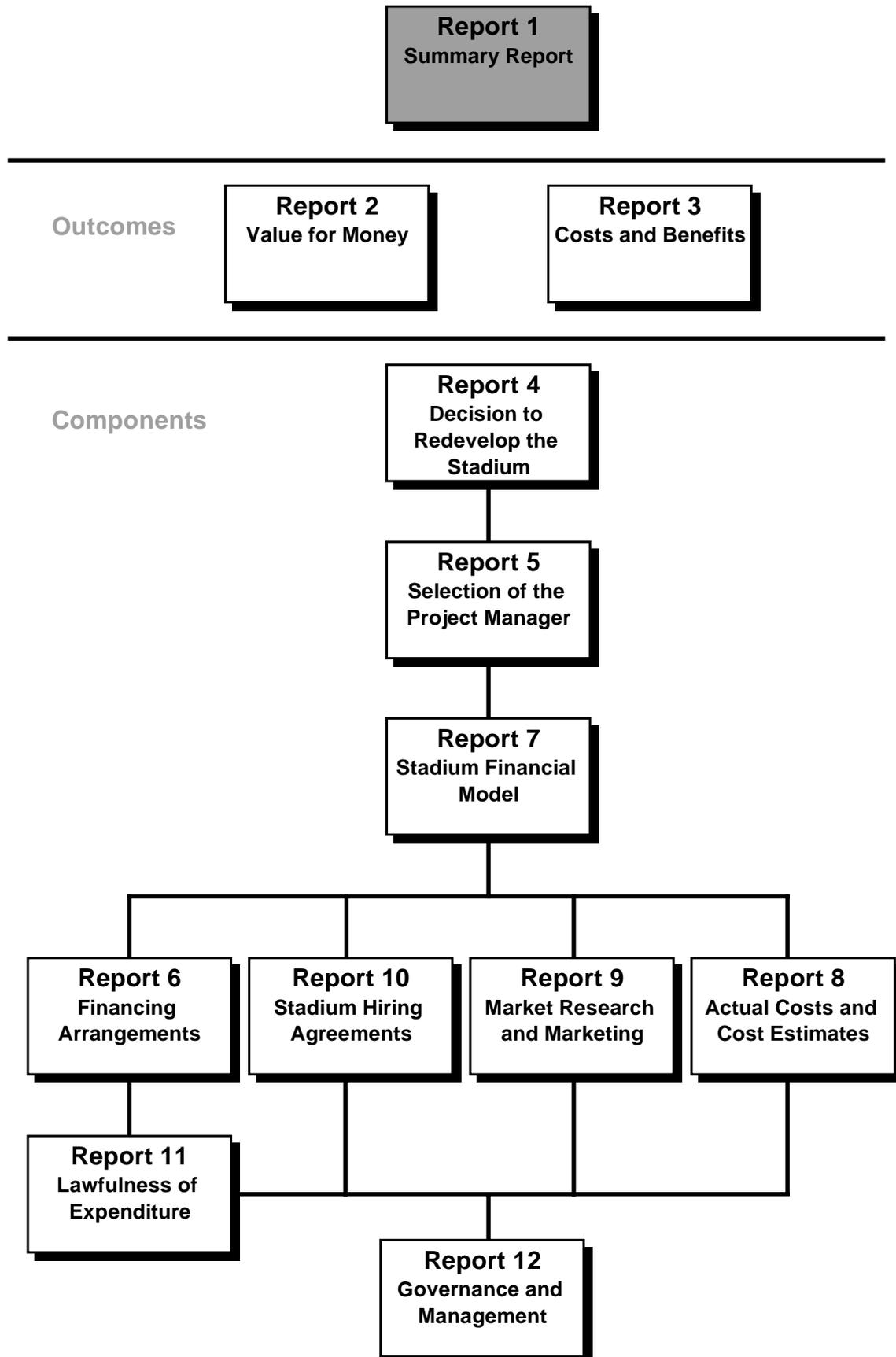
1.9 The following appendices are also included in the Report:

- (1) Overview of the Stadium Redevelopment
- (2) Bruce Stadium Prior to the Redevelopment

1.10 A copy of a late draft of the Summary Report was provided to the Chief Executive of the Chief Minister's Department as required by section 18 of the *Auditor-General Act 1996*. The Chief Executive's response is included in this Report.

1.11 Late drafts of the detailed reports were also provided to the Chief Executive of the Chief Minister's Department as required by the Act. The Chief Executive's responses are included in the relevant Chapters in this Report as well as in the detailed reports.

## REPORTS OF THE AUDIT



## AUDIT SCOPE AND OBJECTIVES

1.12 All significant matters relevant to the redevelopment project were included in the Audit. The matters audited are described in *Chapter 2* of this Report together with the Audit objectives relevant to each of the matters. The Audit objectives are also listed in *Chapter 3*.

1.13 Activities addressed in the Audit predominantly occurred in the period June 1996 to July 1999.

## AUDIT APPROACH

1.14 The approach taken in conducting the Audit is outlined in the following paragraphs.

### Requirements of Professional Auditing Standards

1.15 The Audit was performed in accordance with the principles, procedures and guidance contained in Australian Auditing Standards relevant to performance audits.

1.16 The Standards required the audit to be properly planned and supervised. Sufficient appropriate audit evidence was required to be obtained to enable Audit opinions to be drawn. The reliability and nature of the evidence was taken into account when drawing opinions. Where available, documents prepared at the time when actions were taken or decisions made were considered to be the most reliable form of evidence. The Audit made use of suitable experts where necessary. The advice of the experts was carefully reviewed and analysed before it was accepted. Evidence and conclusions were checked through circulation of draft reports.

1.17 Professional scepticism and judgement, as required by the Standards, were applied throughout the Audit. Where a representation to the Audit contradicted other audit evidence the circumstances were investigated.

1.18 The Audit was performed to provide a high level of assurance that the results are reliable. Because of the nature of auditing an absolute level of assurance cannot be achieved.

## General Methodology

1.19 The conduct of the audit included the following procedures:

- site visits to the Stadium;
- detailed analysis of submissions to the Cabinet;
- detailed analysis of Legislative Assembly hansards, press reports, departmental and project files, departmental guidelines, analyses and reports, consultants' and experts' reports, papers and minutes of the Project Control Group and other relevant documentation;
- analysis of relevant financial data and associated assumptions;
- ongoing and regular discussions with executives and other persons associated with the project to inform the Audit and discuss emerging findings (information provided to the Audit during discussions was not used in evidence unless that information was confirmed in writing);
- obtaining advice from experts in law, economics and engineering to inform the Audit;
- a limited general comparison of the Stadium with other Australian stadiums and a more specific comparison with one other Stadium;
- preparation of a series of initial assessments on specific subject areas covered by the audit, their circulation to interested persons for comment, and careful consideration of the comments provided;
- development and circulation of completed draft sections of the reports for comment and careful consideration of the comments provided;
- development and circulation of proposed reports of the Audit to the Chief Executive of the Chief Minister's Department for comment in accordance with section 18 of the *Auditor-General Act 1996*; and
- close consideration of the comments provided and finalisation of the reports for presentation to the Legislative Assembly.

1.20 The conduct of the Audit was severely hampered by an absence of documentation on most of the important decisions taken, and on the basis of the decisions taken and who took the decisions. Similarly there

was a paucity of documentation of actions taken, or the results of the actions. In cases where expected actions were not taken, reasons why the actions were not taken were not documented. In effect a documented management and accountability trail was almost entirely absent.

1.21 The situation described in the previous paragraph left the Audit no option, if it was to present any opinions about the Audit, than to construct hypotheses about many significant matters and then seek to validate or disprove the hypotheses. As would be appreciated this was a complicated and time consuming task. The Audit was required to undertake many activities which would not have been required if even a reasonable amount of documentation was available.

### **Natural Justice Considerations**

1.22 Careful attention was paid to providing natural justice throughout the Audit. The following comments outline the Audit's approach to natural justice issues.

1.23 There are essentially two elements to natural justice. Firstly, a decision maker should bring a fair and impartial mind to bear upon the matter under consideration. This element has an important corollary in that a decision maker should be seen to be unbiased. Secondly, a person who may be adversely affected by any decision should be given an opportunity to be heard.

1.24 In this case the 'decision maker' was the Auditor-General and the decisions being made related to the content of the Audit Reports.

1.25 In developing the series of reports on the redevelopment, various steps were undertaken to ensure that all affected persons had an adequate opportunity to have their views taken into account.

1.26 The draft reports were forwarded to the Department of Treasury and Infrastructure for distribution to potentially affected persons within the Public Service. In most cases the Audit also forwarded copies of the drafts directly to potentially affected persons for comment and received responses from them. This process included meetings between the Audit and the potentially affected persons to discuss areas of concern. Comments received were carefully taken into account in preparing the reports of the Audit.

1.27 Late drafts of the reports were forwarded to the Chief Executive of the Chief Minister's Department for final comment in accordance with section 18 of the *Auditor-General Act 1996*. Copies of the drafts were also directly forwarded to certain potentially affected persons for final comment. All responses received were carefully considered in finalising the reports of the Audit.

1.28 In addition to the above procedures, the Australian Government Solicitor was forwarded copies of relevant draft reports for advice on any possible inconsistencies with administrative law. The views of the Australian Government Solicitor were carefully taken into account in finalising the reports of the Audit.

### **Identification of Chief Executives and Executives in the Reports**

1.29 Consideration was given to whether Government officials involved in the redevelopment project should be identified by name.

1.30 By legislation Chief Executives have a statutory responsibility for the administration and business of their departments. The redevelopment project was managed throughout as a departmental project. A Chief Executive was therefore legislatively responsible and accountable for the project throughout its course. Consequently, in the interests of public accountability it was judged to be appropriate that Chief Executives with statutory responsibilities should be identified by name.

1.31 Executives are responsible to Chief Executives for the achievement of specific outputs. All executives enter into performance agreements, which set out their responsibilities for the achievement of specific outputs for which they are accountable. It was also judged that the executives accountable for all or part of the redevelopment project should be identified in the Audit reports.

1.32 Officials below executive level are generally responsible to executives for the completion of assigned tasks within the framework of executive level guidance and/or established policies and procedures. They do not enter into performance agreements which make them accountable for the provision of specific outputs. Rather, their duties are set out in duty statements or similar documents which relate to designated positions rather than individual officers. Consequently it was considered unnecessary for public accountability to provide names of

officials below executive level.

1.33 The identification of individuals in the reports of the Audit has important natural justice implications. As advised under the heading ‘Natural Justice Considerations’ the principles of natural justice have been carefully followed.

1.34 The Audit adopted the following principles for identifying individuals by name throughout the reports of the Audit:

- officials below executive level have not been identified;
- in order to clarify the accountability of Chief Executives and executives for all or part of the redevelopment project, names have been provided;
- for clarity purposes, the names of persons providing written information to the Audit have been included; and
- where there could be potential misunderstandings if names of persons occupying particular positions or carrying out certain actions were not provided, the names have been provided.

### **Directions under Section 14 of the Auditor-General Act 1996**

1.35 The Auditor-General has powers under the *Auditor-General Act 1996* to require persons to provide information for the purposes of a performance audit.

1.36 Section 14 of the Act provides for the Auditor-General to direct a person in writing to give information to the Auditor-General or to produce a document to the Auditor-General in accordance with the direction. The Act states that ‘a person shall not, without reasonable excuse, contravene a direction under the Act’.

1.37 Some 24 directions were issued under this provision of the Act during the course of the Audit.

### **The Use of External Assistance**

1.38 During the course of the Audit, advice was sought and obtained from:

- Access Economics Pty Ltd, Economic Consultants of Canberra, to review the Report on costs and benefits.
- Australian Government Solicitor, Lawyers of Canberra, on natural justice and related issues; and
- Freehill Hollingdale and Page, Barristers and Solicitors of Sydney, on legal issues;
- Sinclair Knight Merz Pty Ltd, Consulting Engineers of Melbourne, on engineering issues;

1.39 The advice provided was carefully reviewed before acceptance and use in the Audit.

### **Access to Cabinet Submissions and Decisions**

1.40 During the course of the Audit copies of all Cabinet submissions and decisions which were relevant to the Audit were sought and provided.

### **Use of the Terms Cabinet and Executive**

1.41 The *Australian Capital Territory (Self-Government) Act 1988* is effectively the constitution of the Australian Capital Territory. Section 36 of the Act establishes the Australian Capital Territory Executive. Section 39 of the Act states that the members of the Executive are the Chief Minister and other Ministers appointed by the Chief Minister. Section 37 of the Act states that the Executive has the responsibility of governing the Territory.

1.42 The term ‘Executive’ is not generally used. As in other Australian jurisdictions, the term ‘Cabinet’ is used. That is, the committee of Ministers that governs the Territory is known as the ‘Cabinet’, although it is legally the ‘Executive’. In addition, the office that manages the business of the ‘Executive’ is known as the ‘Cabinet Office’ and submissions to the ‘Executive’ and its decisions are known as ‘Cabinet submissions’ and ‘Cabinet decisions’ respectively.

1.43 Both terms have been used in the reports of the Audit. Readers should be aware that both terms identify the same body and the use of differing terms has no bearing on the Audit’s opinions, findings or conclusions.

## **2 REDEVELOPMENT PROJECT OUTCOMES AND COMPONENTS AUDITED**

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### **INTRODUCTION**

2.1 The Stadium redevelopment project was not confined to construction of the redevelopment. As well as the construction itself, the project included the financing of the reconstruction, the future operations of the Stadium, negotiations for the use of the Stadium with the major hirers, marketing and sales activities, and the hosting of Olympic soccer.

2.2 The results of the Audit are presented in a number of reports, each report dealing with a particular aspect of the redevelopment. While this has been necessary for clearer presentation it should be noted that the components of the redevelopment project are linked. This was the intention from the project's inception. Documentation at the time the decision to redevelop the Stadium was taken (September 1996) and at the time of the selection of the project manager (March 1997) make it clear that the redevelopment was intended to be a fully integrated project.

2.3 This Chapter describes the redevelopment project's outcomes and components addressed in the audit.

### **REDEVELOPMENT PROJECT OUTCOMES AUDITED**

2.4 The redevelopment project was completed by June 1999 in all material respects. Outcomes from the redevelopment project were therefore able to be analysed by the Audit. The results of these analyses were included in the Audit.

2.5 The project's overall outcomes addressed in the Audit were:

- whether value for money has been achieved from the expenditure on the redevelopment; and
- whether the benefits generated from the redevelopment exceed the costs of the redevelopment.

2.6 Outline descriptions of each outcome examined in the Audit follow.

**Value for Money** (*Detailed Report 2*)

2.7 Improvements were needed to the Bruce Stadium. As a facility some thirty years old which had been upgraded in a piecemeal manner since its construction, the Stadium was generally in need of improvement to ensure it continued to meet the needs of the community. The redevelopment was also the cornerstone of the Territory's bid to host Olympic soccer.

2.8 The Audit examined the relevant Cabinet decisions and submissions to identify the Government's intentions for the Bruce Stadium redevelopment and the expected costs. To ascertain whether value for money has been obtained from the expenditure on the redevelopment the Audit assessed the extent to which the Government's intentions have been achieved. The Audit also considered whether the costs to the Government have been consistent with the Government's planned cost for the redevelopment.

2.9 A comparison was also made generally with some other Australian stadiums and in some detail with one other recently completed Stadium.

2.10 The Audit's review of Cabinet decisions and submissions and other documents revealed that the Government intended achieving various physical, commercial and economic outcomes through the redevelopment.

2.11 The Cabinet agreed the Stadium would be upgraded to 'full specifications' if the bid to host Olympic soccer was successful. The Cabinet submission (prepared in September 1996) did not detail what 'full specifications' entailed, but clearly stated several intentions regarding the upgrade to the Stadium. Further details of the 'full specifications' were contained in the Olympic bid document, which referred to the redevelopment as providing the Territory with 'an international showpiece and a venue for football without peer in Australia'. Later Cabinet submissions described the redevelopment as delivering a 'state of the art' Stadium.

2.12 The physical outcomes to be achieved were as follows:

- increasing permanent seating from 11,600 to 25,000 by installing new seats in a new ‘Inner Bowl’;
- achieving the increased seating by lowering the playing surface and reconfiguring the ground to specifically suit soccer and rugby (i.e. to a rectangular shape);
- placing the new seats ‘closer to the play’;
- installing 15,000 temporary sets, specifically for the Olympic football competition;
- meeting minimum FIFA/SOCOG requirements for holding Olympic soccer;
- meeting the needs of the major hirers;
- improving and increasing corporate facilities;
- upgrading spectator seating in all areas;
- increasing covered seating, including extending the West Stand roof ‘by 60% to improve spectator comfort’, and installing a roof on the redeveloped East Stand ‘similar in scale and proportion to the existing roof on the West Stand’;
- upgrading food and beverage facilities and toilet facilities; and
- installing a high resolution video replay board.

2.13 The original estimated total cost of the redevelopment to deliver the physical outcomes was \$27m.

2.14 The commercial and economic outcomes to be achieved were as follows:

- creating a commercially viable Stadium, thus removing the need for government subsidies;
- containing the maximum cost to the Government for the redevelopment to \$12.3m;
- enhancing the profitability of the Stadium’s long-term hirers, thus keeping the hirers (principally the Canberra Raiders and ACT Brumbies) in Canberra; and
- generating economic benefits for the Territory from redeveloping the Stadium and staging Olympic soccer.

### *Audit Objective*

2.15 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether the costs incurred in redeveloping the Stadium represent value for money for the Territory.*

### **Costs and Benefits** (*Detailed Report 3*)

2.16 The outcome reviewed by the Audit was the net economic result generated by the redevelopment. The Audit summarised the financial and economic impacts of all aspects of redeveloping and operating the Stadium, and hosting part of the 2000 Olympic soccer tournament, to estimate the outcome. Financial and economic data were taken to account from a whole of Territory perspective and presented in sufficient detail to provide readers with an understanding of the significant individual components of each aspect of the project.

2.17 In 1996 it was believed that:

- the full financial cost of redeveloping the Stadium would be \$27m;
- the maximum Territory capital injection appropriation to the redevelopment would be \$12m; and
- the Stadium's operating subsidy of \$150,000 per annum would be removed and the redeveloped Stadium would be a commercially viable operation.

2.18 In addition, documents in 1996 suggest that the cost of hosting Olympic soccer was expected to be small and perhaps even exceeded by ticket revenue. Up to 40,000 spectators per game were expected in documents prepared in 1996.

2.19 It was also expected that significant economic benefits for the Territory as a whole would be derived as a result of the above expenditure. It was believed that the benefits from the project would greatly exceed the costs. A submission to the Cabinet dated 25 July 1997 (*Canberra – 2000 Olympic Football Tournament*) stated that 'the net economic benefit to the city from the Bruce Stadium redevelopment and the conduct of the Olympic football tournament has been estimated by the Office of Financial Management (OFM) to be in the order of \$23m'.

That is, the benefits to Canberra would exceed the costs (including the net financial cost) by \$23m. The OFM study, on which this statement was based, included estimates of net economic benefits which ranged from \$12m to \$29m.

### *Audit Objective*

2.20 The Audit objective addressed was to provide an independent opinion to the legislative Assembly on:

- *whether the economic benefits from redeveloping and operating the Stadium and hosting Olympic soccer are, or will be, greater than the costs incurred in redeveloping and operating the Stadium and hosting Olympic soccer.*

## **REDEVELOPMENT PROJECT COMPONENTS AUDITED**

2.21 Although the redevelopment project was intended to be an integrated project it had separate identifiable components in the implementation process. The major identified components were audited separately.

2.22 The redevelopment's components addressed in the Audit were:

- decision to redevelop the Stadium;
- selection of the project manager;
- financing arrangements;
- Stadium financial model;
- actual costs and cost estimates;
- market research and marketing;
- Stadium hiring agreements;
- lawfulness of expenditure; and
- governance and management.

2.23 Outline descriptions of each of the redevelopment project's components which were addressed in the Audit follow.

**Decision to Redevelop the Stadium** (*Detailed Report 4*)

2.24 Redeveloping Bruce Stadium and hosting Olympic soccer were under consideration by ACT Governments from late 1992. Two redevelopment proposals were prepared in 1993 and 1994 and a first bid to the Sydney Organising Committee for the Olympic Games (SOCOG) was lodged in December 1995.

2.25 A second and final bid to host Olympic soccer was lodged with SOCOG in September 1996. The major feature of the bid was the redevelopment of the Stadium. The proposed redevelopment substantially exceeded the SOCOG requirements. This was apparently considered necessary to give the bid the greatest chance of success. The planned redevelopment exceeded requirements of the governing bodies for rugby league and rugby union.

2.26 Consultants had been engaged in July 1996 to assist with the preparation of the bid document and the redevelopment proposal. The consultants' most significant contribution to the bid preparation was the design concept for the physical redevelopment of the Stadium and the concept of how the redevelopment would be paid for. These concepts were developed in the short period from July 1996 to September 1996.

2.27 The bid document was essentially a marketing document, prepared to win the Olympic soccer bid. It was successful in this regard. Subsequently the redevelopment concepts in the bid document became the conceptual basis for the whole redevelopment project including design, costs, the selection of the project manager, products to be marketed and marketing arrangements, agreements with the hirers, financing and various other matters.

2.28 The consultants were given considerable freedom in regard to the redevelopment proposal. The proposal presented in September 1996 was a large project for the ACT Government and was significantly larger than the redevelopment envisaged prior to the involvement of the consultants.

2.29 The concept for the redevelopment construction essentially had two main intentions. The first intention was to increase seating capacity from approximately 11,000 to approximately 25,000. The second intention was to generate much larger revenues than in the past. The increased revenues would provide funding for most of the construction

costs and also provide substantially increased funds for the major hirers.

2.30 The large increase in revenue was to be generated by significantly upgrading and increasing the Stadium's facilities to 'target the premium end of the market'. This was the most costly part of the project.

2.31 The estimated \$27m cost was to be financed through \$12m from Budget appropriations, \$7m of Government guaranteed borrowings, and \$8m from sales of Stadium products. The \$7m in borrowings was to be repaid from future profits projected to be generated from the Stadium's operations, and the \$8m was to come from the sale during the period of construction of Stadium products such as naming rights, corporate suites and passholder memberships.

### ***Audit Objective***

2.32 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether the decision to redevelop the Stadium was made with the aid of relevant, accurate and complete information.*

### **Selection of the Project Manager** (*Detailed Report 5*)

2.33 The selection of the project manager for the redevelopment was the earliest major step in the project after the decision to redevelop the Stadium was taken. Using a restricted tendering process, calls for expressions of interest were issued in December 1996. The specifications in the expressions of interest documentation were largely drawn from the redevelopment project proposal prepared for the Olympic bid.

2.34 The consultants who had developed the redevelopment design and financing concepts contained in the Olympic bid document were selected in March 1997 to be the redevelopment's project manager.

2.35 The design, costs and financing concepts proposed by the successful project manager were the main reasons for their selection.

2.36 In their successful proposal the consultants did not commit themselves to accepting any risks in relation to the redevelopment. The contract, eventually signed between the Territory and the consultants

some six months after the proposal was accepted, reflected this position. The consultants were left carrying no risks although the success of the redevelopment project rested entirely on the consultants' concepts, assumptions and projections proving to be sound.

### *Audit Objective*

2.37 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether the selection of the project manager was based on sound management practices.*

### **Financing Arrangements** (*Detailed Report 6*)

2.38 According to the original financing concept developed by the consultants, and agreed to by the Cabinet, the only borrowing which was to be required for the redevelopment was \$7m. This was based on the redevelopment cost being \$27m and net revenues of \$8m being generated from sales during the construction period of certain Stadium products. The balance of \$12m was to be provided from Government appropriations.

2.39 In mid-1997 proposals to provide finance for the redevelopment were sought by the project manager. Two major banks offered to provide the finance, however, these offers were not considered acceptable as the finance charges payable were seen as being too high.

2.40 Following the decision not to proceed with the offers received, a firm of financial advisers was engaged to assist with arranging a financial structure which would provide the necessary financing at attractive interest rates and other benefits for the Territory.

2.41 The financial advisers who were engaged in October 1997 sought proposals from a selection of merchant bankers. Two proposals were received. The bank proposing the more complex arrangement was selected.

2.42 The bank's proposal relied, for achieving a beneficial cost of finance, on gaining advantages from certain taxation benefits.

2.43 In June 1998 an issue involving sales tax was identified.

Examination of this issue revealed that proceeding with the proposed tax based structure would result in substantial sales tax having to be paid. The examination estimated that the requirement to pay the sales tax would outweigh the potential financial benefits from the tax based structure. Accordingly the tax based proposal was abandoned.

2.44 It was then determined to continue dealing with the merchant bankers and the financial advisers in an effort to convert the previous tax based proposal to what was now referred to as a debt based structure. Pursuit of this structure commenced in July 1998. The debt based structure was not completed.

2.45 Implementing the structure was abandoned in June 1999 when the Government took the decision to seek a capital injection appropriation to fund the entire redevelopment. The required appropriation was passed by the Legislative Assembly in July 1999.

2.46 Costs incurred in developing the financing structures for the Stadium redevelopment totalled more than \$680,000.

### ***Audit Objective***

2.47 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether the management of the financing arrangements to meet the costs of redeveloping the Stadium was effective.*

### **Stadium Financial Model** (*Detailed Report 7*)

2.48 The Stadium financial model was prepared and presented by the consultants who had developed the redevelopment design and who were selected as the project managers for the redevelopment. The model presented cash flow projections including the estimated total construction costs of the redevelopment and the annual expenses of operating the Stadium. It also presented revenue projections for ticket sales, food and beverages, corporate box and suite rental, passholder memberships, naming rights and signage and advertising. The model included cash inflows from borrowings, and cash outflows for repayment of the borrowings, together with the estimated interest on the borrowings. The model covered a 30 year period, and the estimates were also discounted to produce a net present value result. Over the period of the

redevelopment many versions of the model were prepared.

2.49 The financing concept presented in the Olympic bid, and in the Cabinet submission which proposed bidding for the Olympics and redeveloping the Stadium, had as its basis an early version of the model. This version of the model, which was prepared by the consultants, was the only financial analysis of commercial viability of the Stadium redevelopment conducted before the decision to proceed with the redevelopment was taken.

2.50 The version of the model relied upon to justify the original financing concepts for the redevelopment presented results which showed extremely large surpluses being generated for the Government from the Stadium's operations. These surpluses were both in actual dollar terms and in present value terms. All later versions of models also showed the Stadium's operations generating surpluses.

2.51 Successive versions of the financial model were the basis for decisions related to every aspect of the project. For example, the initial negotiations on hiring agreements with the football clubs drew on the model's content. Similarly, the initial marketing program for a range of Stadium products, including corporate suites, Stadium memberships and naming rights, was based on the content of the model. Importantly when it became clear that the redevelopment could not be completed for the originally estimated \$27m cost, the big surpluses shown in the model were accepted as confirmation that the additional costs could be incurred as these would easily be covered by future surpluses.

### ***Audit Objective***

2.52 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether it was reasonable to use the Stadium financial model as a reliable primary document for decision making.*

### **Actual Costs and Cost Estimates (Detailed Report 8)**

2.53 The Cabinet made various decisions in relation to the Bruce Stadium redevelopment. Several of the Cabinet decisions were based, at least in part, on cost estimates contained in the relevant submissions to the Cabinet. The actual cost outcome was compared by the Audit with

the estimates. The submissions' estimates were the expected costs advised to the Legislative Assembly and the community. Reference is also made to certain costs which were met from funds appropriated to the Chief Minister's Department and the Department of Urban Services.

### *Audit Objective*

2.54 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether the actual costs of the redevelopment were contained within the cost estimates on which Cabinet decisions were based.*

### **Market Research and Marketing** (*Detailed Report 9*)

2.55 The Stadium financial model contained a revenue target of \$13.9m for the sale of Stadium products to be raised in one year in the early phase of the redevelopment. Most of the target (\$10m) was to be used as a major part of the funding required to meet the costs of redeveloping the Stadium. It was originally intended that the marketing process would commence at an early stage in the redevelopment of the Stadium.

2.56 A consortium was appointed to market and sell the Stadium products at a fee of \$1.795m plus commission. The objective of the sales and marketing program was to generate the \$13.9m revenue target in the Stadium financial model. Although the original plan had been that the marketing would commence in 1997 the marketing and sales consortium was not appointed until July 1998.

2.57 Focus group research within the Canberra market place was conducted by the marketing and sales consortium in October 1998. As a consequence of the results of the research, sales and marketing revenue projections were considerably reduced.

2.58 The sales and marketing program did not deliver the revised projected revenues and was discontinued on 30 June 1999. The amount generated was only about \$420,000.

### *Audit Objective*

2.59 The Audit objective addressed was to provide an independent

opinion to the Legislative Assembly on:

- *whether the management of market research and marketing has contributed to the commercial viability of the Stadium's operations.*

### **Stadium Hiring Agreements** (*Detailed Report 10*)

2.60 Prior to the redevelopment, the Raiders rugby league club were able to generate significant revenue from operating the Stadium. The redevelopment's financing concepts, however, required the Raiders to give up their control of the Stadium revenues.

2.61 The financing concepts envisaged the Stadium revenue being shared between the major hirers and the Stadium. The hirers and the Stadium would all be better off because, according to the Stadium financial model, the redeveloped Stadium's projected revenues would be several times the revenue which had been generated in the past. The extra revenue was to come to a large extent from the premium end of the market.

2.62 New hiring agreements reflecting the arrangements for sharing the Stadium's projected increased revenues as set out in the Stadium financial model needed to be put in place. To achieve this, government executives had to try to negotiate acceptance by the football clubs that the revenue projections in the Stadium financial model could be achieved and that the revenue sharing arrangements to be included in the new hiring agreements would place the clubs in as good, or a better, financial position than they had been under the old agreements.

2.63 The Raiders had to be persuaded to forgo the right to the revenue streams available through their old agreement. The Brumbies rugby union club had to be persuaded to enter into arrangements which were new to them.

2.64 As the football clubs could not be persuaded that the revenues projected in the Stadium financial model were achievable the Government agreed that revenue assurance guarantees be included in the new hiring agreements.

***Audit Objective***

2.65 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether the negotiation of the Stadium hiring agreements has contributed, or will contribute, to the commercial viability of the Stadium's operations.*

**Lawfulness of Expenditure** (*Detailed Report 11*)

2.66 The cost of the redevelopment was originally estimated at \$27.3m and the Government agreed to provide \$12.3m towards this total. As a result, \$5.6m and \$6.7m were appropriated in the 1997-98 and 1998-99 Appropriation Acts. The difference of \$15m was to be obtained from other sources.

2.67 On 8 December 1997, as the \$5.6m appropriated for 1997-98 had been committed and the other funding had not eventuated, the Cabinet agreed that funds from the Government's Central Financing Unit be used to allow the redevelopment to continue until private sector financing arrangements were put in place.

2.68 By the end of the financial year \$9.7m had been drawn from the Central Financing Unit and paid into a Bruce Stadium redevelopment bank account. The money had then been used to pay contractors engaged on the redevelopment.

2.69 On 26 June 1998, a loan was requested from the Commonwealth Bank of Australia for \$9.7m. The Bank agreed to the loan on 30 June 1998. The money was paid into the same Central Financing Unit bank account from which the \$9.7m had been drawn. On 1 July 1998, the Central Financing Unit repaid the \$9.7m loan to the Commonwealth Bank.

2.70 Construction continued throughout 1998-99 and a further \$21m was expended on the redevelopment. \$6.7m was provided from funds appropriated in the *1998-99 Appropriation Act* and a further \$14.3m was drawn from the Central Financing Unit.

2.71 Efforts to implement a financing structure were abandoned in June 1999 and the unappropriated expenditure was retrospectively

appropriated by the *Appropriation (Bruce Stadium and CanDeliver Ltd) Act 1999* and amendments to the 1999-2000 Appropriation Bill.

### ***Audit Objective***

2.72 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether payments made for the redevelopment in excess of the amounts appropriated were lawful; and*
- *whether the overnight borrowing on 30 June 1998 was lawful.*

### **Governance and Management** (*Detailed Report 12*)

2.73 Legislative responsibility and accountability for the governance and management of the project are clear. The project was directed and controlled through standard departmental structures.

2.74 Under standard department structures, responsibility is based on the statutory obligations and contractual arrangements which link the Cabinet, individual Ministers, including the Chief Minister, Chief Executives and responsible executives. Executives are accountable through their performance agreements.

2.75 Ministers have responsibility for all aspects of strategic decision making and broad responsibility for the performance of their departments. Chief Executives have a statutory responsibility for the administration and business of their departments, subject to an overriding responsibility of Ministers, and for providing strategic advice to Ministers on all issues arising within their departments. Other executives have a contractual responsibility to the relevant Chief Executive for the achievement of assigned outputs. Chief Executives and other executives are required by their performance agreements to exercise reasonable care and skill, act impartially and act with probity in the performance of their duties.

2.76 A heavy reliance was placed on consultants to provide advice and undertake important aspects of the project. The original intention was that a contracted project manager would implement the entire project and that minimal involvement would be required by executives.

2.77 The Audit objective addressed was to provide an independent opinion to the Legislative Assembly on:

- *whether governance and management arrangements for the redevelopment project were effective.*

### **3 AUDIT OBJECTIVES AND AUDIT OPINIONS**

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#### **INTRODUCTION**

3.1 In the previous Chapter the redevelopment project's outcomes and the Audit objectives addressed in the Audit for each outcome were set out. The previous Chapter also set out the components of the redevelopment project covered in the Audit and the related Audit objectives.

3.2 In this Chapter the Audit's objectives are listed and the independent Audit opinions on the objectives are then provided.

#### **AUDIT OBJECTIVES**

3.3 The objectives of the audit were to provide independent opinions to the Legislative Assembly on:

- whether the costs incurred in redeveloping the Stadium represent value for money for the Territory;
- whether the economic benefits from redeveloping and operating the Stadium and hosting Olympic soccer are, or will be, greater than the costs incurred in redeveloping and operating the Stadium and hosting Olympic soccer;
- whether the decision to redevelop the Stadium was made with the aid of relevant, accurate and complete information;
- whether the selection of the project manager was based on sound management practices;
- whether the management of the financing arrangements to meet the costs of redeveloping the Stadium was effective;
- whether it was reasonable to use the Stadium financial model as a reliable primary document for decision making;
- whether the actual costs of the redevelopment were contained within the cost estimates on which Cabinet decisions were based;
- whether the management of market research and marketing has contributed to the commercial viability of the Stadium's operations;

- whether the negotiation of the Stadium hiring agreements has contributed, or will contribute, to the commercial viability of the Stadium's operations;
- whether payments made for the redevelopment in excess of the amounts appropriated were lawful and whether the overnight borrowing on 30 June 1998 was lawful; and
- whether governance and management arrangements for the redevelopment project were effective.

3.4 The independent opinions on the Audit objectives are set out on page 29 of this Report.

3.5 The bases for the Audit's opinions are summarised in *Chapter 5* to *Chapter 15* of this Report. Detailed explanations are contained in detailed *Report 2* to detailed *Report 12* of the series of Audit reports on the redevelopment project.

## **SIGNIFICANT GENERAL FINDINGS**

3.6 The following significant general findings should be noted in considering the Audit opinions on page 29:

- No evidence came to the attention of the Audit that any Minister, Chief Executive or executive benefited financially through activities of a corrupt or fraudulent nature.
- The Cabinet's decisions on the project were consistent with the content of the submissions on the project provided to the Cabinet. As disclosed in the detailed Audit reports, seven of the nine submissions provided to Cabinet were inaccurate and/or incomplete in important information. The Audit view is that, if the only information the Cabinet had available was the content of the Cabinet submissions, the Cabinet's decisions on the project were reasonable in that they were logically consistent with the available information.
- The physical outcomes intended by the Government have generally been achieved. This has been at a cost which, although much more than estimates, was fair and reasonable. This conclusion takes into account the procurement methods used, the terms of the contracts involved during the redevelopment and the deadlines and other timing issues imposed on the project. (For

further information on the reasonableness of the costs see *Report 2 – Value for Money.*)

## AUDIT OPINIONS

### Opinions on Outcomes

- The costs incurred in redeveloping the Stadium do not represent value for money for the Territory (*Report 2*).
- The economic benefits from redeveloping and operating the Stadium and hosting Olympic soccer are, and will be, less than the costs incurred in redeveloping and operating the Stadium and hosting Olympic soccer (*Report 3*).

### Other Opinions

- The decision to redevelop the Stadium was not made with the aid of relevant, accurate and complete information (*Report 4*).
- The selection of the project manager was not based on sound management practices (*Report 5*).
- The management of the financing arrangements to meet the costs of redeveloping the Stadium was not effective (*Report 6*).
- It was not reasonable to use the Stadium financial model as a reliable primary document for decision making (*Report 7*).
- The actual costs of the redevelopment were not contained within the cost estimates on which Cabinet decisions were based (*Report 8*).
- Management of market research and marketing has not contributed to the commercial viability of the Stadium's operations (*Report 9*).
- The negotiation of the Stadium hiring agreements has not contributed, and will not contribute, to the commercial viability of the Stadium's operations (*Report 10*).
- The payments made for the redevelopment in excess of the amounts appropriated were not lawful and the overnight borrowing on 30 June 1998 was not lawful (*Report 11*).
- Governance and management arrangements for the redevelopment project were not effective (*Report 12*).

## **4 OUTCOMES AND CONTRIBUTING FACTORS**

### **INTRODUCTION**

4.1 The Report's previous Chapter set out independent opinions on each Audit objective. Section 2 of this Report provides summaries of the reasoning supporting each of the Audit opinions. The opinions represent the results of the Audit of the redevelopment project's outcomes and its various components. Detailed reports should be referred to for a full understanding of the issues addressed.

4.2 A brief summary of the project's outcomes follows together with reference to some matters, including warning signs, identified during the conduct of each component of the Audit. In particular the actions, or lack of actions, which contributed to the projects outcomes are mentioned.

4.3 As can be seen, the Audit's opinions on the redevelopment's outcomes are negative. In this regard the Audit is of the view that if reasonable procedures had been used in the decision making stages of the project the negative outcomes could have been avoided. The Audit is also of the view that, during the redevelopment's implementation there were warning signs that corrective action was needed. If corrective action had been taken the extent of the negative outcomes would have been reduced.

### **OUTCOMES FROM THE REDEVELOPMENT**

#### **Value for Money** (*Detailed Report 2*)

4.4 The Audit concluded, in an overall sense, that the costs incurred in redeveloping the Stadium do not represent value for money for the Territory. This conclusion is due, in the main part, to the level of expenditure on high quality facilities and associated infrastructure and the failure to achieve commercial and economic goals for the redevelopment.

4.5 In summary most of the Government's intended physical outcomes, including high quality facilities, have been delivered. In contrast, the Government's intention to create a commercially viable

Stadium, mainly through revenues which would be generated through the Stadium's high quality facilities, has not been achieved. The Audit's view is that little, if any, of the cost of the redevelopment will be recouped from the Stadium's profits as intended. On this basis, the expenditure on the redevelopment has not provided the value for money which the Government intended when it commenced the redevelopment. The Audit's view is that the Stadium cannot reasonably be considered as having significance as a commercial asset for the Territory.

4.6 The redeveloped Stadium undoubtedly has a community asset component. The Government's intention was to contribute, through appropriation, \$12.3m to the costs of the redevelopment. This could reasonably be construed as the amount which the Government was prepared to pay for the community component of the asset. If this is accepted, the expenditure which the Government has actually met above \$12.3m (i.e. some \$33m) can be regarded as not producing the value for money intended by the Government when it commenced the redevelopment. That is, the Government has paid almost \$45m for a community asset for which it intended to pay \$12.3m.

#### **Costs and Benefits** (*Detailed Report 3*)

4.7 The Audit concluded that the economic benefits from redeveloping and operating the Stadium and hosting Olympic soccer are, and will be, less than the costs incurred in redeveloping and operating the Stadium and hosting Olympic soccer.

4.8 The Audit's conclusion was based on its analysis of the costs and benefits related to redeveloping and operating the Stadium and hosting Olympic soccer. The results of the analysis are consistent with the Audit's conclusion on value for money.

4.9 In summary the analysis results are as follows.

4.10 In 1996 it was believed that the redevelopment would cost \$27m and require a government appropriation of \$12m; the Stadium would be transformed from making a small loss into a profitable commercial activity; the cost of hosting Olympic soccer would be small; and there would be significant additional economic benefits to the Territory from redeveloping the Stadium and hosting Olympic soccer.

4.11 The cost of the redevelopment has been \$45m and all of this cost has been met by government appropriation. The estimated net financial cost of hosting Olympic soccer is \$14m. The estimated cash subsidy for operating the Stadium for 1998-99 to 2000-01 is \$5m. The net present value of cash operating subsidies from 2001-02 to 2026-27 is estimated to be \$18m.

4.12 The Audit therefore estimates that the redevelopment of the Stadium and hosting Olympic soccer will result in a net financial cost to the Territory of about \$64m by 30 June 2001 and of about \$82m in present value terms by 2027. The Audit believes that these estimates are conservative.

4.13 Although there will be some additional economic benefits for the Territory from redeveloping the Stadium and hosting Olympic soccer, the Audit has concluded that these will be significantly less than the net financial costs.

## **COMPONENTS OF THE REDEVELOPMENT**

### **Decision to Redevelop the Stadium** (*Detailed Report 4*)

4.14 The Audit has concluded that the decision to redevelop the Stadium was not made with the aid of relevant, accurate and complete information.

4.15 In September 1996, the Cabinet agreed to bid to host Olympic soccer and redevelop the Stadium if the bid were successful. The decision was based on a redevelopment and funding proposal presented by a consultant a few days before. The consultant's proposal was not subjected to systematic analysis even though a cursory examination would have raised concerns about them. The proposal was not subjected to any validation or testing. Alternative proposals were not considered.

4.16 If systematic analysis of the proposal had been undertaken, it would have revealed that the construction cost of \$27.3m was uncertain and projected revenues were highly questionable. Consequently it would have been realised that containing the Government's commitment to a maximum appropriation of \$12.3m would be difficult to achieve. The Government's appropriation could only be contained to \$12.3m if the other significant parts of the proposal eventuated as the proposal

forecasted. A systematic analysis would have identified the difficulties and risks associated with the proposal. This would have been expected to draw attention to the need to consider alternatives.

4.17 The Cabinet's decision set the in-principle directions for the redevelopment. There were, however, further opportunities to review whether the redevelopment proposal could work as put forward. This was particularly during the selection of the project manager.

#### **Selection of the Project Manager** (*Detailed Report 5*)

4.18 The Audit has concluded that the selection of the project manager was not based on sound management practices. A sound methodology was not developed to evaluate the financial and construction proposals received from the six proponents.

4.19 The selection of the project manager provided the opportunity, and the obligation, to examine the underlying concepts, assumptions and risks presented by the offered proposals. If a sound selection methodology had been applied, these matters would have been thoroughly examined.

4.20 The selection of the project manager, without a close examination of the proposal, meant that an untested proposal set the directions for the redevelopment. The proposal selected was essentially the same as the proposal on which the Cabinet decision was based. As previously stated, the proposal on which the Cabinet decision was based had not been subjected to any validation or testing.

4.21 A sound process would have focussed attention on the difficulties and risks associated with the proposal. This would have included recognition of the proposal's heavy reliance on the ability to sell, in Canberra and the surrounding region, high quality facilities and products which had not been sold in the region previously. The funding of most of the Stadium's construction cost and its ongoing commercial viability depended on these sales being made.

4.22 A sound process would also have focussed attention on gaining at least a reasonable assurance that the redevelopment, including the high quality facilities, could be delivered within the \$27m forecast cost.

4.23 If the selection process applied had been better, the need to examine alternatives would have been recognised. A thorough selection process would have ensured that a proposal was selected which was well understood, and which did not have the significant inherent risks of the selected proposal.

### **Financing Arrangements** (*Detailed Report 6*)

4.24 The Audit has concluded that the management of financing arrangements to meet the costs of the redevelopment was not effective.

4.25 The management of the financing arrangements had a significant effect on the implementation of the redevelopment. The funding for the redevelopment was to be \$12.3m from a Government appropriation, \$8m from sales of Stadium products during the construction of the redevelopment, and borrowings of \$7m which were to be repaid over time from future profits. This was based on the redevelopment's initial estimated cost of \$27.3m. As reported the actual cost was almost \$45m.

4.26 The integrated concepts for the redevelopment project included that construction would proceed as funds became available. If the funds did not become available the construction would not proceed. This part of the redevelopment concept was abandoned very early. This was a very clear warning sign that implementation of the proposal as conceived was already facing trouble.

4.27 The sales of Stadium products during the construction of the redevelopment did not eventuate and therefore the expected funds from this source (\$8m) had to be found from elsewhere.

4.28 The Central Financing Unit in the Chief Minister's Department was the source of funds used to allow the construction to progress. With access to the Central Financing Unit's funds available, the fact that the intended sources were not producing funds (other than the appropriation of \$12.3m) had no effect on the progress of the construction.

4.29 The main priority for the redevelopment project was to deliver the full Stadium redevelopment to the original design concepts including high quality facilities. The Audit is of the view that the availability of the unappropriated Central Financing Unit funds led to controlling the costs of the construction to a limited budget being a secondary priority.

4.30 If the Central Financing Unit funds had not been available the redevelopment construction could not have proceeded as planned. If the funds had not been available it would have been expected this would have forced an examination of the redevelopment's concepts. From this examination the difficulties and risks inherent in those concepts would have been recognised. This in turn could have led to examination of alternatives with less likelihood of negative outcomes.

#### **Stadium Financial Model** (*Detailed Report 7*)

4.31 The Audit has concluded that it was not reasonable to use the Stadium financial model as a reliable primary document for decision making.

4.32 The model's projections were relied upon for major decisions on every aspect of the project even though much of the model's content was very questionable and this was easily recognisable at the time.

4.33 If the model had been subjected to thorough review at any stage in the project, the questionable projections in the model would have been revealed. As a result, reliance may not have been placed on the model in making very important decisions on proceeding with the redevelopment, the nature of the redevelopment and the funding structure, the selection of the project manager, financing arrangements, hirers' agreements, marketing, and continuing with the construction in the face of rising costs.

4.34 Recognition of the model's unrealistic projections before and during the selection of the project manager would have focussed attention on alternative redevelopment proposals with less significant inherent risks.

4.35 Even after the selection of the project manager, recognition that the projected revenues were not likely to be achieved would have been another warning signal about the risks inherent in the design, size, scope and funding of the project.

#### **Actual Costs and Cost Estimates** (*Detailed Report 8*)

4.36 The Audit has concluded that the actual costs of the redevelopment were not contained within the cost estimates on which

Cabinet decisions were based.

4.37 It was recognised early in the redevelopment project that it would be difficult to complete the redevelopment construction to its conceptual framework within the initial estimated costs. This was an early warning signal that there were difficulties with the proposal. A review of the budget in June 1997 indicated that it was insufficient to fund the redevelopment to full specifications. It would have been expected that this warning signal would have prompted an examination of the achievability of the other parts of the redevelopment project's concepts. This did not occur.

4.38 If the Cabinet had been formally and immediately advised that the full redevelopment could not be accommodated within the \$27.3m budget, the Cabinet may have insisted that an examination be conducted. Decisions may then have been made not to continue with the redevelopment to the size and scope planned. The Cabinet, however, was not advised until December 1998. It was advised then that the cost would be \$33.5m, which was significantly less than the actual final cost.

4.39 The estimates advised to the Cabinet were the same estimates advised to the Legislative Assembly and the community.

### **Market Research and Marketing** (*Detailed Report 9*)

4.40 The Audit has concluded that the management of market research and marketing activities has not contributed to the commercial viability of the Stadium operations.

4.41 The generation of large revenues from high quality facilities and products was an essential part of the concept for the redevelopment. Market research and marketing would therefore have been expected to be a very important activity in the redevelopment. Thorough market research was necessary to gain some assurance that the sales could potentially be made and effective marketing was necessary to ensure the potential sales were realised.

4.42 Detailed market research did not occur before the major decisions to proceed with the redevelopment were made.

4.43 When the major hirers expressed concerns about whether the

revenues projected could be achieved, market research was commissioned. This research, however, was inadequate as it did not involve detailed research in Canberra and the surrounding region.

4.44 In July 1998, a consortium was appointed to market and sell the Stadium's products with the aim of raising the projected revenues. The consortium conducted its own market research of Canberra consumers. This was more detailed research than had previously been conducted. As a result of the research it was recognised that the revenue projections for various major revenue producing products could not be achieved.

4.45 If adequate market research had been conducted early in the project the results would have cast extreme doubts on the selected proposal. The consortium's research results were another clear but belated warning signal that difficulties existed.

#### **Stadium Hiring Agreements** (*Detailed Report 10*)

4.46 The Audit has concluded that the negotiations of Stadium hiring agreements has not contributed, and will not contribute, to the commercial viability of the Stadium's operations.

4.47 The concept for the redevelopment included that much more revenue would be generated than in the past. The concept also included that the major hirers would share in the increased revenues.

4.48 Poor sales of Stadium products have resulted in the Territory funding expensive revenue guarantees to the major hirers. The revenue guarantee payments are a cost to the Stadium which significantly affects its commercial viability.

4.49 The guarantees were given as a result of the major hirers' strong convictions that the proposal's revenue projections could not be achieved. The major hirers' convictions were another clear warning signal.

4.50 If the hirers' views on the redevelopment and the achieveability of the revenue projections had been given greater attention, various decisions about the redevelopment's size and scope may have been different.

**Lawfulness of Expenditure** (*Detailed Report 11*)

4.51 The Audit has concluded that the payments made for the redevelopment in excess of amounts appropriated were not lawful and the overnight borrowing on 30 June 1998 was not lawful.

4.52 If it had been accepted that using the Central Financing Unit funds without appropriation was unlawful the Government would have needed to return to the Legislative Assembly to seek further appropriation. The Legislative Assembly's scrutiny may have generated an examination of the redevelopment's concepts. This may have ensured the difficulties and risks in the redevelopment were recognised and addressed.

**Governance and Management** (*Detailed Report 12*)

4.53 The Audit has concluded that governance and management arrangements for the redevelopment project were not effective.

4.54 The original intention was that the project manager would manage and implement the entire project. Minimal involvement would be required by government executives. This view was based on an assumption that implementation of all parts of the project would proceed smoothly.

4.55 The redevelopment project did not proceed smoothly in any respect almost from the beginning. It would have been expected that the minimalist management approach would have been recognised quickly as being inadequate in the circumstances, and a much closer form of management implemented. This did not occur. The minimalist approach continued throughout the redevelopment.

4.56 Earlier parts of this Chapter outlined warning signals in construction costs, financing, hiring agreements and marketing arrangements. If governance and management arrangements had been effective, the warning signs which were emerging from very early in the implementation of the project would have been recognised and effective corrective action may have been taken. The absence of adequate governance and management had a significant impact on the project.

## CONCLUSION

4.57 The Cabinet’s decision to redevelop the Stadium was based on inadequate and unreliable information. An untested and ambitious proposal was the basis for the decision.

4.58 Although the Cabinet’s decision was taken quickly with the intention of winning the Olympic soccer bid it would have been expected that, at the least, an examination of the reasonableness of the proposal’s concepts would have been undertaken. This did not occur.

4.59 A close examination should undoubtedly have occurred during the selection process for the project manager. The selection process offered the opportunity to carefully examine the underlying concepts in the redevelopment proposal. This did not occur. This meant that the proposal was not examined at the Cabinet decision stage or at the selection of the project manager stage. As the original proposal was untested and ambitious, the proposal accepted by the assessment committee was also untested and ambitious.

4.60 Several warning signs that the proposal had problems emerged very early in the implementation of the project. These were generally addressed with temporary and sometimes expensive solutions, which enabled construction to continue as planned. The top priority seems always to have been that the construction occur as originally planned.

4.61 The end result is the physical redevelopment has been completed but at a much greater cost than planned. In contrast the planned revenues which were to meet the majority of the construction costs have not been received and will not be received.

4.62 It should be pointed out that the Government’s commitment to SOCOG for Olympic soccer did not require that the Stadium be redeveloped to the original size and scope as presented to SOCOG in the Government’s Olympic bid proposal. The memorandum of understanding signed with SOCOG included the following at clause 5.8(b):

‘SOCOG acknowledges and agrees that the design details for the redevelopment of the Stadium set out in the proposal represent a design concept and in implementing that concept the Territory may vary any aspect of the design provided that the design must

meet the requirements of FIFA and SOCOG as set out in Schedule 3. The Territory shall notify SOCOG of any major changes arising in the development of the design.’

4.63 The Government’s commitment therefore to SOCOG was only to meet minimum FIFA and SOCOG requirements. The memorandum of understanding was signed in September 1997 before any significant construction had occurred.

4.64 The redevelopment project was originally intended to be an integrated project. In particular, the redevelopment construction was to be staged to coincide with the receipt of revenues. The Cabinet decision to redevelop was made on this basis, as was the selection of the project manager. The concept was that the revenues and the construction costs were linked in such a way that the construction would be progressed to the full redevelopment in accordance with the timing of the revenues received.

4.65 Soon after the selection of the project manager, the concept that the redevelopment was an integrated project was abandoned. Construction proceeded with Central Finance Unit funds and financing, marketing and negotiation of hiring agreements were all progressed separately. The introduction of the Central Financing Unit funds removed the need for integration of the various activities. It also removed the financial discipline over the project’s spending which would have existed if the only funds available to the redevelopment above the \$12.3m appropriation were confined to the funds the Stadium could generate during the construction or from its future profits.

4.66 In conclusion, the Audit’s view is that the redevelopment project was based from the beginning on unsound concepts. That the redevelopment was based on unsound concepts should have become clear from very early in the project’s implementation as difficulties emerged almost immediately in all the important aspects of the proposal. Although those managing the project must have been aware of the difficulties no action was taken to reconsider the size and scope of the redevelopment. It was built as planned. The outcomes identified by the Audit are the result.

**DEPARTMENTAL RESPONSE**

4.67 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of this Report was provided to the Chief Executive of the Chief Minister's Department for his consideration and comments. The Chief Executive's response is set out following.

***General Comments***

1. *“The performance audit of the redevelopment of Bruce Stadium was first mooted in March 1999 and formally advised to the Assembly in June 1999. The Audit has consumed a great deal of time and resources and has resulted in a series of reports totaling about 1,000 pages. The Audit makes a series of critical findings but makes no recommendations to future improvements. This latter aspect is disappointing.*

2. *Before commenting on the key findings of the Audit, I wish to make some general observations.*

3. *The Audit has concluded that there is no evidence that any Minister, Chief Executive or executive benefited financially through activities of a corrupt or fraudulent nature; that based on the Submissions provided, Cabinet decisions on the project were reasonable in that they were logically consistent with the information provided; and, importantly, the physical outcomes intended by the Government have generally been achieved, and that while much more than estimated, the costs incurred were fair and reasonable.*

4. *The Audit criticisms relate to both aspects of the process of the redevelopment project, as well as the cost benefit and value for money which was achieved. In my view, the Audit has gone beyond its appropriate scope in effectively challenging the Cabinet decisions of Government in relation to the decision both to bid to host Olympic football and to redevelop the stadium.*

5. *Audit has a clear role and responsibility to review the nature and adequacy of advice provided to the Cabinet on a given subject, and the way in which any Cabinet decision is then implemented. What is not appropriate is for Audit to offer commentary on the reasonableness or otherwise of decisions of the Cabinet, provided that such decisions are in*

*accordance with the law. Scrutiny of Cabinet decisions is a matter for the Assembly and the electorate. Intrusion into this area can inappropriately involve the Audit Office in partisan debate.*

6. *A further general concern that I have relates to the linkage of the bid and redevelopment decisions, and the resulting inclusion of the acknowledged costs of hosting Olympic football in the assessment of the overall costs of the redevelopment.*

7. *The reports acknowledge that there was a requirement to redevelop Bruce Stadium which was built in the mid 1970's and largely unaltered since. There was already a need to redevelop the stadium to meet the realistic expectations of 1990's generation spectators and to offset the attraction of newer venues in larger population centres as future bases for the Raiders and the Brumbies. The opportunity to bid to host Olympic Football affected the timing of the completion of the redevelopment, but not the basic requirement.*

8. *These twelve reports essentially present an argument. In essence that argument is that the decisions to bid to host Olympic football and to redevelop the stadium should have been based on a comprehensive analysis of economic costs and benefits, that the costs of these initiatives outweighed the benefits, that the commercial objectives of the redevelopment were based on an inappropriate and unduly optimistic financial model, that the scale of the provided corporate facilities was excessive and that there were substantial deficiencies in the documentation and conduct of source selection, project management and oversight.*

9. *The reports fail to acknowledge the real world limitations of the external Olympics timetable or the fact that, in the redeveloped Bruce Stadium, Canberra and the region now has a high-class, high profile 25,000 seat sports and entertainment venue that will be a great community asset for many years.*

#### ***Comments on Outcomes and Findings***

***a) The costs incurred in redeveloping the Stadium do not represent value for money***

10. *This conclusion that the outcome is not supported by a reasonable review of the evidence. The argument essentially proceeds from the premise that the provision of corporate facilities was excessive and that these facilities will not yield the expected levels of revenue to make the*

*Stadium a viable commercial operation. Both these propositions can be accepted without prejudicing an overall conclusion that the redevelopment represented overall value for money.*

11. *The scale of corporate facilities does clearly exceed current demand, except for occasions such as finals and similar events. In debate is the degree of over-provision, and whether revised marketing and pricing strategies may overcome this imbalance. What is clear, however, is that such initial over-provision is preferable to the future cost of retrofitting such facilities as occurred at the Sydney Football Stadium.*

12. *The conclusion that revenue targets have not been met is correct at least for the present. However, revenue for areas such as naming rights sponsorship and hire of corporate facilities can be expected to increase in the future, while the revenue guarantees provided to the major hirers finish in 2004. Audit has acknowledged that beyond that point the stadium should be able to at least break even.*

13. *The report uses the concept of value for money which involves consideration of many aspects including fitness for purpose, quality, policy objectives, risks, costs and benefits. Clearly, value for money does not automatically mean the lowest price. Nevertheless, the bulk of the report focuses on cost issues.*

14. *The Quantity Surveyor appointed by Audit has confirmed that the costs for the physical construction and associated works were 'fair and reasonable'. There has been significant improvement to facilities for general patrons. On an overall basis, the cost per seat – using Audit's assessment of costs – is \$1,800. The report concedes that this compares most favourably with other stadiums.*

15. *The redevelopment of Bruce Stadium achieved an outcome which is fit for purpose — in fact — a high standard modern stadium which will remain a valuable asset for the Territory for many years. In terms of cost of construction, value was achieved. The construction objectives were met. On a cost per seat basis, the outcome compares most favourably with other stadiums. On the negative side, the failure of the financial model meant that the construction cost was met entirely by the Territory, while there was a significant increase in the final cost, compared with initial estimates. The commercial objectives of the redevelopment also were not achieved, although there is some prospect of this position improving in the medium term.*

16. *Coming to an overall assessment depends ultimately on what you consider to be more important – failure of aspects of the processes used in the redevelopment, or an overall assessment of the outcomes. In my view the clear and continuing success of the Stadium as a venue for top quality sport, and the wider social and economic benefits to be derived from the redevelopment represent an outcome that can be considered “value for money.”*

***b) The economic benefits generated from redeveloping the Stadium and hosting Olympic soccer are less than the costs incurred.***

17. *This assessment has three fundamental defects.*

- *The opportunity to bid to host Olympic Football affected the timing of the completion of the redevelopment, but not the basic requirement. The costs and benefits of the stadium redevelopment therefore should be assessed on its own merits with the acknowledged net cost of staging Olympic Football not being included in the calculation of the economic costs of the redevelopment.*
- *Audit’s calculation of the total cost of the redevelopment project does not make any provision for inflation.*
- *The Audit estimate of the annual net cash financial cost of stadium operations from 2001-02 to 2026-27 (\$1.5m per annum) is inherently uncertain, yet the implications of this uncertainty are not reflected in the report’s summary findings.*

18. *Of more concern and significance is the report’s contention that the presence of the Raiders and the Brumbies in the ACT gives rise to no net economic benefit to Canberra and the region. This is a very questionable proposition.*

19. *There is a fundamental difference between the conduct of straight economic analysis and the more comprehensive assessments of overall costs and benefits which Government’s are required to make. Stimulating economic growth, improving the condition of the Territory’s infrastructure and enhancing the Territory’s image and the quality of life for its inhabitants and the morale of the local community are all reasonable factors for Governments to take into account. Whether the benefits of the redevelopment of Bruce Stadium outweigh the costs is ultimately a matter for the people rather than Audit to determine.*

***Other Opinions***

20. *Comments on the other key findings of the Audit can be found in my responses to each of the other eleven reports, which are also presented in this summary volume.*

***Actions Arising from the Audit***

21. *A key benefit from the conduct of an Audit are the lessons learnt and the improvements which follow.*

22. *The Government and the Administration have already put in place a number of measures to overcome the acknowledged deficiencies highlighted by this project and by the Canberra Hospital implosion.*

- *Project management and purchasing capability is being strengthened, with revised standards, policies and organisational arrangements, which place emphasis on skills accreditation and competency.*
- *Extensive purchasing guidelines have been developed and are available to both staff and industry on the “basis” web site.*
- *Probity auditing has become the norm.*
- *Management of key projects is much more structured and extensive, as has been demonstrated in the oversight of the recent ACTEW/AGL joint venture partnership.*
- *Cabinet procedures have been revised and a new Cabinet Handbook issued.*
- *Formal regular written reporting to Ministers on the progress of major projects is now required.*
- *With the newly appointed Commissioner of Public Administration and my colleague Chief Executives, I have commenced a process to review the skills and development needs of the entire ACT public service.*

23. *The aim is to achieve a standard of excellence which gives the Government, the Assembly and the community of Canberra that they have a public service of undisputed high calibre and performance.”*

**CONCLUDING COMMENTS**

4.68 The Audit’s views on the issues identified in the Chief Executive’s response are discussed in the following paragraphs under the headings contained in the Chief Executive’s response.

## General Comments

4.69 The Chief Executive's *paragraph 1* indicates the Chief Executive's disappointment that the Audit makes a series of critical findings but makes no recommendations for future improvements. The Audit would like to have completed the Audit by making many suggestions for future improvements. The fact, however, is that until very recently there was very limited acceptance by the executives with whom the Audit was obliged to deal that any improvements were needed. In this situation taking time to develop recommendations for discussion with the executives was seen as a futile task. Recommendations to deal with problems are only useful if it is first accepted that there are problems.

4.70 The Audit emphasises that it is very willing to assist with the development of improved procedures once the Reports on the Audit are published and dealt with by the Legislative Assembly.

4.71 In *paragraph 4* and *paragraph 5* of his response the Chief Executive expresses his view that:

‘the Audit has gone beyond its appropriate scope in effectively challenging the Cabinet decisions of Government in relation to the decision both to bid to host Olympic football and to redevelop the Stadium.’

4.72 The Chief Executive made a similar comment in his response to *Report 3 – Costs and Benefits*. The Audit's responding comments are repeated following.

‘The Chief Executive, in *paragraph 1* [of his response to *Report 3*], states that it is inappropriate ‘for Audit to offer commentary on the reasonableness or otherwise of decisions of the Cabinet’. The Chief Executive, however, agrees that ‘Audit has a clear role and responsibility to review the nature and adequacy of advice provided to the Cabinet on a given subject, and the way in which any Cabinet decision is then implemented’.

Financial and economic advice was provided to Cabinet on the redevelopment project. To review the nature and adequacy of this advice it was clearly necessary [for the Audit] to make an assessment of financial and economic outcomes and to compare these outcomes with the expected outcomes presented in the

advice. Such a comparison also provided information on the implementation of the Cabinet decisions on the redevelopment project. The Audit believes that consideration of these matters would be expected by members of the Legislative Assembly and the public.

The Chief Executive states in *paragraph 2* [of his response to *Report 3*] that the ‘report effectively sets out to review the appropriateness of the Cabinet’s decisions’. This is incorrect. The Report is about the outcomes of the decisions and not the decisions themselves.’

4.73 In addition to the preceding comments outlining why the Audit considers the scope of the Audit conducted was not inappropriate, attention is drawn to *Report of the Royal Commission into the Commercial Activities of [the Western Australian] Government and Other Matters* (1992). That report emphasised the importance of the electorate’s ‘right to know’ and described the Auditor-General’s role in enhancing accountability to the electorate by providing information to the Parliament. The following quotes extracted from the report illustrate the importance given to the role of the Auditor-General by the Commission in the process of enhancing a Government’s accountability to the electorate through the Parliament.

‘If Government is to be truly government for the people, if the public is to be able to participate in government and to experience its benefits, the public must be properly informed about government and its affairs’. [Part II par. 2.1.3]

‘The office of the Auditor-General provides a critical link in the accountability chain between the public sector and the parliament and the community. It alone subjects the practical conduct and operations of the public sector as a whole to regular, independent investigation and review.’ [Part II par. 3.10.1]

‘Although in the end only a reporting agency to Parliament, it [the Auditor-General] can properly be described as the public’s first check and best window on the conduct of government.’ [Part II par. 3.10.5]

4.74 It needs to be recognised that in most cases the Auditor-General is the only review body which has access to all information of Government. If the Auditor-General were not to comment on outcomes of certain Government decisions then no other review body could

comment as other bodies do not have the same level of access as the Auditor-General.

4.75 As illustrated by the Royal Commission quotations, the Auditor-General has a critical role to play in enhancing the accountability of Government to the electorate. This is done through the provision of public reports. The type of independent information an Auditor-General can provide assists the Assembly and the electorate to scrutinise Government decisions. Auditor-General's Reports containing information on the outcomes of Government decisions should be a source of important independent information for the Assembly and the electorate.

4.76 It is recognised that the information which an Auditor-General provides may lead to the questioning of Government decisions by the Assembly and the electorate. This is to be expected. It is not the Auditor-General, however, who does the questioning.

4.77 In *paragraph 6* and *paragraph 7* of his response the Chief Executive expresses a general concern relating to the linkage by the Audit of the decision to bid to host Olympic soccer and the decision to redevelop the Stadium. The argument seems to be that the only link between the two decisions is to do with the timing of the redevelopment. The argument apparently is that, as a redevelopment of the same scale and nature would inevitably have happened at some unidentified time in the future, the Audit should not have included in its scope the costs and benefits arising from hosting Olympic soccer. The actual fact is that the redevelopment and hosting Olympic soccer are closely linked. Without a redevelopment the soccer bid could not have been successful and, conversely, without the Olympics, a redevelopment would not have occurred when it did. Further the Olympic bid heavily influenced the decision whether to proceed at all and had a bearing on the scale and nature of the redevelopment. The decision to redevelop the Stadium and to bid to host Olympic soccer were parts of the same Cabinet decision and supported by the same Cabinet submission (*Canberra – An Olympic City*). The link between the redevelopment and the soccer is described in *Report 4 – Decision to Redevelop the Stadium*.

4.78 In *paragraph 8* the Chief Executive summarises the Audit results. The summary is generally accurate, however, it does not make clear the important Audit findings that firstly, the \$45m expenditure on the Stadium does not represent value for money for the Territory, and

secondly, the net financial costs incurred in redeveloping the Stadium and hosting Olympic soccer far exceed the additional economic benefits likely to be generated.

4.79 The Chief Executive's response in *paragraph 9* states that the Audit's reports fail to acknowledge the real world limitations of the external Olympics timetable and that Canberra and the region now have a high quality Stadium. The Audit in various Reports has described the Olympics timetable and its potential effects were considered throughout the Audit and taken to account in forming all Audit opinions. In relation to the Stadium, what the redevelopment physically provided is fully described in *Report 2 – Value for Money*. The financial and wider economic effects of the redevelopment are fully described in *Report 3 – Costs and Benefits*.

### **Comments on Outcomes and Findings**

#### ***The Costs Incurred in Redeveloping the Stadium Do Not Represent Value for Money***

4.80 The Chief Executive's detailed response on the Audit's assessment of value for money is included in *Chapter 5* of this Report. The Audit has commented in detail on the Chief Executive's response and these comments are also included in *Chapter 5*. The Audit has examined each of the matters raised by the Chief Executive in his preceding comments and in his response in *Chapter 5*. The Audit's examination, however, has not caused the Audit to alter its opinion that expenditure on the redevelopment does not represent value for money for the Territory.

4.81 In reaching a view on value for money the Audit examined the relevant Cabinet decisions and submissions to identify the Government's intentions for the Bruce Stadium redevelopment and the expected costs. To ascertain whether value for money has been obtained from the expenditure on the redevelopment the Audit assessed the extent to which the Government's intentions have been achieved. The Audit also considered whether the costs to the Government have been consistent with the Government's planned cost for the redevelopment. Contrary to the Chief Executive's comment, the Audit's assessment of the achievements of the redevelopment project against the various stated objectives takes into consideration fitness for purpose, quality, policy objectives, benefits and costs.

4.82 The Audit’s review of Cabinet decisions and submissions and other documents revealed that the Government intended achieving various physical, commercial and economic outcomes through the redevelopment.

4.83 The Audit opinion is that although the physical outcomes have been achieved in the most part (with some being exceeded), the commercial and economic outcomes have not.

4.84 The redevelopment of Bruce Stadium, at a direct cost of almost \$45m, has delivered an attractive, modern stadium which offers spectators a level of comfort and general facility superior to that which existed before the redevelopment. The Audit does not dispute that the Stadium presents as a venue for top quality sport – it would be surprising if after expenditure of \$45m it did not do so. However, this does not in itself make the redevelopment value for money.

4.85 In *paragraph 7* of his comments the Chief Executive refers to the redevelopment’s cost per seat of \$1800 comparing most favourably with other Stadiums. The Audit’s view is that this comparison is not valid. The reasons are explained in detail in *Chapter 4 of Report 2 – Value for Money*.

4.86 The intended commercial outcomes were clearly very important to the decisions on the redevelopment, particularly expending large amounts on high quality facilities for corporate patrons and premium seating. The Chief Executive acknowledges that the commercial outcomes were not achieved, but comments that there is prospect for improvement in the medium term. The Audit notes that any improved financial performance (even to a break even point) will require the achievement of optimistic assumptions contained in the Stadium Authority’s budget, the termination of revenue guarantees to the major hirers and the write-off of the Stadium. The asset value of the Stadium has already been written down by more than \$14m. A further write-down will occur. This is an acceptance that Bruce Stadium has, and will have, no commercial value to the Territory.

4.87 The Chief Executive acknowledges that there was a significant increase in the costs of the project compared with initial estimates. The cost rose from \$27m to almost \$45m. One key objective was that the Stadium would be provided with the Government only contributing

\$12m. The Government has met the entire cost.

4.88 The Chief Executive's contention that value for money (the redeveloped Stadium) has been achieved can only be sustained if it is accepted that the Government's original objectives have been rewritten. The Government's original objectives were to acquire an asset at a cost of \$27m of which the Government would contribute only \$12m. What has been achieved is that the asset has been provided at a cost of \$45m and the Government has met all \$45m. If the original decision to redevelop was taken on the basis that \$12m to acquire the asset was a value for money decision, it is very difficult to see how expending \$45m to acquire the same asset is also value for money.

4.89 The Audit has not seen any evidence that the Government ever changed its objectives in relation to the redevelopment other than through agreeing, in December 1998, that the total cost would increase from \$27m to \$33.5m. It should be noted that this agreement was accompanied by a reconfirmation that the Government's contribution would be no more than \$12.3m.

***The Economic Benefits from Redeveloping and Operating the Stadium and Hosting Olympic Soccer are, and will be, Less than the Costs Incurred***

4.90 The Chief Executive's detailed response on the Audit's assessment of costs and benefits is included in *Chapter 6* of this Report. The Audit has commented in detail on the Chief Executive's detailed response and these comments are also included in *Chapter 6*. The Audit has examined each of the matters raised by the Chief Executive in his preceding comments and in his response in *Chapter 6*. The Audit's examination, however, has not caused the Audit to alter its opinion that the economic benefits from redeveloping and operating the Stadium and hosting Olympic soccer are, and will be, less than the costs incurred.

4.91 With relation to *paragraph 17* of the Chief Executive's response, as previously discussed under the heading 'General Comments', the redevelopment and hosting Olympic soccer were closely linked. The Olympic bid did not simply affect the timing of the redevelopment but heavily influenced the decision whether to proceed at all and had a bearing on the scale and scope of the redevelopment. Given the link between the redevelopment and Olympic soccer, it would be inappropriate not to include the costs and benefits of hosting Olympic

soccer in this Report. It is noted that the costs of hosting Olympic soccer are clearly and separately identified in the Report and that the benefits are similarly dealt with separately.

4.92 Also in *paragraph 17* the Chief Executive states that the ‘Audit’s calculation of the total cost of the redevelopment project does not make any provision for inflation’. In his response to *Report 3 — Costs and Benefits*, the Chief Executive says an adjustment for inflation would reduce the redevelopment cost from \$44.9m to \$43m. Such a view shows a misconception of how the redevelopment cost is, and should be, presented by the Audit. If the Chief Executive’s suggestion were to be followed, the redevelopment cost would be presented in 1996 dollars. This is an unnecessary and confusing adjustment in an assessment being made in 2000. As noted in *Report 3*, all future expenses and revenues have been discounted to present value (i.e. 2000-01) terms.

4.93 In relation to the Chief Executive’s third dot point in *paragraph 17* of his response, the Audit’s estimate of the net financial cost of future Stadium operations is, as the Chief Executive points out, subject to uncertainty about the future. This uncertainty is acknowledged in *Report 3*, which has taken an optimistic approach by basing its estimate on forward estimates contained in the Stadiums Authority’s budget. This optimism is reflected in the fact that the estimated cost in net present value terms for operations from 2001-02 to 2026-27 is only \$18m from a total net financial cost for the project of \$82m.

4.94 The Chief Executive in *paragraph 18* has stated that it is the Audit’s contention ‘that the presence of the Raiders and the Brumbies in the ACT give rise to no net economic benefit to Canberra and the region’. This is a misinterpretation of *Report 3*, which has concluded that the ‘net exports’ of the Raiders and the Brumbies ‘are significant’. The Report also notes that ‘Spectators obviously enjoy supporting their teams’. This is also a significant economic benefit. Further discussion of this matter, including references to relevant paragraphs in *Report 3*, is provided in the Audit’s concluding comments to *Chapter 6* of this Summary Report.

4.95 The Chief Executive states in *paragraph 18* that ‘There is a fundamental difference between the conduct of straight economic analysis and the more comprehensive assessments of overall costs and benefits which governments are required to make’. The implication is that the Audit has taken a narrow approach to assessing the benefits of

the redevelopment project. This is incorrect. As pointed out in *Report 3*, the Audit's view is that economic analysis goes beyond the financial interests of a particular individual or entity (such as a government or business) and attempts to include all of the financial and non-financial costs and benefits to the community from a project or policy. The Audit has considered all costs and benefits related to the redevelopment and hosting Olympic soccer which it believes are significant, including all those brought to its attention during the progress of the Audit or presented in official documents. If there are other matters which require consideration, they have not been brought to the attention of the Audit. The specific matters mentioned by the Chief Executive in his response have all been considered by the Audit.

4.96 The Audit agrees with the Chief Executive's concluding statement that 'Whether the benefits of the redevelopment of Bruce Stadium outweigh the costs is ultimately a matter for the people rather than Audit to determine'. The Audit believes that this Report serves a useful purpose in bringing together analysis and evidence which will assist the public and the Legislative Assembly to review the adequacy of advice on, and the implementation of, the Cabinet's decisions.

### **Actions Arising from the Audit**

4.97 The Chief Executive's *paragraph 21 to paragraph 23* list the actions which have been taken arising from the Audit. It is pleasing to see that these actions have been taken, or are being taken. The Audit is very willing to assist in any way it can in these matters.



## SECTION 2

### SUMMARIES OF DETAILED REPORTS

***Chapter 5 to Chapter 16*** of this Report are summaries of the detailed reports of the Audit. Readers should be aware that for a complete understanding of the content of the summaries it will be necessary to refer to the detailed reports.



## **5 VALUE FOR MONEY SUMMARY**

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### **INTRODUCTION**

5.1 The question of whether the costs incurred in redeveloping the Stadium represent value for money for the Territory is most important in the overall Audit assessment of the redevelopment project. The Audit examined a number of indicators of value for money, focusing on whether the improvements to the Stadium have produced, or will produce, the benefits intended. The Report also includes the outcome of the Audit's comparison of the redevelopment with some other stadiums.

5.2 The material in this Chapter is a summary of *Report 2 — Value for Money* and for a complete understanding should be read in conjunction with that Report.

### **AUDIT OBJECTIVE**

5.3 The objective addressed in this part of the audit was to provide an independent opinion to the Legislative Assembly on:

- whether the costs incurred in redeveloping the Stadium represent value for money for the Territory.

### **BACKGROUND**

5.4 The opening part of this summary provides background information on value for money considerations.

#### **What is Value for Money**

5.5 Value for money is a concept relevant to both the acquisition and delivery of goods and services. Put simply, value for money is concerned with achieving the best outcome for a given investment.

5.6 In the context of an acquisition, achieving value for money involves acquiring the most suitable (or effective) product – one which best meets the intended purpose and quality – in the most efficient and economic manner. It involves consideration of fitness for purpose, quality, risks and benefits. Value for money does not automatically mean

the ‘lowest price’.

5.7 Obtaining value for money is the overarching principle of government purchasing in the ACT. ACT Purchasing Policy and Principles note that:

‘... use of the value for money principle will assist agencies to evaluate offers and make a selection that achieves the best outcome in their purchasing activities. This is achieved when all costs and potential benefits associated with the purchase and use of a product or service are considered.’

5.8 ACT Purchasing Policy and Principles advise that when evaluating offers from suppliers, value for money consideration should be given to (among other things):

- ‘the ability of the product or service to meet ... technical and service level requirements’; and
- ‘the costs and benefits involved on a whole of life costing basis, through the calculation of net present values’.

5.9 Similarly, in an ‘after the event’ assessment of whether value for money has been achieved, such as in this Audit, it is necessary to evaluate the actual achievements against what was intended to be achieved and the actual cost of delivering the achievements against the planned cost.

## **INTENTIONS TO BE ACHIEVED THROUGH THE REDEVELOPMENT**

5.10 The Audit recognises that a need for improvements to Bruce Stadium existed. As a facility some thirty years old which had been upgraded in a piecemeal manner since its construction, the Stadium was generally in need of some improvement to ensure it continued to meet the needs of its users. The redevelopment was also the cornerstone of the Territory’s Olympic bid.

5.11 The Audit’s review of Cabinet decisions and submissions and other documents revealed that the Government intended achieving various physical, commercial and economic outcomes through the redevelopment.

## Physical Outcomes

5.12 The physical outcomes to be achieved were as follows:

- increasing permanent seating from 11,600 to 25,000 by installing new seats in a new ‘Inner Bowl’;
- achieving the increased seating by lowering the playing surface and reconfiguring the ground to specifically suit soccer and rugby (i.e. to a rectangular shape);
- placing the new seats closer to the play;
- installing 15,000 temporary sets specifically for the Olympic football competition;
- meeting minimum FIFA/SOCOG<sup>1</sup> requirements for holding Olympic soccer;
- meeting the needs of the major hirers;
- improving and increasing corporate facilities;
- upgrading spectator seating in all areas;
- increasing covered seating, including extending the West Stand roof ‘by 60% to improve spectator comfort’, and installing a roof on the redeveloped East Stand ‘similar in scale and proportion to the existing roof on the West Stand’;
- upgrading food and beverage facilities and toilet facilities; and
- installing a high resolution video replay board.

5.13 The estimated total cost of the redevelopment to deliver the physical outcomes was \$27m.

## Commercial and Economic Outcomes

5.14 The commercial and economic outcomes to be achieved were as follows:

- creating a commercially viable Stadium, thus removing the need for government subsidies;

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<sup>1</sup> Technical and physical venue requirements were specified by the Fédération Internationale de Football Association (FIFA) and the Sydney Organising Committee for the Olympic Games (SOCOG)

- containing the maximum cost to the Government for the redevelopment to \$12.3m;
- enhancing the profitability of the Stadium’s long-term hirers, thus keeping the hirers (principally the Canberra Raiders and ACT Brumbies) in Canberra; and
- generating economic benefits for the Territory from staging Olympic soccer.

## AUDIT OPINION

5.15 The Audit’s opinion on the value for money of the redevelopment project is:

- *the costs incurred in redeveloping the Stadium do not represent value for money for the Territory.*

## BASIS OF AUDIT OPINION

5.16 The Audit opinion was based on an evaluation of each of the intended outcomes referred to above. Where appropriate, the interrelationships between individual intended outcomes have been identified.

## ACHIEVEMENT OF INTENDED PHYSICAL OUTCOMES

5.17 The Audit assessed whether the Government’s intended physical outcomes have been achieved. The results of the Audit’s assessment are summarised in the following paragraphs.

### **Increasing Permanent Seating Capacity by Installing New Seats in an ‘Inner Bowl’**

5.18 A Government intention was that the redevelopment would increase the permanent seating capacity of the Stadium to 25,000. This was to be achieved by lowering the playing surface and reconfiguring the ground to a rectangular shape with the additional seating being installed within the perimeter of the previously oval-shaped arena.

5.19 The first stages of the redevelopment provided the additional seating using the method intended. The existing informal ‘seating’ on

grass banks was replaced by allocated seats installed in the Inner Bowl. As a result, the permanent (allocated) seating capacity has increased to about 24,600.

5.20 The Government's intentions concerning increased seating capacity have been met.

### **Placing New Seats Closer to the Play**

5.21 Submissions to the Cabinet advised that the new seating would be located 'closer to the play'. As previously described the method of providing space for the new seating in an Inner Bowl has ensured that this seating is closer to the field of play than the previously existing allocated seating. The Government's intention in this regard has been achieved.

### **Installing 15,000 Temporary Seats for Olympic Soccer**

5.22 A Government intention was to redevelop the Stadium with a capability for 15,000 temporary seats to be added specifically for Olympic soccer in 2000. The Government intended to purchase 'semi-permanent' seating from funds allocated to upgrade facilities at Manuka and Philip ovals, install the seating at Bruce Stadium for the Olympic soccer and afterwards relocate the seating to Manuka or Philip Oval.

5.23 Government executives became aware that the cost of the temporary seating would exceed the additional revenue the Territory could receive, even if the Olympic soccer games were sold-out. This was one factor that prompted officials to successfully negotiate in August 1997 with SOCOG to treat the redevelopment proposal included in the Olympic bid as a 'design concept' that could be varied provided minimum FIFA/SOCOG requirements were met.

5.24 The Government's intention to provide 15,000 temporary seats for the Olympic soccer tournament has not been met. However, this does not effect value for money considerations as the cost of the seats was not included in the estimated cost of the redevelopment and no significant costs were incurred.

### **Meeting Minimum FIFA/SOCOG Requirements for Olympic Soccer**

5.25 A Government intention of the redevelopment was that the redeveloped Stadium should meet FIFA/SOCOG requirements for Olympic soccer.

5.26 The redevelopment proposed in September 1996, and largely constructed, features a permanent Stadium seating capacity well in excess of FIFA/SOCOG requirements of 15,000 seats.

5.27 The Government's intention that the redevelopment meets FIFA/SOCOG requirements has been significantly exceeded.

### **Meeting the Needs of the Major Hirers**

5.28 A Government intention was that the redeveloped Stadium should meet the current and foreseeable future needs of the major hirers.

5.29 Hirers were involved during the early design of the redevelopment and had opportunities throughout the two years of the redevelopment to provide feedback formally or informally to government executives and the project manager. It is apparent that the major hirers have influenced some design changes during the project. The Audit has been advised by the hirers that the redeveloped Stadium generally meets their needs. The hirers have also advised that the number, size and quality of corporate facilities is excessive for the local market.

5.30 In the Audit view, the redevelopment has delivered a Stadium that more than meets the needs of the hirers.

5.31 The Government's intention concerning major hirers' requirements has been met.

### **Improvements and Increases to Corporate Facilities**

5.32 A Government intention was to increase substantially the number and quality of corporate facilities at the Stadium. Facilities for VIPs were to be upgraded generally. Initial expectations were that the number of corporate suites would increase from 32 (accommodating 440 patrons) to 56 (accommodating 728). Including open corporate boxes, 1,500 corporate seats would be available.

5.33 The Stadium facilities have been redeveloped, overall, to the Stadium's original concept which included to 'continually target the premium end of the market'.<sup>2</sup>

5.34 All corporate facilities have been upgraded to a high standard, and although the redevelopment has not resulted in the number of suites and boxes initially proposed, allocated corporate seating has almost doubled.

5.35 The Government's intention to upgrade the corporate facilities has been met.

### **Upgrading Spectator Seating in all Areas**

5.36 Although not clearly stated as a Government intention in the relevant Cabinet submission, the Olympic bid document indicated that all existing 'general' Stadium seating would be upgraded. During the redevelopment all existing seats were upgraded to the same standard as the new seats. This upgrade has aesthetically balanced the facility. The intention has been met.

### **Increasing Covered Seating**

5.37 A Government intention was that the redevelopment would significantly increase the number of covered seats. In September 1996, the Government advised SOCOG that it was intended that all seats in the Stadium would be under cover (i.e. an increase in covered seating from 3,600 to 25,000). Inconsistently, SOCOG was also advised that the West Stand roof would be extended by 60% and a new roof added to the redeveloped East Stand. The Audit estimates this would increase covered seating from 3,600 to about 10,000.

5.38 Actual covered seating has increased, largely through the addition of a roof to about half of the East Stand, from 3,600 to 5,200 (i.e. from about 14% of seating under cover to about 21%).

5.39 The Government's intention that covered seating be significantly

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<sup>2</sup> The project manager's successful proposal for selection as the project manager included this concept as a 'key philosophy' (CRI Second Stage Submission, 27 February 1997, p9)

increased has not been met.

### **Upgrading Food and Beverage Facilities and Toilet Facilities**

5.40 A Government intention was to upgrade food and beverage facilities and toilet facilities in the Stadium.

5.41 Additional facilities have been provided on the concourse level of the Stadium as part of the redevelopment of the West and East Stands. Other facilities have been included, such as sports-betting outlets. Concessions previously located behind the grass banks at the north and south of the ground have been relocated, making them more accessible to the Inner Bowl and terrace seating areas.

5.42 The government's intentions regarding food and beverage facilities and toilet facilities have been met.

### **Video Replay Board**

5.43 A Government intention of the redevelopment was to install a video replay board adjacent to the existing scoreboard.

5.44 The video replay board was not purchased during the redevelopment construction, but it has now been acquired, at a cost understood to be approximately \$2m.

5.45 The Government's intention that the redevelopment provide a video replay board has been met.

### **Reasonableness of Construction Cost**

5.46 In the light of concerns about the extent and cause of the significant increase in the cost for the redevelopment over the originally announced cost, the Audit sought an independent assessment by a qualified Quantity Surveyor. The Quantity Surveyor provided an assessment of whether the costs incurred were reasonable given the work undertaken and the conditions of contract.

5.47 The Quantity Surveyor concluded that the costs for the physical construction and associated works for the recent redevelopment were 'fair and reasonable'. This Quantity Surveyor's Report provides

assurance that the Territory did not pay for work that was not performed and was not overcharged for work or materials. It also offers assurance that claims by contractors for additional costs (such as for latent conditions, wet weather delays or acceleration claims) were consistent with the terms of the contracts.

5.48 The Quantity Surveyor's conclusion was qualified to an extent. The conclusion was reached after taking to account three important factors, namely, the procurement methods used, the terms of the contracts involved during the redevelopment, and the deadlines and other timing issues imposed on the project. Each of these factors was the subject of decisions by government executives, and each was at some cost to the redevelopment. This is discussed further in *Report 8 – Actual Costs and Cost Estimates*.

5.49 The Quantity Surveyor's conclusion that the costs for the physical construction and associated works were 'fair and reasonable' is not a complete assessment of value for money. It is an assessment of whether the costs incurred were reasonable given the work undertaken and the methods of delivery. Costs, however, are only one of a number of factors that contribute to value for money.

### **Conclusion on Achievement of Physical Outcomes**

5.50 The physical outcomes intended to be achieved have, in the most part, been achieved. Some intentions such as the major hirers' needs have been more than achieved. The intention to significantly increase covered seating has not been achieved. The Audit is satisfied that the total costs incurred in delivering the outcomes were reasonable given the procurement methods used and other factors which influenced the costs.

5.51 Given the \$45m final cost of the redevelopment it would be expected that the intended physical outcomes outlined would have been achieved.

5.52 In *Report 8 – Actual Costs and Cost Estimates* the Audit stated the following in its conclusion:

'It seems to the Audit that there was a commitment to the 'full' redevelopment being completed. In this regard, the main priority became to deliver the full Stadium redevelopment to the original design concepts including targeting 'the premium end of the

market’. Containing costs to the estimates advised to the Cabinet was a secondary objective.’

5.53 *Report 8 – Actual Costs and Cost Estimates* includes the Audit view that the completion of the full redevelopment was the major priority throughout the progress of the redevelopment construction. As this was the main continuing priority, it was unlikely that the Government’s intended physical outcomes would not be achieved.

## **ACHIEVEMENT OF COMMERCIAL AND ECONOMIC OUTCOMES**

5.54 The Government had commercial and economic outcomes that it intended to achieve through the redevelopment. The following comments are provided on the Audit’s assessments of whether these have been achieved.

### **Commercial Viability of the Stadium**

5.55 A Government intention was that the operations of the redeveloped Stadium would be commercially viable. It was an objective of the Cabinet that the redevelopment would improve the Stadium’s financial performance and create a new Bruce that would be, in the words of executives and consultants, ‘self-sustaining’, ‘commercially viable’ and ‘profitable’.

5.56 The Audit has reported in *Report 8 – Actual Costs and Cost Estimates* that the redevelopment’s project manager explained in their successful proposal for the redevelopment of the Stadium that the design brief was driven by a philosophy of ‘revenue maximisation’. The project manager added:

‘This means that management effort will go towards those income items which provide the highest economic benefit even though those items might also involve increased costs.

We recognise the important role that luxury seating will play in the success of the redevelopment of the new Bruce Stadium. With 56 luxury suites and 1,500 premium seating (*sic*), the Bruce Stadium will have the potential to generate a significant amount of indirect event income.’

5.57 The capital and operating revenue from corporate suites and premium seating was critical to the commercial success of the redevelopment project. Thus, the focus was on providing high quality corporate facilities, and the redevelopment proceeded accordingly. This focus was outlined in Cabinet submissions.

5.58 The economic, financial, and operational performance of the redeveloped Bruce Stadium is discussed in detail in *Report 3 – Costs and Benefits*. That Report concludes that the likely future for the redeveloped Stadium is a succession of operating losses. There is no serious prospect of the Stadium operating at a profit in the foreseeable future.

5.59 The financial performance of the redeveloped Stadium is significantly worse than it was before the redevelopment (the operating loss for the Stadium before abnormal items jumped from \$0.2m in 1995-96 to \$4.5m in 1998-99, and is estimated to be \$3.9m in 1999-2000). The Stadium as an entity is technically insolvent and the Territory is exposed to significant financial liabilities as it underwrites all of the operating losses of the Stadium. The Stadium has not been a commercial success and the first two years of operation have not provided any funds towards the construction cost of the redevelopment, as had been planned.

5.60 In 1998-99 in preparing financial statements for the Stadium, the value of the Stadium was written down from \$37.9m to \$23.5m, producing an operating loss after abnormal items of \$18.9m. It is likely that a further write down will occur in 1999-2000, resulting in another large operating loss. The write down of the value as a commercial Territory asset of Bruce Stadium is an acceptance that more has been paid for the redevelopment than is expected to be received from its use.

5.61 If the asset value of the Stadium is written off and the revenue assurance guarantees (see *Report 10 – Stadium Hiring Agreements*) to the major hirers are terminated in 2004, the Stadium should be able to operate at around break-even. This would return the Stadium to a similar financial position to that which it was in immediately prior to the redevelopment.

5.62 The Government's intention that the operations of the redeveloped Stadium were to be commercially viable has not been achieved and is unlikely to be achieved in the foreseeable future.

**Containing the Maximum Cost to the Government to \$12.3m**

5.63 The total amount intended to be appropriated as a capital injection for the redevelopment was \$12.3m. Consistently in documentation reviewed by the Audit, including Cabinet decisions and submissions, this amount is referred to as the Government's contribution to the project. Many documents give prominence to this amount as a fixed amount above which the Government would not contribute. The remainder of the cost was to be met from profits generated over time through sale of Stadium products and the Stadium's other operations.

5.64 The current or future financial performance of the Stadium will not produce the profits needed to recoup the costs of the redevelopment above the \$12.3m. To date the Government has met the whole cost of the redevelopment. Unless the operations of the Stadium can produce large profits in the future, this situation will remain unchanged.

5.65 It has been put to the Audit that obtaining private sector financing with which to meet the costs above the \$12.3m Government contribution would have contained the Government's contribution to \$12.3m. The intended source for the repayments of this financing was to be the profits of the Stadium. However, as no profits have been generated or are likely to be generated in the foreseeable future, the repayments would have had to be met by the Government. Therefore, even if private sector finance had been obtained, the Government would still have been required to meet the total cost of the redevelopment through its repayments of the finance raised.

5.66 The Government's intention to limit its maximum contribution to \$12.3m has not been met. The Government has met the entire cost.

**Enhancing the Profitability of the Stadium's Long Term Hirers Thus Keeping the Hirers in Canberra**

5.67 An intention of the Government to be achieved through the redevelopment was to enhance the profitability of the Stadium's long term hirers, thereby keeping them in Canberra.

5.68 The Government's intention was that the redeveloped Stadium's revenues would be increased dramatically by the introduction and sale of its new and upgraded facilities. The hirers would be able to share in the

increased revenues, enhancing their profitability, thereby keeping them in Canberra.

5.69 The sales results for the newly introduced and upgraded facilities have only reached a fraction of the increased revenues projected. The intended increased revenues have not materialised.

5.70 The Audit has not located, or been provided with evidence to support that either major hirer was planning to leave Canberra in the foreseeable future, or that the hirers were threatening to leave unless the Government proceeded with a redevelopment of the Stadium on the scale undertaken. This is discussed further in *Report 3 – Costs and Benefits*.

5.71 The profitability of the hirers may have improved recently. This, however, is likely to be as a result of the hirers' recent successes in their respective competitions rather than directly as a result of the redevelopment being constructed. The successes would have attracted patrons to use the redevelopment's new facilities. This would have added to the hirers' revenues and it may be argued that the existence of the facilities generated the additional revenues. In the Audit view, however, it is unlikely that there would have been the additional patrons to buy the facilities if the successes had not been achieved. On this basis the physical redevelopment, of itself alone, has not enhanced the profitability of the hirers to a significant extent.

5.72 The achievement of the Government's intention that the redevelopment has kept the major hirers in Canberra cannot be assessed, as there is no reliable evidence that, without the redevelopment as constructed, the hirers would have left Canberra.

### **Generating Economic Benefits for the Territory from Staging Olympic Soccer**

5.73 An intention of the Government to be achieved through the redevelopment was to generate economic benefits for the Territory from hosting Olympic soccer.

5.74 The benefit from hosting Olympic soccer was estimated by the Government in 1996 to be \$20m. In 1998, the estimated net benefit ranged from \$11m to \$15m. These estimates were founded on high estimates of attendance and high average spending by visitors.

5.75 The economic benefits arising from the redevelopment and hosting Olympic soccer are discussed in *Report 3 – Costs and Benefits*. The Audit considers the benefits are much smaller than was estimated when it was decided to redevelop the Stadium. For example, it is unlikely that Olympic soccer and the Bruce Stadium redevelopment have stimulated other commercial activity (i.e. decisions to invest in the ACT, or to buy goods and services made in the ACT). The Audit considers the effect of hosting Olympic soccer in Canberra on tourist arrivals before and after the Olympics appears to be marginal. The Audit has estimated that the total expenditure by interstate and international Olympic soccer spectators will be less than the ACT Government’s guaranteed payment to SOCOG of \$5.3m.

5.76 In the Audit view the Government’s intention will not be met as the net economic benefits generated for the Territory from hosting Olympic soccer will not be significant.

### **Conclusion on Achievement of Commercial and Economic Outcomes**

5.77 The Government’s intentions for the redevelopment included commercial and economic outcomes. The Audit considers that three of the four intentions identified have not, and are not likely, to be achieved. The fourth benefit (i.e. retention of the major hirers) cannot be assessed.

### **Components of the Redevelopment**

5.78 In order to clarify the expenditure on the redevelopment which will not generate value for money the Audit analysed the components of the redevelopment construction. The Audit considers it appropriate to view the redevelopment as comprising two components, namely:

- installation of additional allocated seating and associated sporting facilities; and
- upgrading existing ‘general’ seating and facilities including upgrading and expanding corporate facilities.

5.79 This approach is consistent with the Government's intentions regarding the Stadium.

5.80 The first component, the additional allocated seating and associated upgrade of sporting facilities, includes the cost of removing and excavating the then existing playing field, preparing the new field, constructing the inner bowl facilities, installing seats, changing sporting facilities for players and officials and improving other facilities to meet hirers' requirements. Most of the works involved were within the first two of the four major construction contracts for the redevelopment. The works included in this component of the redevelopment met the FIFA/SOCOG requirements.

5.81 The Audit's estimate of this component's costs includes a proportionate share of other design and construction costs (such as design, administration, project management expenses) and the costs of other construction activities directly related to the inner bowl works (such as the extension of Braybrooke Street to allow the dumping of spoil from the excavated playing field). It also includes a proportionate share of the cost of the video replay board. The estimated costs total about \$16.0m.

5.82 The second component, the upgrade of existing seating and facilities, involved upgrading all other seating and facilities in the Stadium. This included substantially upgrading and expanding corporate facilities (suites, open boxes, lounges and kitchen facilities). Corporate seating almost doubled to 1,070 patrons. This component of the redevelopment also upgraded existing general seating (about 10,400 seats) and facilities. Existing seats were replaced by more modern seats, roofing was provided to about half of the East Stand, and new concessions and toilet facilities were constructed in each of the Stands.

5.83 The second component of the redevelopment was in most respects constructed to achieve the intended commercial outcomes from the Stadium. In total, upgrading existing seating and facilities cost about \$27.7m. Of this, the larger part was incurred to provide the infrastructure necessary for the corporate facilities.

5.84 In summary, of the total \$45m expenditure on the redevelopment, \$16m was for the installation of the additional seating and associated sporting facilities. Significantly more (exceeding \$27m) was expended

on the upgrade of existing facilities of which the larger part was on the infrastructure necessary for the provision of high quality facilities designed to target the premium end of the market.

## **CONCLUSIONS**

5.85 The redevelopment of Bruce Stadium, at a direct cost of almost \$45m, has delivered an attractive, modern Stadium which offers spectators a better level of comfort and general facility than existed before the redevelopment. The Stadium is, in several important respects, better than many in Australia. This was one of the Government's intentions from the Stadium redevelopment.

5.86 Important Government intentions included that a commercially viable entity would be created as a result of the redevelopment, and that the Government's contribution to the redevelopment cost would be no more than \$12.3m. Neither intention has been achieved.

5.87 There is also little evidence to suggest the Territory has received any substantive economic benefit from the redevelopment. From an economic perspective, the overall benefits from redeveloping the Stadium are much smaller and the costs are much larger than was believed when the decision to redevelop the Stadium was taken. No significant additional economic benefits for the Territory have been identified by the Audit which would offset the significant financial costs.

5.88 The redevelopment has provided substantial improvements to corporate facilities, which are available to only a small proportion of the Stadium's potential patrons. Although consistent with the 'philosophy' behind the redevelopment, this has not proven to be successful; the supposed 'increased earning power of a modern Stadium', through the quantity and quality of its premium facilities, has not been realised.

5.89 The cost of providing the redevelopment's premium facilities has been high. This cost would constitute value for money if the facilities were to generate the large profits envisaged. This, however, has not occurred, and in the Audit's view, will not occur in the foreseeable future. Both the major hirers of the Stadium have confirmed to the Audit that the number, size, and quality of the corporate facilities is excessive for the local market.

5.90 On the basis that the high quality facilities have not generated the profits intended, the Audit view is the expenditure on the facilities cannot be regarded as value for money.

5.91 The Audit concludes, in an overall sense, that the costs incurred in redeveloping the Stadium do not represent value for money for the Territory. This conclusion is due to the level of expenditure on premium facilities and associated infrastructure.

5.92 In summary most of the Government's intended physical outcomes have been delivered. In contrast, the Government's intention to create a commercially viable Stadium, which would pay for these physical outcomes through the revenues it would generate, has not been achieved. The Audit's view is that none of the cost of the redevelopment will be recouped from future profits. On this basis, the \$45m expenditure has not provided, in a commercial sense, the value for money which the Government intended when it commenced the redevelopment. If the Audit's assessment of the Stadium's likely financial performance is reasonably accurate, the expenditure of the \$45m has not provided commercial value for money. The Audit's view is that the Stadium cannot reasonably be considered as having significance as a commercial asset for the Territory.

5.93 The redeveloped Stadium undoubtedly has a significant community asset component. The Government's intention was to contribute \$12.3m to the costs of the redevelopment and this could reasonably be construed as the amount which the Government was prepared to pay for the community component of the asset. If this is accepted, the expenditure which the Government has actually met above \$12.3m (i.e. some \$33m) could be regarded as not producing the value for money intended by the Government when it commenced the redevelopment. That is, the Government has paid almost \$45m for a community asset for which it intended to pay \$12.3m.

## **DEPARTMENTAL RESPONSE**

5.94 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 2 – Value for Money*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister's Department for his consideration and comments. The Chief Executive's response is set out following. It is also included in the

detailed *Report 2*.

5.95 Readers should note that the Chief Executive's response was made in respect of detailed *Report 2* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit's summary of detailed *Report 2*.

1. *“This stated aim of this report is to determine whether the costs incurred in redeveloping Bruce Stadium represent value for money for the Territory. The Audit conclusion that the outcome does not represent value for money is not supported by a reasonable review of the evidence.*

2. *The argument in this report essentially proceeds from the premise that the provision of corporate facilities was excessive and that these facilities will not yield the expected levels of revenue to make the Stadium a viable commercial operation. Both these propositions can be accepted without prejudicing an overall conclusion that the redevelopment represented overall value for money.*

3. *The scale of corporate facilities does clearly exceed current demand, except for occasions such as finals and similar events. In debate is the degree of over-provision, and whether revised marketing and pricing strategies may overcome this imbalance. What is clear, however, is that such initial over-provision is preferable to the future cost of retrofitting such facilities as occurred at the Sydney Football Stadium.*

4. *The conclusion that revenue targets have not been met is correct at least for the present. However, revenue for areas such as naming rights sponsorship and hire of corporate facilities can be expected to increase in the future, while the revenue guarantees provided to the major hirers finishes in 2004. Audit has acknowledged that beyond that point the stadium should be able to at least break even.*

5. *The report uses the concept of value for money as identified in the recently developed ACT Government Purchasing Policy Principles and Guidelines. The Guidelines state that achieving value for money involves acquiring the most suitable (or effective) product – one that best meets the intended purpose and quality — in the most efficient and economic manner. It therefore involves consideration of many aspects including fitness for purpose, quality, policy objectives, risks, costs and benefits.*

6. *Clearly, value for money does not automatically mean the lowest price. Nevertheless, the bulk of the report focuses on cost issues.*

7. *The report acknowledges that there was a need for improvements to Bruce Stadium. The Government's key objective in the Bruce Stadium redevelopment was to provide a quality Stadium initially to host Olympic Football in 2000 but also to meet the needs of the major hirers and people of the region in the years to come. There is no doubt that this has been achieved. As I observed in my comments on the report on Costs and Benefits, Canberra and the region now has a high quality, high profile 25,000 all-seat sports and entertainment venue that will be of great value for many years.*

8. *In addition, the Quantity Surveyor appointed by Audit has confirmed that the costs for the physical construction and associated works were 'fair and reasonable'. In other words, the Territory got what it paid for, at least in a construction sense. The report agrees that the redeveloped Stadium offers spectators a level of comfort and general facility superior to that which existed before the redevelopment. There has been significant improvement to facilities for general patrons. All patrons now have a seat, new seats have been installed in the entire Stadium. Sight lines for all spectators have also improved significantly. The lowering of the pitch means that all action on the playing surface can be seen by all spectators.*

9. *There has also been a substantial improvement in amenities such as access, concessions, and toilet facilities for all spectators attending the Stadium. Canteen facilities now serve a range of both hot and cold foods. Toilet and other amenities are now more easily accessible. There is improved disabled access including wider aisles.*

10. *Regrettably, in its assessment of these outcomes, the report adopts a relentless "glass half empty" approach.*

11. *For example, the report lists the ten physical objectives which were to be achieved by the redevelopment and concludes that these outcomes have "mostly" been achieved. In fact, eight of the ten objectives was either met or exceeded, one objective (the provision of additional temporary seating) was discarded, thus achieving a substantial cost saving, while the remaining objective of "increasing covered seating" can also be argued to have been achieved within the limits of the available project budget. The number of covered seats was increased from 3,600 to 5,200 or 44%. In short, the Audit conclusion substantially understates the actual outcomes.*

12. *In cost per seat terms, the essential argument of the report is that while the new inner bowl seats represent very good value for money at about \$1,210 per seat, the remainder of the stadium, including the corporate facilities is not good value at about \$2,420 per seat on the basis that these corporate facilities will not yield the expected revenue levels. The new inner bowl of the stadium provides about 13,000 seats, while the balance of the stadium provides about 11,500, of which only 1,070 are in the corporate facilities.*

13. *On an overall basis, the cost per seat – using Audit’s assessment of costs – is \$1,800. The report concedes that this compares most favourably with other stadiums, with cost of the all-new Stadium Australia being \$4,109 per seat.*

14. *The approach adopted in the report to benchmark the costs of the Bruce Stadium redevelopment is also questionable. All stadiums differ significantly in terms of design, features and inclusions, cost and usage. There are also differences in the demographic characteristics of the region the stadium will service.*

15. *While acknowledging that comparisons with other stadiums are difficult, the report chooses to benchmark the redevelopment of Bruce Stadium with North Power Stadium at Gosford — an area with a very different economic and demographic mix. While the report argues that the outcomes of such a comparison should be seen as indicative rather than conclusive, the analysis is then used to support the report’s conclusions.*

16. *In making the comparison with North Power Stadium it is worth noting that:*

- *North Power is a new stadium built on a green field site whereas Bruce Stadium had to be worked within an existing structure and infrastructure;*
- *North Power only provides seating to 3 sides of the stadium whereas Bruce Stadium has a total stadium providing seats all around the playing stadium;*
- *the gross floor area of Bruce is approximately 10,000sqm whereas North Power Stadium is 7,200sqm including concourse, concessions, toilets, lounges, boxes, change facilities etc;*
- *Bruce Stadium had 26 boxes (8.5mx4m) and 20 boxes (10mx4m) whereas North Power has 40 boxes (4mx3.6m). Bruce Stadium boxes are fully fitted out whereas North Power boxes are shell only;*

- *Bruce Stadium has 25,000 seats and North Power had 20,000 seats;*
- *North Power does not provide the same catering/kitchen facilities as those provided at Bruce Stadium. North Power has simple kitchen facilities with no comparable facility for hot food;*
- *Bruce Stadium's east stand roof had to be sympathetic with the west stand roof. It cannot therefore be compared with North Power's simple canter-levered roof structure.*

17. *Although this is not exhaustive list, it nevertheless indicates the significant limitations of the comparison undertaken and presented in the report.*

18. *Hindmarsh Stadium in Adelaide could be cited as a more relevant comparison. Hindmarsh cost \$30m, some \$5m over the original budget. The development was done in two stages, the first which provided a 5,500 seat grandstand and the second which was conducted to bring the stadium up to the minimum standards expected by SOCOG/FIFA for Olympic soccer. The seating capacity increased from 3,000 seats (capacity of 12,000) to a seated capacity of 15,000 (5,500) under cover. This equals the minimum requirements set by FIFA. The cost per seat of this development was \$2,000.*

19. *In determining value for money, the report also includes an assessment of the costs and benefits of hosting Olympic football. As has been argued in response to other reports, the inclusion of such costs is not a valid charge on the redevelopment, while Audit's assessment of the limited economic benefits of this event are substantially understated and short term in nature. These issues are addressed in more detail in my response to Report No. 4.*

20. *Similar observations can be made in relation to the assessment of the overall costs and benefits of the redevelopment which are addressed in Report No. 3.*

21. *In summary, on the plus side, the redevelopment of Bruce Stadium achieved an outcome which is fit for purpose — in fact — a high standard modern stadium which will remain a valuable asset for the Territory for many years. In terms of cost of construction, value was achieved. The construction objectives were met. On a cost per seat basis, the outcome compares most favourably with other stadiums. On the negative side, the failure of the financial model meant that the construction cost was met entirely by the Territory, while there was a significant increase in the*

*final cost, compared with initial estimates. The commercial objectives of the redevelopment also were not achieved, although there is some prospect of this position improving in the medium term.*

22. *Coming to an overall assessment depends ultimately on what you consider to be more important – failure of aspects of the processes used in the redevelopment, or an overall assessment of the outcomes. In my view the clear and continuing success of the Stadium itself as a venue for top quality sport, and the wider social and economic benefits to be derived from the redevelopment represent an outcome that can be considered “value for money”.*

## CONCLUDING COMMENT

5.96 The Chief Executive’s response to the Report identifies various issues for specific comment. The Audit’s view on these issues is discussed in the following paragraphs.

5.97 In *paragraph 1* the Chief Executive comments that the Audit’s conclusion that the outcome of the redevelopment does not represent value for money is not supported by a reasonable review of the evidence. The response then goes on to identify various factors which lead to the Chief Executive’s view. The Audit has examined each of the factors identified by the Chief Executive. The Audit’s response to each are set out in the following paragraphs. In summary the Audit’s examination has not caused the Audit to alter its opinion that the expenditure on the redevelopment does not represent value for money for the Territory.

5.98 The Chief Executives’ comment at *paragraph 3* regarding the cost of ‘initial over-provision’ assumes that the demand for the excessive facilities will eventually rise to meet the over-supply. The Audit notes that on current performance, this situation is likely to be many years off, if ever. The Chief Executive’s assumption ignores the opportunity cost of the expenditure and defies sound planning concepts – a factor that was an evident deficiency throughout the redevelopment.

5.99 The response discusses, at *paragraph 4*, various matters regarding the Stadium revenues. As pointed out in *Report 3 (paragraph 3.63)*, the Audit’s estimate for the Stadium’s future financial performance is based on the optimistic assumptions contained in the Stadium Authority’s budget. This includes, among other things, annual revenue

from naming rights of \$500,000, rising to \$550,000.

5.100 For the Stadium to break even after 2004 requires not only that the revenue guarantees to the major hirers are terminated, but also that the non-current assets of the Stadium Authority are written off; i.e. an acceptance that Bruce Stadium has, and will have, no commercial value to the Territory. If the Stadium is not written off the Stadium will continue to operate at a loss.

5.101 The Chief Executive's response at *paragraphs 5 and 6* reflects a narrow interpretation of the analysis undertaken by the Audit, and reported across eleven separate reports, each dealing with a discrete 'auditable area', and a summary report. Contrary to the Chief Executive's comment, the Audit's assessment of the achievements of the redevelopment project against the various stated objectives takes into consideration fitness for purpose, quality, policy objectives, benefits and costs.

5.102 The Chief Executive in *paragraph 7* states that the 'key' objective of the redevelopment was to provide a quality Stadium initially to host Olympic soccer but also to meet the needs of the major hirers and people of the region in the years to come. This was undoubtedly an objective, however, the Cabinet decision to redevelop the Stadium set out other key objectives. These are identified in this Report and in *Report 4 – Decision to Redevelop the Stadium*. One key objective was that the Stadium would be provided with the Government only contributing \$12m. The actual contribution was \$45m.

5.103 *Paragraph 8* of the Chief Executive's response refers to the conclusion of the Quantity Surveyor appointed by the Audit to assess the reasonableness of the construction costs. This matter is discussed further in *Report 3 (paragraphs 1.49-52)*. The Chief Executive correctly acknowledges that the Quantity Surveyor's conclusion 'contributes to an overall assessment' regarding value for money. However, as pointed out by the Chief Executive, an assessment of value for money must consider more than costs. The Chief Executive's contention that 'the Territory got what it paid for' is correct as far as it goes. The Audit's view is that what the Territory got and paid for was more than it needed. The cost the Territory paid was well in excess of expectations. To use a simple analogy, the Territory has acquired a 'luxury coach', when a 'people mover' would have satisfied the purpose.

5.104 The Report acknowledges that the redeveloped Stadium is an attractive modern Stadium with significantly improved levels of comfort, facility and quality. This is particularly so for the relatively small number of patrons who enjoy the corporate facilities. ‘Inner Bowl’ patrons are also more comfortable and closer to the playing field than if they had been on the grass banks on the outer of the ‘old’ Stadium. However, as the Report discusses, the redevelopment has not offered substantive improvements for the vast majority of the Stadium’s pre-existing 11,600 seats. The major improvement to existing seating in the East Stand is a roof covering just over half of the seating, but for most existing seating in the West Stand and the Terraces the improvement is little more than the physical seat itself.

5.105 The Chief Executive comments in *paragraph 11* on the extent to which the redevelopment has met the physical outcomes the Cabinet intended to be achieved. This is discussed in detail in the Report. It is clear that most physical outcomes were met with some being exceeded. The objective of providing 15,000 temporary seats was an unequivocal objective of the redevelopment. The idea was not abandoned until April 1999, shortly before the practical completion of the redevelopment. By this time, plans were still under consideration to provide the temporary seating, and some work had occurred in preparing design options, notwithstanding that SOCOG had agreed in 1997 that the Stadium design could be varied as long as the FIFA/SOCOG requirements were met.

5.106 Whether abandoning the concept of temporary seating resulted in a cost saving is debatable. The idea was never going to be cost effective (as discussed in *Report 3 – Costs and Benefits*) and had not been included, at any stage, in the cost estimates for the redevelopment. Any expenditure on the temporary seats would have been in addition to the project budget (Cabinet had agreed to provide an additional \$4.4m for the seats out of the \$8m set aside for the upgrade of Manuka/Philip Oval, but this was not drawn upon). However, the revenue guaranteed to SOCOG from ticket sales for the Olympic soccer is based on a total Stadium capacity which includes the temporary seating. The decision to include temporary seating in the design, or alternatively, the failure to abandon the concept at an earlier stage, has undoubtedly led to increased costs.

5.107 The Chief Executive also argues in *paragraph 11* that the objective of increasing covered seating has been achieved. This is not accepted.

5.108 The number of covered seats has indeed increased from 3,500 to 5,200, or by 44%, as the Chief Executive points out. As a percentage of total capacity, the increase is less significant (14% to 21%). The under-cover seating includes 1,070 corporate seats. Only 18% of general seats are under cover. In September 1996 Cabinet was advised, twice, that the redeveloped stadium would be fully covered. Based on this advice – and the fact that no further mention of the extent to which the Stadium would be covered was conveyed to the Cabinet — the Cabinet could reasonably expect to find covered seating substantially increased; i.e. well beyond 21% of seating. Although the advice to the Cabinet was incorrect, the design changes proposed for the redevelopment would have covered about 10,000 seats. Further, the design consultant — Graf Consulting — expected about 12,000 seats would be covered.

5.109 Covered seating in the redeveloped Stadium has clearly not reached these levels. Covered seating is clearly a value-added aspect of the Stadium facilities – covered seating attracts a revenue premium and is a benefit well recognised by patrons. It is worth noting that one of the major hirers has commented that the under-cover seating at the Stadium is insufficient. The Audit considers the under achievement regarding covered seating is significant.

5.110 The Chief Executive discusses construction cost per seat in *paragraphs 12 and 13*. The Report discusses this issue in detail in *Report 2 (Chapter 4)*. The Audit considers the treatment appropriate and reasonable. It reflects the fact that the redevelopment started with a functional sporting facility valued at \$10m. It also reflects the nature of the staged works and the physical outcomes.

5.111 The Audit's estimates of the cost of providing the inner bowl and associated sporting facilities, which met FIFA/SOCOG requirements and largely met those of the major hirers, shows that this work was comparatively inexpensive. Upgrading the remaining facilities, however, was an expensive process that provided facilities excessive to requirements and unlikely to generate predicted revenue levels.

5.112 The Audit considers it is not appropriate to apportion the cost of

the redevelopment across the total capacity to derive an average cost per seat. The resultant average cost from this approach is deceptive and implies a total redevelopment of the Stadium. It may even have been appropriate to calculate the cost based only on the increase to the seating numbers the redevelopment provided – this would reveal a cost per additional seat of around \$3,300.

5.113 The Audit has acknowledged that comparisons with other stadiums are difficult and, in many respects, subjective, as noted in *Chapter 3 of Report 2*. The differences between Bruce and NorthPower stadiums that the Chief Executive highlights in *paragraphs 16 and 17* are identified in the Report.

5.114 The Chief Executive raises Hindmarsh Stadium in Adelaide as a more suitable stadium for comparative purposes (see *paragraph 18*). The Audit considered Hindmarsh Stadium but decided against its use as that stadium was itself the subject of an audit by the South Australian Auditor-General apparently due to cost overruns. The Audit understands that the report of the South Australian Auditor-General will be available shortly.

5.115 In *paragraph 19* of the response, the Chief Executive refers to the Audit's assessment of the costs and benefits of hosting Olympic football and states that inclusion of these costs is not a valid charge to the redevelopment. The Audit does not accept this view. The issue is addressed in detail in *Report 4 – Decision to Redevelop the Stadium* and *Report 3 – Costs and Benefits*. The decision to redevelop the Stadium was linked to the decision to host Olympic football; it would therefore be inappropriate not to include the costs and benefits of hosting Olympic football in reaching a view on value for money. It is noted that the key objective for the redevelopment set out by the Chief Executive in *paragraph 7* of his response includes hosting Olympic football. Simply put, the Audit has considered, in reaching a view on value for money, all significant costs and benefits related to the redevelopment and hosting Olympic football, including all presented in official documents or brought to notice during the progress of the Audit. The results of the Audit analysis – that the benefits of the redevelopment project are less than the costs — are presented briefly in *Report 2* and in detail in *Report 3*.

5.116 The Chief Executive concludes, at *paragraph 22*, that an assessment of value for money 'depends ultimately on what you consider

to be more important – failure of aspects of the processes used in the redevelopment, or an overall assessment of the outcomes’. The Audit addressed the achievement of the intended physical and commercial outcomes of the redevelopment. The Audit opinion presented in this Report is that although the physical outcomes have been achieved in the most part, the commercial outcomes have not. The intended commercial outcomes were clearly very important to the decisions on the redevelopment, particularly expending large amounts on high quality facilities for corporate patrons and premium seating. Because of the outcomes which were achieved the Audit comprehensively addressed the failures in processes. It is the failures identified in the processes which led to the outcomes. The outcomes and the processes cannot be separated.

5.117 The Chief Executive goes on to comment that the outcomes of the redevelopment represent value for money because of ‘the clear and continuing success of the Stadium itself as a venue for top quality sport, and the wider social and economic benefits to be derived from the redevelopment’. The Audit does not dispute that the Stadium presents as a venue for top quality sport – it would be surprising if after an expenditure of \$45m it did not do so. However, this does not in itself make the redevelopment value for money. Further, the Audit’s analysis of the overall costs and benefits of the redevelopment project, including hosting Olympic football, reveals economic benefits which are significantly smaller than the net financial cost to the Territory of \$82m. In Audit’s opinion, it is difficult to see how this can be value for money.

5.118 Each of the matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive’s response they were reconsidered. The Audit conclusion is that the content of the Chief Executive’s response does not change the Audit’s opinion.

## **6 COSTS AND BENEFITS SUMMARY**

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### **INTRODUCTION**

6.1 The decision to redevelop the Stadium was linked to the decision to host Olympic soccer matches in Canberra in 2000 (see *Chapter 7* of this Report and *Report 4 – Decision to Redevelop the Stadium*). Distinguishing between the costs and benefits of the two decisions is therefore difficult. For example, it is hard to determine what part of the cost of the Stadium redevelopment should be considered as an Olympic cost. As a result of the link between the redevelopment and hosting Olympic soccer the Audit included both in its review of costs and benefits.

6.2 This Report includes both economic and financial analyses. These are quite different. Economic analysis goes beyond the financial interests of a particular individual or entity (such as a government or business) and attempts to include all of the financial and non-financial costs and benefits to the community from a project or policy. A financial analysis is one part of an economic analysis.

6.3 The material in this Chapter is a summary of *Report 3 – Costs and Benefits* and for a complete understanding should be read in conjunction with that Report.

### **AUDIT OBJECTIVE**

6.4 The objective being addressed in this part of the Audit was to provide an independent opinion to the Legislative Assembly on:

- whether the economic benefits from redeveloping and operating the Stadium and hosting Olympic soccer are, or will be, greater than the costs incurred in redeveloping and operating the Stadium and hosting Olympic soccer.

### **AUDIT OPINION**

6.5 The Audit's opinion on the costs and benefits of redeveloping and operating the Stadium and hosting Olympic soccer is:

- *the economic benefits from redeveloping and operating the Stadium and hosting Olympic soccer are, and will be, less than the costs incurred in redeveloping and operating the Stadium and hosting Olympic soccer.*

## BASIS OF AUDIT OPINION

6.6 The Audit opinion was based on the following findings and associated comments.

6.7 The Audit estimates that the net financial cost for all direct aspects of the redevelopment and Olympic soccer over the life of the project will be \$82m. The net financial cost includes all revenues from operating the Stadium and hosting Olympic soccer. The composition of this estimate is shown in *Table 6.1*. The Audit believes that its estimate of the net financial cost is conservative.

**Table 6.1 — The Net Financial Cost of Redeveloping and Operating the Stadium and Hosting Olympic Soccer**

	Amount \$m
Redeveloping the Stadium 1997-98 to 1999-2000	45
Operating the Stadium from 1998-99 to 2000-01	5
	<hr/> 50
Operating the Stadium from 2001-02 to 2026-27	18
<b><i>Total Net Cost of the Stadium</i></b>	<b><hr/>68</b>
Hosting Olympic Soccer	14
<b><i>Total Net Cost</i></b>	<b><hr/>82</b>

6.8 The Audit has not included in its estimate of the net financial cost a net present valuation of future costs and revenues that would have occurred if the Stadium had been maintained at the minimum standard required by the hirers. The Audit has concluded that taking these foregone costs and revenues into account would not significantly alter the Audit’s estimate of the net financial cost.

### Redeveloping the Stadium

- *The total direct financial cost to the Territory of the redevelopment is approximately \$45m.*

***Audit Comment***

6.9 In summary the cost of the redevelopment is made up of:

- \$41.7m for design and construction; furniture, fittings and equipment; and purchase of a video replay board;
- \$2.5m in related off-site works and the relocation of the Australian Sports Commission; and
- \$0.8m in various departmental costs incurred during the period of the redevelopment construction including financing, management, legal and other costs.

**Stadium Operating Costs**

- *The cash subsidy for operating the Stadium from 1998-99 to 2000-01 is \$5m.*
- *The net present value of cash subsidies from 2001-02 to 2026-27 is estimated to be \$18m.*

***Audit Comment***

6.10 For the purpose of estimating the operating costs reported above, the Audit has deducted depreciation and lease payments for the new video replay board as these are accounted for in the financial cost of the redevelopment reported earlier.

6.11 The estimated net present value of future operating subsidies of \$18m is subject to uncertainty, unlike the figure for total payments to 30 June 2001. The Audit considers its estimate is reasonable, based on the analysis presented in *Report 3 — Costs and Benefits*. Given inherent uncertainty about the future, the actual results may differ.

**Hosting Olympic Soccer**

- *The direct net financial cost to the Territory of hosting part of the Olympic soccer tournament, arising from the memorandum of understanding with SOCOG, is currently estimated by the Audit to be around \$14m assuming that attendance averages about 75% for every event.*

***Audit Comment***

6.12 In summary the \$14m cost consists of net payments for various goods and services required by the memorandum of understanding signed with SOCOG for the right to host Olympic soccer. The figure of \$14m is arrived at by subtracting revenue from ticket, suite and box sales of \$5.1m, from total financial costs of \$19.1m. The revenue figure is based on a scenario of average attendance for each of the six sessions of Olympic soccer of 17,160 (75% of Stadium capacity).

**Economic Benefits**

- *The benefits from the redevelopment and Olympic soccer appear small relative to the financial cost.*

***Audit Comment***

6.13 The total financial cost of redeveloping and operating Bruce Stadium and hosting Olympic soccer is about \$64m by 30 June 2001, and about \$82m in present value terms over the life of the project.

6.14 To put these financial costs in perspective the Audit has compared them with the wider economic benefits to the ACT community which have been, or will be, generated from the redevelopment and hosting Olympic soccer.

6.15 The Audit has been unable to identify that any comprehensive assessment of the benefits to the ACT community from the redevelopment and Olympic soccer was undertaken. As no comprehensive assessment exists the Audit made its own assessment.

6.16 The Audit's work is not a full cost-benefit analysis. However, the major costs and benefits which should be addressed in such an analysis have been identified and considered by the Audit. The Audit has made a preliminary assessment of the benefits based on the application of general economic principles and readily available information.

6.17 Three broad types of income benefits which could be generated by the redevelopment and hosting Olympic soccer have been identified. The Audit has assessed the likely value of these income benefits to be small. In particular:

- any stimulus to the economy from Territory expenditure on redeveloping the Stadium and hosting Olympic soccer is likely to be small, since the money spent by the Territory for these purposes has been, or will be, at the expense of other public or private activities;
- additional ‘net exports’ to other parts of Australia or overseas as a result of improving facilities for the major hirers and through hosting Olympic soccer are likely to be small; and
- the promotional benefit to the Territory from the Stadium redevelopment and Olympic soccer is likely to be small.

6.18 It should be noted that the income effects of other Olympic activities, such as pre-games training in Canberra by some Olympic teams, have not been assessed by the Audit as these activities are not part of the Stadium redevelopment and do not arise directly from hosting Olympic soccer. This is consistent with the approach taken by the Audit of excluding costs incurred by the Territory in conducting Olympic activities, which are not directly connected with hosting Olympic soccer, from the Audit’s estimate of the net financial cost presented in *Table 6.1*.

6.19 Two broad types of consumption benefits which could be generated through redeveloping the Stadium and hosting Olympic soccer have been identified. The Audit has assessed the likely value of these consumption benefits to be small. In particular:

- the consumption benefit from improved facilities at the redeveloped Stadium, over and above the benefit already derived from the old Stadium, or already taken to account in the Audit’s estimation of the net financial cost, is small; and
- the consumption benefit from hosting Olympic soccer, over and above the benefit already taken to account in the Audit’s estimation of the net financial cost, is small.

6.20 During the conduct of the Audit, advice was provided by the Under Treasurer<sup>3</sup> that a benefit from the redevelopment was ‘to smooth the economic cycle’ during an ‘economic downturn’ in the ACT economy. The Audit has assessed this advice and has concluded that there is no evidence that the redevelopment of the Stadium was part of an

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<sup>3</sup> Mick Lilley, 3 November 1999

official Government counter-cyclical policy.

## CONCLUSION

6.21 In 1996 it was believed that the redevelopment would cost \$27m and require a government appropriation of \$12m; the Stadium would be transformed from making a small loss into a profitable commercial activity; the cost of hosting Olympic soccer would be small; and there would be significant additional economic benefits to the Territory from redeveloping the Stadium and hosting Olympic soccer.

6.22 The cost of the redevelopment has been \$45m and all of this cost has been met by government appropriation. The estimated net financial cost of hosting Olympic soccer is \$14m. The estimated cash subsidy for operating the Stadium for 1998-99 to 2000-01 is \$5m. The net present value of cash operating subsidies from 2001-02 to 2026-27 is estimated to be \$18m.

6.23 The Audit estimates that the redevelopment of the Stadium and hosting Olympic soccer will result in a net financial cost to the Territory of about \$64m by 30 June 2001 and of about \$82m in present value terms by 2027. The Audit believes these costs are conservative.

6.24 Although there will be some additional economic benefits for the Territory from redeveloping the Stadium and hosting Olympic soccer, the Audit has concluded that these will be significantly less than the net financial costs.

6.25 This conclusion stands even if the redevelopment cost of \$45m had been contained to the originally estimated cost of \$27m. For a \$27m redevelopment, the net financial cost of redeveloping and operating the Stadium and hosting Olympic soccer would be \$64m. This would still be significantly more than the likely additional economic benefits to the Territory.

## DEPARTMENTAL RESPONSE

6.26 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 3 – Costs and Benefits*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister’s Department for his consideration and comments. The Chief Executive’s response is set out following. It is also included in the detailed *Report 3*.

6.27 Readers should note that the Chief Executive’s response was made in respect of detailed *Report 3* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit’s summary of detailed *Report 3*.

1. *“Prior to the finalisation of this audit, I advised the Auditor-General of my concern that focus of this report exceeded the reasonable bounds of a performance audit. Audit has a clear role and responsibility to review the nature and adequacy of advice provided to the Cabinet on a given subject, and the way in which any Cabinet decision is then implemented. What is not appropriate is for Audit to offer commentary on the reasonableness or otherwise of decisions of the Cabinet, provided that such decisions are in accordance with the law. Scrutiny of Cabinet decisions is a matter for the Assembly and the electorate. Intrusion into this area inappropriately involves the Audit Office in partisan debate.*

2. *This report effectively sets out to review the appropriateness of the Cabinet’s decisions on the basis of an economic assessment of the costs and benefits of the redevelopment of the Stadium and the hosting of Olympic football. Such an undertaking would be reasonable as an academic exercise, but not when the gravitas of an Audit report is attached to what is essentially the assessment of one or a few people.*

3. *The initially advised intended scope of this audit did not include the subject area of this report.*

4. *The assessment of costs and benefits provided in this report has three fundamental defects which call into question both the basis and the relevance of the report’s general conclusion that the economic benefits generated from redeveloping the Stadium and hosting Olympic Football are less than the costs incurred in redeveloping the Stadium, operating the Stadium and hosting Olympic Football.*

5. *The Cabinet’s decision on 23 September 1996 to bid to host Olympic Football included an agreement that, if the bid was successful,*

*Bruce Stadium would be upgraded to full specification. The related Cabinet Submission recognised that there already was a need to redevelop the stadium (then some 20 years old) to meet the realistic expectations of 1990's generation spectators and to offset the attraction of newer venues in larger population centres as future bases for the Raiders and the Brumbies. The opportunity to bid to host Olympic Football affected the timing of the completion of the redevelopment, but not the basic requirement. The submission noted that if the bid was unsuccessful, a somewhat slower process of staged improvements could proceed in partnership with the long term hirers.*

6. *The costs and benefits of the stadium redevelopment therefore should be assessed on its own merits with the acknowledged net cost of staging Olympic Football not being included in the calculation of the economic costs of the redevelopment. On the basis of the analysis presented in the report, this adjustment reduces the assessed net economic cost of redeveloping and operating the stadium over its estimated 30 year economic life to \$68m.*

7. *In response to the report on Actual Costs and Estimated Costs, I have commented that Audit's calculation of the total cost of the redevelopment project does not make any provision for inflation. Applying the relevant price adjustment of 6% for the project period reduces the indicated project cost from \$44.9m to \$43m.*

8. *This report acknowledges that the Audit estimate of the annual net cash financial cost of stadium operations from 2001-02 to 2026-27 (\$1.5m per annum) is inherently uncertain, yet the implications of this uncertainty are not reflected in the report's summary findings. In this regard, the report is little more than speculation. While the report adopts a consistently negative attitude to the stadium's future economic viability, it is equally reasonable to contend that there is some prospect of increased future revenue. For example, naming rights sponsorship is yet to be concluded by the new Stadium Authority. The costs presented in the report are therefore likely to be a worst case scenario.*

9. *Of more concern and significance is the report's contention that the presence of the Raiders and the Brumbies in the ACT gives rise to no net economic benefit to Canberra and the region. While such an approach is consistent with the underlying premise in this report, that does not mean that such a proposition is not open to challenge. A previous report*

*prepared by the Raiders suggested that they contributed some \$20m per annum to the local economy. The growing success of the Brumbies would indicate that they also make a contribution, although likely to be less given the shorter Super 12 season. Even allowing that these estimates may be overstated to some degree, it is reasonable to contend that some economic benefit is derived from these teams.*

10. *A recent University of Canberra study has identified sports tourism as one of the fastest growing segments of the tourism industry. One of the reasons mentioned for this growing momentum is that the popularity of international and sporting events such as the Olympic games has increased significantly. The study identifies that this synergetic relationship between sport and tourism has prompted cities, regions and countries to stage major sporting events in the belief that it can provide marketing, destination planning, and development opportunities. The presence of the Raiders and Brumbies in Canberra contributes to this important outcome.*

11. *The Stadium has a hiring agreement with the Brumbies to 2006 and the Raiders to 2008. Both these hiring agreements were entered into well after the redevelopment of Bruce Stadium had commenced. Assuming that the economic benefit of the Raiders (\$20m) is overstated by half and that the economic benefit of the Brumbies is half that of the Raiders, this would still result in an additional economic benefit of about \$100m using the same discount rate adopted in the report and no taking into account potential future benefits after the end of the current hiring agreements. This compares with the Report's projection of a loss of \$68m (excluding Olympic Football).*

12. *Even with further discounting of the economic benefits of the Raiders and the Brumbies, there is at the very least a reasonable argument that the redevelopment of Bruce Stadium is about a break even proposition in straight economic terms.*

13. *This report provides an excellent demonstration of the fundamental difference between the conduct of straight economic analysis and the more comprehensive assessments of overall costs and benefits which Government's are required to make. This is why the ultimate assessment of the decisions of government is political in nature.*

14. *When the redevelopment of Bruce Stadium was under consideration in 1996 and 1997, Canberra was in a difficult economic position, with large scale staff reductions in the Commonwealth public*

*service and net population migration from the ACT. There was also at least the risk that the Raiders and the Brumbies could be lost to Canberra. The proposal to redevelop Bruce Stadium offered the prospect of countering these trends.*

*15. Stimulating economic growth, improving the condition of the Territory's infrastructure and enhancing the Territory's image and the quality of life for its inhabitants and the morale of the local community were all factors which the Government took into account.*

*16. The Government's decision also was based on an awareness of benefits that occur from participating in a major international sporting event. The Government saw hosting part of the Olympic Football tournament and the transformation of Bruce Stadium into an Olympic-standard venue of international rank as a major boon to the Territory's economy. This was initially to the construction industry and in the long-term to the tourism and business standing of the ACT. These longer-lasting macro-level benefits should not be overlooked.*

*17. The Government has an extensive Sportsground improvement Program pitched at facilities both at a suburban level and higher profile regional and national levels. Facilities recently upgraded with ACT Government assistance include the ACT Hockey Centre, Canberra Olympic Pool upgrade, Tuggeranong Lakeside Leisure Centre, National Tennis Centre and ACT Rugby Union facilities at Griffith, and the current upgrade of Manuka Oval. How many of these works would have proceeded if the only consideration was a strict economic cost – benefit assessment.*

*18. In the case of the redevelopment of Bruce Stadium, Canberra and the region now has a high-class, high profile 25,000 seat sports and entertainment venue that will be used for many years. As such the Stadium forms a major feature of the stock of assets of the Territory with which to attract investors and other business contributors. Whether the benefits outweigh the costs is a matter for the people rather than Audit to determine."*

## **CONCLUDING COMMENTS**

6.28 The Chief Executive's response to the Report identifies various issues. The Audit's view on these issues is discussed following.

6.29 The Chief Executive, in *paragraph 1*, states that it is

inappropriate ‘for Audit to offer commentary on the reasonableness or otherwise of decisions of the Cabinet’. The Chief Executive, however, agrees that ‘Audit has a clear role and responsibility to review the nature and adequacy of advice provided to the Cabinet on a given subject, and the way in which any Cabinet decision is then implemented’.

6.30 Financial and economic advice was provided to Cabinet on the redevelopment project. To review the nature and adequacy of this advice it was clearly necessary to make an assessment of financial and economic outcomes and to compare these outcomes with the expected outcomes presented in the advice. Such a comparison also provided information on the implementation of the Cabinet decisions on the redevelopment project. The Audit believes that consideration of these matters would be expected by members of the Legislative Assembly and the public.

6.31 The Chief Executive states in *paragraph 2* that the ‘report effectively sets out to review the appropriateness of the Cabinet’s decisions’. This is incorrect. The Report is about the outcomes of the decisions and not the decisions themselves.

6.32 The Chief Executive states in *paragraph 3* that the ‘initially advised intended scope of this audit did not include the subject area of this report’. The envisaged Audit coverage set out by the Auditor-General on 23 March 1999 was very preliminary, as clearly indicated by the use of the word ‘envisaged’. At that time, the information about the redevelopment held by the Audit was minimal. As regularly occurs, the Audit’s objectives were revised as information on the breadth of the redevelopment project became available to the Audit. The wider scope of the Audit was made clear in subsequent letters by the Auditor-General and in draft reports issued over the past year. A first draft of the report on Costs and Benefits was provided to the Under Treasurer on 22 October 1999.

6.33 The Chief Executive states in *paragraph 4* that ‘this report has three fundamental defects’. The response’s following paragraphs then describe the ‘defects’. The Audit’s comments on the five main points raised by the Chief Executive follow.

6.34 The Chief Executive states in *paragraph 5* that ‘The opportunity to bid to host Olympic Football affected the timing of the completion of the redevelopment but not the basic requirement’ [for the

redevelopment]. He further states in *paragraph 6* that ‘The costs and benefits of the Stadium redevelopment therefore should be assessed on its own merits with the acknowledged net cost of staging Olympic Football not being included in the calculation of the economic costs of the redevelopment’.

6.35 The wording of the Cabinet decision of 23 September 1996 makes it clear that the redevelopment was conditional upon winning the right to host Olympic soccer. No decision was made about any alternative redevelopment should the bid be unsuccessful (see *Report 4 — Decision to Redevelop the Stadium, paragraph 4.50*). The 1997-98 Draft Capital Works Program notes the view of the Capital Works Group that without Olympic soccer the project failed the Group’s criteria. The proposal was included in the Program ‘subject to a favourable decision by SOCOG’ (see *Report 4 — Decision to Redevelop the Stadium, paragraph 5.8*).

6.36 Given the link between the redevelopment and Olympic soccer, it would be inappropriate not to include the costs and benefits of hosting Olympic soccer in this Report. It is noted that the costs of hosting Olympic soccer are clearly and separately identified in the Report and that the benefits are similarly dealt with separately.

6.37 In *paragraph 7* the Chief Executive states that ‘Audit’s calculation of the total cost of the redevelopment project does not make any provision for inflation’.

6.38 The proposed reduction in project costs of \$1.9m would present the construction cost in 1996 dollars. This is an unnecessary and confusing adjustment in an assessment being made in 2000. As noted in the Report, all future expenses and revenues have been discounted to present value (i.e. 2000-01) terms.

6.39 In *paragraph 8* the Chief Executive states that the implications of uncertainty about the future ‘are not reflected in the report’s summary findings’. In particular, the Chief Executive states that the Audit’s estimate of the net financial cost is ‘likely to be a worse case scenario’. He notes that ‘naming rights sponsorship is yet to be concluded’, implying that the Audit has not considered this or other possible revenue sources which will improve the financial performance of the Stadium

6.40 Noting that the future is uncertain is standard professional practice. Such an acknowledgement does not preclude presenting and using best estimates about the future. It should be noted that the decision to redevelop the Stadium was heavily influenced by estimates of future financial outcomes.

6.41 The Audit's estimates are not merely 'speculation' as the Chief Executive states. They are based on evidence and analysis, which are summarised in *Report 3 (Chapter 3)*. The Audit would note that the major source of financial information for the Audit's estimates for 1999-2000 and thereafter is the Stadium Authority's 2000 budget and forward estimates, and related working papers (see *Report 3, paragraphs 3.35 and 3.58*).

6.42 As noted in *paragraph 3.63 of Report 3* and in previous correspondence to the Chief Executive, the Authority's estimate for naming rights revenue (of \$500,000 in 2000-01, rising to \$550,000 per year thereafter) has been included in the Audit's estimates for 2000-01 and after. The Audit's estimate is not a 'worst case scenario' but is actually based on optimistic assumptions contained in the Authority's budget. Preliminary figures for the 1999-2000 result show that the subsidy will be higher than in Budget 2000.

6.43 The Audit believes its estimate of the net financial cost is conservative.

6.44 *Paragraphs 9 to 12* relate to the economic significance of the Stadium's major hirers. The Chief Executive states that the Audit contends 'that the presence of the Raiders and the Brumbies in the ACT give rise to no net economic benefit to Canberra and the region'.

6.45 This is an inaccurate representation of the Audit's Report. *Paragraphs 6.27 to 6.38 of Report 3* discuss the economic benefits of the major hirers at some length. The Audit has concluded that the stimulus to ACT expenditure from the Raiders in 1996 was up to \$10.6m depending on the multiplier applied. The Audit has concluded that the 'net exports' of the Raiders and the Brumbies 'are significant'. The Audit also notes that 'Spectators obviously enjoy supporting their teams' (*Report 3, paragraph 6.90*). This is also an economic benefit.

6.46 The Chief Executive states that the economic benefits to the ACT

from the Raiders and the Brumbies should be added to the cost benefit analysis of the redevelopment.

6.47 It is important to distinguish between the economic benefits derived from the Raiders and the Brumbies, and those derived from the Stadium redevelopment. As stated in *Report 3, paragraph 6.38* ‘Even though the net exports of the Raiders and the Brumbies are significant, this does not mean that the net exports from the Stadium redevelopment are significant’. *Report 3, paragraphs 6.39 to 6.49* discuss this point. The Audit also notes that by ‘far the larger part of the enjoyment from attending the Stadium is derived from the games played there’ and not from the redevelopment itself (*Report 3, paragraphs 6.80 to 6.88*).

6.48 The Chief Executive notes in *paragraph 11* that the hiring agreements with the Raiders and the Brumbies ‘were entered into well after the redevelopment of Bruce Stadium had commenced’.

6.49 The Chief Executive appears to be suggesting that the redevelopment secured the major hirers in Canberra. This needs to be true for there to be justification for including the economic benefits from the Raiders and the Brumbies in a cost benefit analysis of the redevelopment. The Report notes that there is no compelling evidence for the view that the hirers were leaving Canberra or that the hirers were threatening to leave unless the Government proceeded with the redevelopment of the Stadium on the scale envisaged by the Government. Rather, there is evidence against these propositions (*Report 3, paragraphs 6.44 to 6.50*).

6.50 The Audit would further note that the Raiders and the Brumbies were playing at the Stadium before it was redeveloped and that the Raiders already had a long term agreement. The Stadium hiring agreements are discussed further in *Report 10*.

6.51 The Audit is of the view that there is no sound basis for the Chief Executive’s approach of offsetting the economic benefits from the hirers against the costs of the redevelopment and concluding that the redevelopment is therefore ‘about a break even proposition in straight economic terms’ (*paragraph 12*).

6.52 *Paragraphs 13 to 18* of the Chief Executive’s response outlines inadequacies which the Chief Executive sees in the Audit’s analysis. The

Chief Executive states that ‘This report provides an excellent demonstration of the fundamental difference between the conduct of straight economic analysis and the more comprehensive assessments of overall costs and benefits which Government’s [*sic*] are required to make’.

6.53 As noted in *paragraph 1.4 of Report 3*, a cost benefit analysis attempts to include all costs and benefits to the community. The Audit has considered all costs and benefits related to the redevelopment and hosting Olympic soccer which it believes are significant, including all those brought to its attention during the progress of the Audit. The Audit’s consideration has included all benefits presented in official documents. If there are other matters which require consideration, they have not been brought to the attention of the Audit during the progress of the Audit. The Chief Executive’s letter does not identify any matters which were not considered by the Audit.

6.54 Particular reference is made to the following parts of the Report in regard to the matters raised in *paragraphs 14 to 18* of the Chief Executive’s response:

- responding to economic downturn in 1996 and 1997, see *Report 3, Chapter 7*;
- directly stimulating economic growth through the redevelopment and hosting Olympic soccer, see *Report 3, paragraphs 6.10 to 6.65*;
- retaining the hirers, see *Report 3, paragraphs 6.44 to 6.50*;
- enhancing the Territory’s image and business standing, and attracting investment and business, see *Report 3, paragraphs 6.66 to 6.75*; and
- improving the quality of life in the ACT, see *Report 3, paragraphs 6.78 to 6.100*.

6.55 The Audit agrees with the Chief Executive’s concluding statement that ‘Whether the benefits outweigh the costs is a matter for the people rather than Audit to determine’. The Audit believes that this Report serves a useful purpose in bringing together analysis and evidence which will assist the public and the Legislative Assembly to review the adequacy of advice on, and the implementation of, the Cabinet’s decisions.

6.56 Each of the matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive's response they were reconsidered. The Audit conclusion is that the content of the Chief Executive's response does not change the Audit's opinion.

## 7 DECISION TO REDEVELOP THE STADIUM SUMMARY

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### INTRODUCTION

7.1 Consideration of redeveloping Bruce Stadium, in connection with hosting Olympic soccer, dates back to late 1992. The decision in 1996 to redevelop the Stadium was linked to the decision to bid for Olympic soccer. The Stadium redevelopment was presented to the Cabinet in a submission dated 20 September 1996 titled *Canberra – An Olympic City*. The Cabinet decision, which was informed by the submission, and in which the Cabinet agreed to bid for Olympic soccer, clearly indicates that the Stadium redevelopment would be undertaken subject to the bid to host Olympic soccer being successful. As a result of the link between the redevelopment and hosting Olympic soccer the Audit included issues related to hosting the soccer.

7.2 The material in this Chapter is a summary of *Report 4 – Decision to Redevelop the Stadium* and for a full understanding should be read in conjunction with that Report.

### AUDIT OBJECTIVE

7.3 The objective addressed in this part of the Audit was to provide an independent opinion to the Legislative Assembly on:

- whether the decision to redevelop the Stadium was made with the aid of relevant, accurate and complete information.

### AUDIT OPINION

7.4 The Audit's opinion on the decision to redevelop the Stadium is as follows.

- ***The decision to redevelop the Stadium was not made with the aid of relevant, accurate and complete information.***

### BASIS OF AUDIT OPINION

7.5 The audit opinion was based on the following findings and

associated comments.

### **The First Olympic Bid, 1995**

- *Redeveloping Bruce Stadium and hosting Olympic soccer were under active consideration by ACT governments from late 1992 until December 1995 when the first bid to SOCOG was lodged.*
- *During the period to December 1995 no reliable information which could be useful for decision making had been gathered or produced on the costs and benefits of redeveloping the Stadium and hosting Olympic soccer.*

### **Audit Comment**

7.6 Proposals to redevelop Bruce Stadium in order to host Olympic soccer were prepared in 1993 and 1994. The then Government agreed in October 1994 to a proposal to host Olympic soccer, using semi-permanent seating, at an estimated cost of \$3.25m. This proposal was supported by the present Government upon taking office in March 1995. Officials attended a number of meetings with SOCOG representatives and were active in promoting ACT involvement in hosting both soccer and futsal. A draft bid to host Olympic soccer matches had been developed by July 1994 and further drafts of the bid were prepared until at least August 1995. On 7 December 1995, a first bid to SOCOG was lodged by the ACT Government.

7.7 The pursuit of Olympic soccer had significant financial implications. Nevertheless no systematic and rigorous assessment of the costs and benefits of redeveloping the Stadium or hosting Olympic soccer had been undertaken prior to the first SOCOG bid. Claimed benefits were vague and unsubstantiated. The extent of the redevelopment was unclear and the estimated redevelopment costs were not verified. Official estimates of the cost of hosting Olympic soccer prepared in 1994 (\$332,362) and 1995 (\$500,000) were clearly understated.

### **Development of the Second Bid, 1996**

- *In the seven months from December 1995 to July 1996, no analyses were conducted of the financial and economic effects on the ACT of redeveloping the Stadium and hosting Olympic soccer.*

- *Little analysis of Olympic soccer or the redevelopment was conducted from July to September 1996; an OFM analysis prepared in July 1996, stating that the economic benefits from hosting Olympic soccer could be as much as \$20m, was unreliable.*
- *While a consultant's proposal for a \$27m redevelopment, presented in September 1996, went far beyond anything previously considered, the proposed redevelopment and funding structure were accepted immediately without careful analysis.*

### ***Audit Comment***

7.8 In the first half of 1996, promoting and preparing for Olympic soccer continued, however, no systematic analysis was conducted of the costs and benefits of hosting Olympic soccer. A government Report titled *Sydney 2000 Olympics Economic Benefits for the ACT Preliminary Estimates*, presented by the Economic Analysis Group in February 1996, did not systematically analyse the economic effects of the Sydney Olympics on the ACT. In particular, the Group did not undertake any analysis of the economic effects on the ACT of hosting Olympic soccer in Canberra.

7.9 An OFM assessment of the benefits of hosting Olympic soccer, dated 31 July 1996, contained a number of errors. It was written over a short period, did not consider costs, and was based largely on assumption and low grade evidence. The document provided an unreliable assessment of the potential benefits of Olympic soccer to the ACT. Although it was unreliable, the figure of \$20m presented in the OFM assessment enjoyed wide currency. The OFM assessment appears to have been the only economic analysis of Olympic soccer or the redevelopment conducted from July to September 1996.

7.10 The ACT Government had a substantial presence at the Atlanta Olympics in July and August 1996, and a large report (*Let the Fun and Games Begin*) was prepared in August 1996 presenting some of the information gathered during the visit. Information on Atlanta's experience was also available from a private newsletter which was being received by officials. The evidence available suggested significant costs and unrealised expectations of benefits for cities involved in the Atlanta Games. The information available was not mentioned in the Cabinet submission *Canberra – An Olympic City*.

7.11 The proposal for a redevelopment costing up to \$27m was provided to officials by a consultant on 11 September 1996. This was a large project for the ACT Government and significantly larger than the redevelopment envisaged at the time of the first bid in December 1995. No evidence has been found of any comprehensive financial or economic evaluation of the proposal.

7.12 On 18 September 1996, the consultant who had prepared the redevelopment proposal confirmed the redevelopment cost of \$27m and provided a funding structure for the redevelopment of \$12m from government equity, \$8m from the sale of Stadium products to be received during the construction period, and \$7m from borrowing to be serviced and repaid over 7 years from future operating profits. The proposal was accepted immediately and formed the basis for the Cabinet submission of 20 September 1996 recommending that the ACT bid for Olympic soccer and, if the bid proved successful, redevelop the Stadium.

7.13 As with the physical redevelopment proposed on 11 September 1996, there is no evidence available to the Audit to suggest that the funding structure or the associated financial model were subjected to analysis. This was even though they were key parts of a Cabinet submission recommending a major construction project, and even though a cursory examination would have been expected to raise concerns about their achievability.

#### **Cabinet Agreement and the Final Olympic Bid Document, September 1996**

- *The Cabinet submission of 20 September 1996 presented an assessment of the costs and benefits of redeveloping the Stadium and hosting Olympic soccer which was based on unsound and incomplete information.*

#### ***Audit Comment***

7.14 The Cabinet submission titled *Canberra – An Olympic City*, dated 20 September 1996, provided an assessment of limited quality and usefulness of the costs and benefits of the redevelopment and of Olympic soccer.

7.15 No documentation has been found by the Audit to show that the redevelopment proposal or the financial model and financial plan which

supported it had been subjected to any scrutiny before the submission was prepared. No reliable analysis of the costs and benefits to the ACT of the redevelopment had been prepared.

7.16 No realistic assessment of the financial cost of hosting Olympic soccer had been prepared and no estimates of costs were included in the submission. The estimate in the submission of the economic benefit to the ACT from hosting Olympic soccer of \$20m was taken from OFM's assessment of the benefits of Olympic soccer, which was unreliable.

7.17 The true financial implications of the proposal were not made clear in the submission. Risks associated with the bid and the redevelopment were not clearly identified.

7.18 The draft submission received limited consultation and no circulation other than to the OFM. The Under Treasurer had a matter of hours to comment on it. The Under Treasurer's response raised issues about the projected capital cost, expenses and revenues. The advice was largely not addressed or was dealt with in a limited way in the final submission.

7.19 After nearly four years of consideration, no rigorous analysis had been undertaken of the Bruce Stadium redevelopment or the Olympic soccer bid. The redevelopment proposal agreed to by the Cabinet had been presented for the first time to executives by a consultant on 11 September 1996 which was only 12 days before the Cabinet decision was made. The funding structure and supporting financial model had been presented on 18 September 1996, only 2 days before the Cabinet submission was signed and only 5 days before the Cabinet decision was made.

### **Capital Works Proposal, 1996 to 1997**

- *The capital works proposal for the Bruce Stadium redevelopment did not meet the requirements laid down in OFM guidelines.*
- *The presentation of the proposal to the Legislative Assembly's Standing Committee on Planning and Environment did not provide sufficient information for the Committee to make an informed judgement of the proposal.*

***Audit Comment***

7.20 An assessment by the Audit of the Bruce Stadium capital works proposal against the requirements of the OFM guidelines for capital works proposals issued in August 1996 shows that the proposal did not address any of the requirements adequately. Many of the statements in the proposal are unsupported by any analysis or evidence. Many of the requirements are not addressed at all. A supporting cost benefit analysis was not prepared.

7.21 Given the size and risk of the project, the low quality of the capital works proposal and supporting documentation is notable.

7.22 The 1997-98 Draft Capital Works Program was delivered to the Legislative Assembly's Standing Committee on Planning and Environment on 7 February 1997. The Bruce Stadium redevelopment proposal was accompanied by a slightly changed version of OFM's assessment of the benefits of Olympic soccer, first prepared in July 1996. This assessment was unreliable.

7.23 The Committee was not provided with a copy of the financial model. As the model underpinned the redevelopment proposal, this decision meant that the Committee did not have all relevant information available for making an informed assessment of the proposal.

**CONCLUSION**

7.24 No systematic and rigorous assessment of the financial and economic implications of redeveloping the Stadium or hosting Olympic soccer was undertaken. Assessments which were prepared were of limited quality. Available evidence relevant to the proposal was not used in the Cabinet submission of 20 September 1996

7.25 The proposal for a \$27m redevelopment was accepted without careful analysis. The proposed funding structure and supporting financial model were also accepted immediately and without careful analysis. The Cabinet submission of 20 September 1996 included an assessment of the costs and benefits of hosting Olympic soccer and redeveloping the Stadium which was neither accurate nor complete.

7.26 The capital works proposal for the Bruce Stadium redevelopment

did not meet the requirements laid down in OFM guidelines. The presentation of the proposal to the Legislative Assembly's Standing Committee on Planning and Environment did not provide sufficient information for the Committee to make an informed assessment of the proposal.

7.27 The Audit acknowledges that the Stadium was in need of improvements. The Audit opinion, however, is that the decision to redevelop the Stadium, particularly in relation to the design, size, scope and funding of the redevelopment, was not made with the aid of relevant, accurate and complete information.

## **DEPARTMENTAL RESPONSE**

7.28 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 4 – Decision to Redevelop the Stadium*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister's Department for his consideration and comments. The Chief Executive's response is set out following. It is also included in the detailed *Report 4*.

7.29 Readers should note that the Chief Executive's response was made in respect of detailed *Report 4* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit's summary of detailed *Report 4*.

1. *“As with several of the other Audit reports on aspects of the redevelopment of Bruce Stadium, the key finding of this report is too sweeping and generalised in nature. Reality is seldom so black and white.*

*In addition, this report repeats the flawed approach in Report No. 3 (Costs and Benefits) in its contention that the redevelopment was primarily undertaken to support and sustain Canberra’s bid to host Olympic football.*

2. *The decision to redevelop Bruce Stadium was made for a number of reasons, as I indicated in my comments on Report 3. The Cabinet’s decision on 23 September 1996 to bid to host Olympic Football included an agreement that, if the bid was successful, Bruce Stadium would be upgraded to full specification. The bid acted as a catalyst and impacted on the **timing** of the decision to redevelop the stadium, but was by no means the only consideration.*

3. *The relevant Cabinet Submission recognised that there already was a need to redevelop the stadium (then some 20 years old) to meet the realistic expectations of 1990’s generation spectators and to offset the attraction of newer venues in larger population centres as future bases for the Raiders and the Brumbies. Canberra needed a venue which met the standards required by the competitions in which these teams compete. Bruce Stadium, pre-redevelopment, did not meet the explicit standards set down by the National Rugby League.*

4. *The general circumstances in Canberra in 1996 and 1997 also need to be understood. Stimulating economic growth, improving the condition of the Territory’s infrastructure and enhancing the Territory’s image and the quality of life for its inhabitants and the morale of the local community were all factors which the Government took into account. Cabinet did not require a detailed cost – benefit analysis to address such issues.*

5. *The same applies to the decision to bid to host Olympic football. In addition, real world timing constraints limited the scope for the conduct of the detailed assessments which Audit would have preferred. I accept that the analysis of the economic benefits of hosting Olympic football was deficient. However, some tasks have to be undertaken relatively quickly and decisions taken on the best available information at the time. That is the essence of risk management.*

6. *In such circumstances the measure of success or failure is most appropriately determined in relation to the outcomes of the decision, rather than the comprehensiveness of the process. The test here is whether sufficient information was available to make a reasonable decision. In decisions such as bid in to host Olympic football or redeveloping Bruce Stadium, Governments have to take into consideration a range of public interests and benefits. Some of these benefits are intangible and difficult to quantify. In the case of the Olympic bid and the related timing of decision to redevelop Bruce Stadium the Government also did not have the luxury of adopting a wait and see approach. Both action and inaction carry risks.*

7. *There are important additional factors which raise questions of the reasonableness of Audit's conclusions on the lack or appropriate levels of analysis, particularly in relation of the decision to bid to host Olympic football.*

8. *Detailed analysis could not be undertaken in the early stages of the bidding process as only limited information was available on the financial and economic benefits of other countries from hosting Olympic Games that had direct relevance to the ACT. Other than standard technical requirements for particular events, each Olympic Games is run differently in accordance with the peculiarities and advantages of the host country. SOCOG had first to analyse the approach used for Atlanta and then determine its own approach for the 2000 Games. The private newsletter referred to in the report was not endorsed by SOCOG or any other Olympic organisation. The validity of the information contained in the newsletter therefore cannot simply be assumed.*

9. *Despite this lack of information, potential host cities were required to indicate their interest in participating in the event in December 1995. The cost of hosting the Olympic football identified in paragraph 1.10 therefore was estimated by officials based on information available at the time. These estimates were adjusted as more information became available. It is with hindsight that Audit states these early estimates were clearly understated.*

10. *The Government agreed to lodge a its 1995 'bid' stating that options were being considered to meet International Olympic Committee requirements. The 'bid' took the form of a letter with attachments — a series of brochures including Bruce Stadium and Project 2000 that showcase the venue and Canberra. Contrary to the suggestion in the*

*report, I understand that Audit was provided with a copy of the letter and advised that only the brochure attachments showcasing the existing venue and Canberra generally were missing.*

*11. Chapter 2 of the report reviews, as some length, the history of the development of Canberra's bid to participate in the 2000 Olympics. Much of this material has no relevance to the redevelopment of Bruce Stadium, and in my opinion is outside the scope of this audit.*

*12. However, as Audit has raised the general issue of the Olympic football bid, the following points are provided to summarise the rationale and assessed benefits of the bid:*

- (a) In 1993 Sydney was announced as the venue for the 2000 Olympic Games. Given its prominence as the national capital and the importance of sport in the life of the city, it was logical that Canberra should be part of the Games. Football was identified as the only event to be staged outside Sydney.*
- (b) In line with its determination to enhance the claims of the capital region as a business and tourist destination the Government adopted a strategy of putting Canberra on the international map as an Olympic city.*
- (c) The first bid in 1994-95 was not a formal bid, nor was it intended to be so because the full requirements of SOCOG were not known.*
- (d) The activity of ACT officials in early 1996 focused on attracting teams for pre-Olympics training. This was a realistic goal given the existence of facilities such as the Australian Institute of Sport in Canberra and Canberra's close proximity to Sydney.*
- (e) An invitation from SOCOG to bid for the right to host Olympic football was received by the ACT in mid-1996. This invitation was offered in the context of competition from larger capital cities (Adelaide and Melbourne) and regional centres closer to Sydney (Wollongong and Newcastle) that had indicated an intention to upgrade their existing stadia to improve their chances of hosting part of the Olympic competition. The correspondence of the needs of the rugby league and the rugby union football codes (especially in relation to the Raiders' place in the NRL) with the requirements of SOCOG/FIFA in relation to Olympic soccer provided the platform for an Olympic bid based at Bruce Stadium.*

- (f) *It was only at this stage that financial arrangements and FIFA/SOCOG requirements began to be detailed in any comprehensive way. In the absence of in-house technical expertise to meet the task of preparing the bid in the timeframe set by SOCOG, it was appropriate to engage the services of others with more appropriate expertise to assist. CRI had considerable expertise in the construction industry, especially in the field of Stadium development. The ACT's bid was put forward in September 1996 and accepted later that year.*
- (g) *Following the submission of formal bids from interested host cities, SOCOG assessed the responses and inspected each city. Each of the pre-selected cities then entered into detailed negotiations with SOCOG from February 1997 in order to finalise tournament responsibilities and the obligations of each party. These negotiations covered issues such as tournament standards and costs, risk sharing, marketing plans, organisational arrangements and competition programs. Importantly, the pre-selected host cities conducted these negotiations collectively in order to strengthen their negotiating position. These negotiations formed the basis of the MOU signed between the ACT and SOCOG in September 1997.*
- (h) *The advice provided to the Cabinet in the Submission Canberra – An Olympic City was complete in that the estimated costs were based on information available at the time. A number of advantages in addition to economic impacts were identified in the submission. These included marketing impacts for Canberra as an Olympic city, media opportunities and employment during the preparation period and hosting the event. The Cabinet was advised of the expected capital works implications and the funding and in kind support expected to be required from ACT Government agencies.*
- (i) *With the rights to host Olympic football, Canberra became an Olympic city, a status that has lead and will continue to lead to significant economic benefits:*
- (i) *International media, and sporting and business delegations visiting Australia will be more likely to include Canberra in their schedules. CTEC's visiting journalist program reports significant increases in high value visiting media and consequential profiling of Canberra internationally in 1998-99 and 1999-00. The assessed*

*publicity value increased from \$4m a year up to 1997-98, to \$13m in 1998-99 and \$27m in 1999-00.*

*(ii) International and interstate visitor numbers are expected to increase during the Olympic period, but this is only a small part of the overall effect. In addition, there have been IOC and FIFA visits, as well as frequent visit from national Olympic committees interested in viewing Olympic and training facilities.*

*(iii) Canberra will be profiled world-wide through Olympic TV, print and radio coverage. Football is one of the most followed sports world-wide, with strong followings in both Japan and China. Teams from both countries will be competing in Canberra.*

*(iv) Canberra's profile as an Olympic city and place of sporting excellence has assisted in attracting teams to train in Canberra. These contracts alone are valued at \$1m.*

*(v) The focus on Canberra's Olympic involvement has assisted in ensuring that Canberra-based businesses have taken advantages of the opportunities to provide services to Sydney. Over \$50m has been achieved in construction contracts alone.*

*13. One aspect of the report that I do support relates to the poor quality of the initial documentation of the capital works aspects of the redevelopment. This material, prepared by the Bureau of Sport and Recreation and Racing failed to meet the Office of Financial Management guidelines for the documentation of capital works proposals. Greater compliance with those guidelines would have provided a much sounder basis for the subsequent redevelopment project."*

## CONCLUDING COMMENTS

7.30 The Chief Executive's response to the Report identifies various issues. It should be noted, however, that several of the issues are not directly relevant to the Audit objective. The Audit's view on various issues raised is discussed following.

7.31 In *paragraph 1* the Chief Executive states that the Audit's contention is 'that the redevelopment was primarily undertaken to support and sustain Canberra's bid to host Olympic football'. This statement is incorrect. The Audit is in agreement with the Chief Executive's *paragraph 2*, which states that 'The decision to redevelop

Bruce Stadium was made for a number of reasons’. In the same paragraph the Chief Executive also states ‘The [SOCOG] bid acted as a catalyst and impacted on the **timing** of the decision to redevelop the stadium, but was by no means the only consideration.’

7.32 In this Report, and in other Reports, the Audit has addressed a range of reasons put forward to support the redevelopment going ahead. For example, the Audit has discussed the requirements of the major hirers (i.e. the Brumbies, Raiders and Cosmos), the amenity to spectators, and the effect on the ACT economy of the redevelopment. The Audit has also considered the financial objective of creating a commercially viable Stadium. These and other matters are discussed in considerable detail in *Reports 2 and 3*. This Report also presents the considerations which were taken into account by executives and the Cabinet in deciding to redevelop the Stadium. The Audit, as evidenced by the content of the Reports prepared, clearly understands that other reasons for redeveloping the Stadium existed in addition to hosting Olympic soccer. It must be accepted, however, that hosting Olympic soccer was a major reason for redeveloping the Stadium.

7.33 This Report notes that the decision to redevelop the Stadium was taken in the context of the decision to bid for Olympic soccer. The wording of the relevant Cabinet decision *Canberra – An Olympic City* of 23 September 1996 makes it clear that the redevelopment was conditional upon winning the right to host Olympic soccer. As this Report shows, all official proposals for the redevelopment of the Stadium from late 1992 onwards were presented and considered in the context of a bid to host Olympic soccer. The bid to host Olympic soccer was a key factor in the decision to redevelop the Stadium. It did not simply affect the timing of the decision but heavily influenced the decision itself.

7.34 The Chief Executive states in *paragraph 3* that the Cabinet submission, *Canberra – An Olympic City*, of 20 September 1996, recognised that there already was a need to redevelop the Stadium to meet the expectations of spectators and the requirements of the Raiders and Brumbies. The submission mentioned the particular matter of the risk of losing the teams to ‘newer venues in larger population centres’. This matter is discussed at length in this Report and in other reports of the Audit. The Audit found little evidence of close attention being given to the expectations of spectators or the requirements of the major hirers. The Audit located no evidence that any effort was made to ascertain whether a real risk existed that the hirers might relocate to other centres

(see *Report 4, paragraph 4.19*; and *Report 3, paragraphs 6.44 to 6.50*).

7.35 The Chief Executive in *paragraph 4* of his response raises other economic considerations in 1996 and 1997 such as stimulating economic growth and improving the condition of the Territory's infrastructure. These have all been assessed in *Report 3*. The Audit's conclusion is that the benefits from the objectives mentioned by the Chief Executive are small compared with the large net financial cost incurred by the Territory. The Audit has found that no serious analysis of any of these possible benefits occurred in 1996 and 1997 or has occurred since.

7.36 The Chief Executive also states in *paragraph 4* that 'Cabinet did not require a detailed cost-benefit analysis to address such issues'. The Audit objective being addressed in this Report is whether the decision to redevelop the Stadium was made with the aid of relevant, accurate and complete information. The Audit's view is that the absence of any rigorous and reliable analysis is evidence that the Cabinet did not have relevant, accurate and complete information available when it made its decision to redevelop the Stadium. The lack of rigorous analysis is discussed throughout *Report 4* (see, e.g *paragraphs 3.30-42; 3.51-3.52; 3.59-60*).

7.37 The Chief Executive states in *paragraph 5* that 'timing constraints limited the scope for the conduct of the detailed assessments which Audit would have preferred'. The Audit notes that redeveloping the Stadium and bidding for Olympic soccer were first considered in late 1992. For the next three and a half years no serious financial or economic analysis was conducted of the proposal. This is although a considerable body of reputable academic research was available to show how such an analysis could be conducted. The Audit is of the view that adequate time was available to conduct analyses.

7.38 The Chief Executive states, also in *paragraph 5*, 'some tasks have to be undertaken relatively quickly and decisions taken on the best available information at the time. That is the essence of risk management'. The Audit notes that the essence of risk management is the systematic identification and management of risk. One of the features of the decision making process described in this Audit is the almost complete absence of systematic risk management. Even though significant risks in regard to all aspects of the redevelopment proposal were evident, these risks were ignored or unidentified (*Report 4, paragraphs 4.35-49; 5.95-103*). Taking quick decisions in such

circumstances is not risk management but ‘risky’ management.

7.39 The Chief Executive states in *paragraph 6* that ‘the measure of success or failure is most appropriately determined in relation to the outcomes of the decision, rather than the comprehensiveness of the process’. The Audit addressed the redevelopment project’s outcomes in *Reports 2 and 3*. The Audit’s opinions as presented in those Reports are that the costs incurred in redeveloping the Stadium do not represent value for money and the economic benefits from the project are less than the costs. The Audit conducted its review of the comprehensiveness of the process only because poor outcomes were achieved. If the outcomes achieved had been as intended much of the work done in this Audit would not have been performed.

7.40 The Chief Executive further states in *paragraph 6* that the test: ‘is whether sufficient information was available to make a reasonable decision. In decisions such as bidding to host Olympic Football or redeveloping Bruce Stadium, Governments have to take into consideration a range of public interests and benefits’.

7.41 This is the very point made by the Audit in this Report. The information available was of such a poor standard that it provided little or no assistance to the making of informed decisions about the public interest. The Chief Executive’s statement that the Government could not adopt ‘a wait and see approach’ misses the point. The Audit is saying that the proposal should have been analysed and understood at the time. Instead, no reasonable level of analysis was conducted. The approach adopted was to take the decision to redevelop the Stadium and then ‘wait and see’ what the results would be.

7.42 The Chief Executive in *paragraph 7* and *paragraph 8* questions whether detailed analysis could have been conducted, especially before the decision to bid was taken. In particular, he says that limited information was available on the ‘financial and economic benefits’ in other countries hosting the Olympics. It is common knowledge that involvement in the Olympics is financially costly. Such knowledge should have alerted executives of the need to draw together evidence on the financial costs. From early in the consideration of the proposal, it would have been possible to prepare a report identifying a method to analyse the financial and economic effects of redeveloping the Stadium

and hosting Olympic soccer. Such a report could have identified parts of the analysis for which good evidence was not available. Such an approach would have identified the significant areas of risk and contributed to development of strategies to manage the risks.

7.43 Further, in relation to the Chief Executive questioning whether analysis was possible at the time the decision was made, the Chief Executive has rightly stated the redevelopment was not just for the Olympics. The regular use of the Stadium for rugby union and rugby league is, and will be, the single most important factor in the financial and economic outcomes of the redevelopment. Information on this was readily available and analysis of this information was in no way subject to the timetable of SOCOG. The Audit has found no evidence of systematic analysis of this aspect of the redevelopment prior to the decision to redevelop the Stadium.

7.44 The private newsletter referred to by the Chief Executive in *paragraph 8* was mentioned in the Report only as an example of sources of information which were available for use in analyses.

7.45 The Chief Executive states in *paragraph 9* that the estimates of the costs of hosting Olympic soccer were based on information available at the time. The Chief Executive also states ‘It is with hindsight that Audit states that these early estimates were *clearly understated*.’ The Audit notes that the estimates of the costs do not appear to be based on any research as to Olympic requirements or the experience of other cities which have hosted Olympic events (*Report 4, paragraph 2.38*). The Audit has examined the working papers from which the estimates were drawn and has concluded that they were not reasonable estimates even at the time. For example, the 1994 estimate has an accommodation cost for visiting players of less than \$27 a night per player.

7.46 The Chief Executive, in *paragraph 10*, refers to a bid for Olympic soccer from the Chief Minister to SOCOG which was in the form of a letter with attachments. The Audit has sighted this letter. The letter was a single page covering letter from the Chief Minister and was not itself a bid. The letter says ‘I am pleased to present to you Canberra’s bid to host part of the 2000 Olympic Football competition’ (*Report 4, paragraph 2.29*). Several requests for a copy of the accompanying documents to the letter finally resulted in confirmation that they are not held on ACT Government or SOCOG files (*Report 4, paragraphs 2.30-31*). Although this is not an issue which was taken to account in forming

the Audit's opinion, the Audit remains of the view that copies of the actual 1995 bid document have been lost.

7.47 The Chief Executive states in *paragraph 11* that much of *Chapter 2* is outside the scope of the Audit as it deals with the history of the development of the bid. Hosting Olympic soccer and the associated redevelopment of the Stadium had been under consideration since late 1992. The Audit believes that the history commencing in 1992 leading to the decision to redevelop the Stadium provides a context for understanding the later events.

7.48 The rest of the Chief Executive's response (*paragraph 12* and following sub-points) largely summarises issues which are dealt with in detail in the Audit Report. The Audit makes the following points on some of the issues.

7.49 With regard to *paragraph 12(h)* the Audit does not agree that the Cabinet submission *Canberra – An Olympic City* was 'complete' or was adequate as a basis for decision making. This is discussed at length in *paragraphs 4.3-49* of *Report 4*.

7.50 In *paragraph 12(i)* the Chief Executive lists a number of benefits from hosting Olympic soccer. *Report 3* discusses the first three claims at length and concludes that the benefits from publicity and increased visitor numbers to the Territory are not significant compared with the costs (*Report 3, paragraphs 6.51-75*). With regard to *paragraph 12(i)(i)*, the method of assessing the publicity value of the visiting journalist program used by CTEC is of no value in assessing the benefits which flow to the people of the ACT from such publicity.

7.51 With regard to *paragraph 12(i)(iv)*, the Audit would note that hosting Olympic soccer has only a marginal connection with attracting teams to train in Canberra before the Olympics.

7.52 With regard to *paragraph 12(i)(v)*, hosting Olympic soccer would seem unrelated to Canberra businesses winning construction and other contracts with SOCOG or other organisations in Sydney.

7.53 In regard to the Chief Executive's final comment in *paragraph 13* the Audit notes that the poor quality of the Capital Works Proposal in December 1996 and January 1997 was a reflection of the poor quality of

analysis and advice in the previous four years and, in particular, in the previous six months.

7.54 Most of the matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive's response the previously identified matters were reconsidered. New matters raised were also carefully considered. The Audit's conclusion is that the content of the Chief Executive's response does not change the Audit's opinion.

## 8 SELECTION OF THE PROJECT MANAGER SUMMARY

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### INTRODUCTION

8.1 The redevelopment of Bruce Stadium was much more than a construction project to upgrade a sporting arena. The design and delivery of the physical upgrade was only one component of the project, which also included components involving financing, marketing, Stadium operations, and business negotiations with long term hirers. Selection of the project manager was a very important decision, perhaps second only to the decision to redevelop the Stadium.

8.2 At the time the selection of the project manager was undertaken, achieving ‘best value for money’ was the key element of ACT Government purchasing. All purchasing was to be undertaken in accordance with the Purchasing Policy, other related policies and the ACT Purchasing Manual.

8.3 CRI Project Management Pty Ltd was selected as the project manager following a two-stage, select tender process. The first stage consisted of examining initial expressions of interest from which a short-list of two was selected. The second stage consisted of examining more detailed proposals from the two short-listed proponents to select the preferred proponent. The selection process commenced in November 1996, in anticipation of SOCOG’s decision to endorse Canberra as an Olympic city. Expressions of interest were requested from six selected organisations in late December 1996, and submissions narrowed down to a short-list of two proponents by early February 1997. A decision regarding the preferred proponent was made within the first week of March 1997.

8.4 The material in this Chapter is a summary of *Report 5 — Selection of the Project Manager* and for a complete understanding should be read in conjunction with that Report.

### AUDIT OBJECTIVE

8.5 The objective addressed in this part of the audit was to provide an

independent opinion to the Legislative Assembly on:

- *whether the selection of the project manager was based on sound management practices.*

## AUDIT OPINION

8.6 The Audit’s opinion on the selection of the project manager is as follows:

- *the selection of the project manager was not based on sound management practices.*

## BASIS OF AUDIT OPINION

8.7 The Audit opinion was based on the following findings and associated comments.

### Stage 1 — Assessment of Proposals

- *A methodology for evaluating the submissions received was not developed and documented.*
- *The assessment of Stage 1 submissions was not a comprehensive assessment of the submissions against the criteria or comparatively between submissions.*

### *Audit Comments*

8.8 A sound methodology was not developed to evaluate the financial and construction proposals received from the six proponents. With no sound methodology or adequate documentation the assessment of Stage 1 proposals cannot reasonably be accepted as being a comprehensive examination of the submissions against the criteria or comparatively.

### Stage 2 — Assessment of Proposals

- *The assessment of Stage 2 proposals was not a comprehensive assessment of the proposals against the selection criteria or comparatively between the proposals.*
- *Documentation of the Stage 2 assessment process is low quality and inconsistent with accepted practice.*

### *Audit Comments*

8.9 The assessment committee's inadequate assessment of risks and its simplistic consideration of complex issues did not give adequate regard to the selection criteria and the overarching principle of Government purchasing – i.e. value for money.

8.10 The committee did not seek further information from either proponent to clarify their proposals before reaching a conclusion regarding the preferred proponent.

### **The Project Management Agreement with CRI**

- *The agreement document between the Territory and CRI took some five months to finalise from the time CRI commenced work on the project.*
- *The signed agreement placed little responsibility or risk on CRI for the achievement of project outcomes; the Agreement effectively left the Territory carrying all risks.*
- *The contract did not bind CRI to the delivery of the completed project within firm time, cost or quality parameters.*

### *Audit Comments*

8.11 In recommending CRI as the preferred project manager, the assessment committee did not have an adequate understanding of the services offered in the CRI proposal or the risk allocations CRI proposed. This delayed finalisation of the agreement between the Territory and CRI, as the intention to use the standard ACT project management agreement proved to be unworkable. The agreement eventually negotiated was based on CRI's standard project management agreement and, in accordance with the CRI proposal, placed little risk on CRI (or their sub-contractor, Graf Consulting) for the achievement of project outcomes. The Agreement effectively left the Territory carrying all the significant risks.

### **The Probity Review**

- *The probity reviewer was appointed after the assessment committee had made a recommendation as to the preferred proponent.*

- *The probity review of the tender assessment process offers very limited assurance that selection of the short-list of proponents was fair and equitable.*
- *The probity review did not examine the most important Stage 2 assessment process which resulted in the selection of CRI from the two short-listed proponents.*

### ***Audit Comments***

8.12 In early March 1997, the Chief Minister’s Department requested a professional accounting firm to undertake a probity review of the assessment process which led to the appointment of CRI as project manager. The probity review was commissioned after the assessment committee made its recommendation for the project manager, but before the recommendation was confirmed or communicated to the proponents.

8.13 The probity review focused on the short-listing of proponents i.e. Stage 1 of the assessment process. It did not consider the selection of CRI as the preferred proponent from the short-list.

8.14 Considerable reliance was intended to be placed on the probity reviewer’s report for assurance that the successful proponent was selected in a fair and equitable manner. However, the probity review was commissioned as a brief ‘high level’ review with verbal terms of reference. These factors, and the timing of the review, limited the assurance that could be gained from the probity review. A close reading of the report would have identified the apparent gaps in the review’s coverage.

8.15 Overall, the probity review offers little assurance regarding the overall selection process, and specifically the selection of CRI as the project manager.

### **Construction Delivery Method**

- *The comparison of Stage 2 proposals by the committee does not evidence an assessment of the delivery methods of either proponent, or the risk profiles arising from the delivery methods (including any warranties regarding time, cost or quality).*
- *The assessment committee did not seek additional information from either proponent; additional information was necessary*

*for the committee to be able to objectively evaluate the construction aspects of the two proposals.*

### ***Audit Comments***

8.16 The information provided by proponents in their submissions, in accordance with the expression of interest documentation, was not sufficient to provide the assessment committee the opportunity to analyse in depth the proposed delivery methods (including their relative strengths, weaknesses and risks) offered by the proponents. This reduced the assurance the assessment committee could have regarding the cost, quality and time assertions included in submissions from either short-listed proponent. Analysis of these matters was important in considering the achievement of value for money in engaging the project manager.

8.17 Additional information should have been sought from both proponents to allow the assessment committee to evaluate objectively the construction aspect of the two submissions, thus reducing the project risk to the Territory.

8.18 The comparison of Stage 2 proposals by the assessment committee does not evidence assessment of important aspects of the other short listed proponent's submission relevant to the construction delivery method. These include the offer by the proponent to warrant their bid cost as a maximum upper limit, to warrant the construction completion date, their clear risk apportionment and inclusion in their submission of a list of finishes.

8.19 Based on the construction delivery methods proposed, the Audit concludes that the unsuccessful short listed proposal potentially offered the Territory greater certainty of time, cost and quality than that offered by CRI. This would have reduced the risks associated with the physical redevelopment of the Stadium.

### **Use of Select Tendering for the Stadium Redevelopment**

- *An adequate record of the reasons for deciding to use a select tendering process was not maintained.*
- *The justification put forward for using a select tendering process provides an unconvincing argument that select tendering had any significant advantage over an open public tendering process.*

- *The selected field of proponents was not adequately assessed as to their suitability, availability or interest.*

8.20 The documentation supporting the use of select tendering for the Bruce Stadium redevelopment does not provide a convincing argument that select tendering had any significant advantages over the traditional open and fully competitive public tendering process.

8.21 The Audit concludes that adequate information was not gathered to support recommendations regarding the selected restricted tender field. Although the final approved field included some local proponents in accordance with government policy, documentation does not indicate why the particular firms were selected.

#### **Inclusion of CRI Ltd among Selected Organisations**

- *Adequate consideration was not given to whether the involvement of the CRI team in developing the redevelopment and financial proposals and in preparing the Olympic bid submission compromised the Government's purchasing policy principles.*
- *Timely action was not taken to address any perceived advantage and create a reasonably 'level playing field' by ensuring that all information available to CRI/Graf Consulting was provided to other proponents as part of the EOI documentation, and allowing all proponents a longer period to prepare their proposals.*

#### **Audit Comments**

8.22 The risks associated with including the CRI team in the field to submit proposals should have been explicitly considered and a risk management strategy prepared and implemented. These matters required resolution before calling for expressions of interest for a project manager.

8.23 Timely consideration was not given to whether the considerable involvement of the CRI team in the redevelopment proposal and in preparing the Olympic bid submission compromised the Government's purchasing policy and principles by allowing CRI to have an advantage. The Audit is of the view that the CRI team had a potential advantage over other proponents. Not acting to address this advantage is inconsistent with government policy that all purchasing activities be conducted in an environment of open and effective competition.

#### **The Request for Expressions of Interest Documentation**

- *The request for Expressions of Interest documentation prepared for the Stadium redevelopment did not adequately present issues of relevance to proponents and did not meet the requirements of Australian Standard AS 4120-1994 'Code of Tendering'.*
- *The EOI documentation did not include important documentation such as the Olympic bid submission or the technical requirements for stadia published by SOCOG/FIFA.*

#### **Audit Comments**

8.24 Documentation prepared for the request for Expressions of Interest for the Stadium redevelopment did not adequately present issues of relevance to proponents and did not meet the requirements of Australian Standard AS 4120-1994 *Code of Tendering*.

#### **Advice to the Minister and Cabinet and Appointment of CRI**

- *Advice to the Cabinet concerning the assessment committee's recommendation of the preferred proponent for the project manager role, in the form of a minute to the Minister and a submission to the Cabinet, contained inadequate information for informed decision-making.*

#### **Audit Comments**

8.25 Information in the advice to the Minister and the Cabinet was neither accurate nor complete and was inadequate for informed decision-making.

8.26 A satisfactory management and accountability trail was not

maintained to adequately support key decisions and actions by executives.

## CONCLUSION

8.27 The selection of the project manager was so poorly managed that the Audit has no confidence the selection represented best value for money for the Territory.

8.28 The Audit concludes the selection process was flawed at almost every stage. In reaching these conclusions, the Audit notes that available documentation is neither comprehensive nor complete and does not generally provide an adequate management or accountability trail. The quality of documentation available to the Audit reflects poorly on the selection process.

8.29 Many of the shortfalls in the selection process reflect a lack of understanding of the Purchasing Policy and better practices.

8.30 Both stages of the selection process were flawed because a sound methodology to evaluate the financial and construction submissions received from the proponents was not developed or documented. This was a serious shortfall in practice. Consequently, the Audit considers that neither the short-listing of the proponents at Stage 1, nor the selection of the preferred proponent at Stage 2, was a comprehensive assessment of submissions against the selection criteria or comparatively.

8.31 For the assessment committee to have objectively evaluated the two short-listed submissions, additional information should have been sought from both proponents before the committee concluded their deliberations on the submissions.

8.32 The selection of CRI constituted acceptance of the process presented in CRI's submission, including the underlying concepts, assumptions and risks. It set all the future directions for the redevelopment project. It was therefore critical that the committee carefully examined the submissions, gained a proper appreciation of them, and a complete understanding of their implications. This was not done.

8.33 Based on the evidence assembled by the Audit and reflected in

this Report, the Audit concludes that the selection of the project manager was not based on sound management practice.

## DEPARTMENTAL RESPONSE

8.34 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 5 – Selection of the Project Manager*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister’s Department for his consideration and comments. The Chief Executive’s response is set out following. It is also included in the detailed *Report 5*.

8.35 Readers should note that the Chief Executive’s response was made in respect of detailed *Report 5* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit’s summary of detailed *Report 5*.

1. *“This report quite correctly finds that key aspects of the process for the selection of the project manager for the redevelopment of the Stadium were flawed. However, it does not follow, as Audit has concluded, that “the selection process was flawed at almost every stage”.*

2. *There is no suggestion of any impropriety; and the report acknowledges that extensive policy guidance was available to guide purchasing activity, the composition of the assessment committee was appropriate, comprehensive selection criteria were developed for the assessment of proposals and a probity review was undertaken. In addition, I would observe that Cabinet acted correctly in declining to make the final decision of the tender selection.*

3. *The key deficiencies of the process relate to the structuring and, in particular, the documentation of the tender evaluation process, and the implementation of an effective risk management strategy. In addition, clear accountability should have been taken by the relevant senior executive for both the overall evaluation process and the final selection decision.*

4. *As the report acknowledges, there has been substantial progress in the development of ACT purchasing policy guidelines since 1996/97. A series of new or revised guidelines have been issued, including:*

- *Government Purchasing Policy and Principles (May 1999)*
- *Tender Evaluation Plan (June 1999)*

- *Ethical Behaviour and Probity Audits in ACT Government Purchasing (September 1999)*
- *Preparation of Requests for Offers (May 2000)*
- *Risk Management in the Purchasing Process (June 2000)*
- *Evaluation of Offers (June 2000).*

5. *In all, 21 guidelines are now in place. ACT Contracts and Purchasing provides regular training to ACT Government staff in ACT purchasing policy, contractual matters and practices. This training provides ACT Government staff with the information and skills necessary to conduct procurement processes in line with the ACT Purchasing Policy and Principles.*

6. *The correct role of the Cabinet in this selection process should also be noted. While Cabinet was asked to approve the selection of the project manager, Cabinet declined to do so, electing instead to simply note the advice. This approach was adopted to avoid any suggestion of a lack of transparency in the tender selection process. This approach is consistent with the later advice of the ACT Coroner in his report on the inquest into the death of Katie Bender; and in Mr Sherman's report of February 2000."*

## CONCLUDING COMMENT

8.36 The Audit's view on the issues identified in the Chief Executive's response are discussed in the following paragraphs.

8.37 The Chief Executive's response (*paragraph 1*) acknowledges that the process for selection of the project manager for the Bruce Stadium redevelopment was flawed. However, the response then goes on to downplay both the extent of the deficiencies in the process and the significance of the process to the successful implementation of the decision to redevelop the Stadium facilities.

8.38 The Audit remains firmly of the view that the process was profoundly flawed.

8.39 It was incumbent upon the assessment committee to examine carefully the submissions presented by the short-listed proponents, to gain a proper appreciation of them, and to prepare a sound evaluation. This did not occur. As a result, the selection of CRI as the project

manager committed the government to proceeding with the completely untested process presented in the CRI submission, including its underlying concepts, assumptions and risks. The concepts and assumptions were not examined or tested to any extent when they were presented by CRI in September 1996 as the cornerstone to the Territory's Olympic bid, and they remained untested following the selection of CRI as the project manager. There was no reliable or complete analysis to support that selection of CRI offered the best value for money to the Territory.

8.40 The Chief Executive comments at *paragraph 2* of his response that the Audit has acknowledged several positive aspects of the selection process. This requires further comment.

8.41 Extensive policy guidance was available to guide the selection activities before and during the selection process. However, the guidance was generally not followed. The Audit has concluded that many of the shortfalls in the selection process reflect a lack of understanding of the Purchasing Policy and better practices.

8.42 The Audit has acknowledged that the composition of the assessment committee was appropriate for a project of the significance of the Stadium redevelopment. The Audit notes, however, that the roles of the committee members were not defined, consequently leading to breakdowns in accountability. The evidence available to the Audit suggests that the members of the assessment committee – senior executives in the ACT public service – did not comprehend the responsibilities that went with the job.

8.43 The Audit has discussed in detail the selection criteria developed for the selection process. Although the criteria were generally appropriate, the failure of the committee to develop a sound methodology to evaluate the financial and construction submissions received from the proponents was a serious shortfall in practice. The Audit has concluded that neither the short-listing of the proponents at Stage 1, nor the selection of the preferred proponent at Stage 2, was a comprehensive assessment of submissions against the selection criteria.

8.44 The probity review is discussed in detail in *Report 5 (Chapter 5)* of this Report. The Audit agrees that the decision to commission a probity review of the selection process was sensible in the circumstances.

However, a probity review, or a more in-depth probity audit, initiated at an earlier stage in the selection process would have been more beneficial and offered a higher level of assurance. The vague terms of reference and the limited scope of the review also limited the likely benefits. Overall, the probity review provides little assurance regarding the overall expression of interest assessment process, and specifically the selection of CRI as the preferred proponent.

8.45 Whether Cabinet was correct in simply noting the outcome of the selection process, rather than approving it, is not a matter that needs to be resolved through this Audit. The point raised by the Audit was that the submission put to the Cabinet in March 1997 (*Bruce Stadium Redevelopment – Recommended Tenderer*) sought the approval of the Cabinet to appoint CRI as the project manager. The submission was unsuitable for this purpose, as it contained insufficient information to enable an informed decision to be made.

8.46 The deficiencies in the selection process identified by the Audit are not simply matters of documentation as the Chief Executive implies at *paragraph 3* of his response. The deficiencies identified represent fundamental failures to perform important and essential actions. The actions were not performed and it follows that they were not documented. The deficiencies in the selection process contributed very significantly to the negative outcomes described in *Report 2 – Value for Money* and *Report 3 – Costs and Benefits*.

8.47 The matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive's response they were reconsidered. The content of the Chief Executive's response does not change the Audit's opinion.

8.48 On a positive note, the Audit commends the moves to promote better practice in government purchasing through the release of a series of policy guidelines supplemented by practical training. The Audit is supportive of this approach; the guidelines which have been prepared by ACT Contracts and Purchasing are a practical means of providing helpful and constructive guidance to government officials at all levels with an involvement in purchasing activities.

## **9 FINANCING ARRANGEMENTS SUMMARY**

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## INTRODUCTION

9.1 The Audit of the Bruce Stadium redevelopment included examining how the redevelopment was financed. The Audit objective addressed was ‘to provide an independent opinion to the Legislative Assembly on whether the management of the financing arrangements to meet the costs of redeveloping the Stadium was effective’. The Audit opinion is provided at *paragraph 9.30* of this Chapter.

9.2 Initial intentions for the redevelopment included that the source of funding to meet the costs of the redevelopment would be a combination of a Government appropriation, sale of Stadium products, (such as naming rights), and borrowings. The Audit included reviewing whether the funding used was actually obtained from the intended sources.

9.3 The Audit also reviewed the sources from which the actual finance was obtained. Unsuccessful actions taken to obtain finance from other sources were also reviewed in the Audit. This part of the Audit included identifying the total costs incurred in developing a finance structure intended to provide funding for the redevelopment.

9.4 The material in this Chapter is a summary of *Report 6 – Financing Arrangements* and for a full understanding should be read in conjunction with that Report.

## BACKGROUND

9.5 The opening sections of this summary provide background information on the financing arrangements for the Stadium redevelopment.

## SUMMARY OF PLANNED AND ACTUAL SOURCES OF FUNDS

### Expected Financing Needs and their Sources

9.6 The available documentation shows that in 1997 and early 1998 the amount of finance expected to be needed for the redevelopment, and the sources of that finance, were as set out in *Table 9.1*. The figures in the table are in agreement with Cabinet decisions made prior to the

redevelopment commencing.

**Table 9.1 — Expected Sources of Finance**

<b>Source</b>	<b>\$m</b>
Appropriated Government Capital Injection	12.3
Sale of Stadium Products, etc	8.0
Government Guaranteed Borrowing	7.0
<b>Total Finance Required</b>	<b>\$27.3</b>

9.7 As the table shows the only intended financing, through borrowings, was for \$7m. The Cabinet had agreed that borrowings would be guaranteed by the Government.

### **Actual Sources of Finance**

9.8 The actual sources of the finance used to 30 June 1999 are shown in *Table 9.2*. It should be noted that the totals in the table do not match tables of total costs presented in other Audit reports on the Bruce Stadium redevelopment. The table represents funds drawn to 30 June 1999. Expenditure after 30 June 1999 is therefore not included in the table but is included in other reports. Also, expenditure met from appropriations not specifically identified as being for the redevelopment is not included in *Table 9.2*. For information on the total capital cost, reference should be made to *Report 8 – Actual Costs and Cost Estimates*.

**Table 9.2 — Sources of Finance**

	<b>\$m</b>
Appropriated Government Capital Injection Appropriations	12.3
Sale of Stadium Products, etc	Nil
Expenditure from the Central Financing Unit Not Covered by an Appropriation Act	17.9
Commonwealth Bank Interim Financing Facility (Borrowing)	16.1
<b>Total Finance Drawn</b>	<b>46.3</b>
<i>Less</i> Cash on Hand at 30 June 1999	7.0
<b>Total Finance Used</b>	<b>\$39.3</b>

9.9 Both the expenditure from the Central Financing Unit and the expenditure from the interim financing facility were subsequently appropriated through the *Appropriation (Bruce Stadium and CanDeliver Ltd) Act 1999*.

## **SOURCES OF FUNDS**

9.10 The following comments provide outline descriptions of each of the funding sources intended to be used and/or actually used.

### **Capital Injection Appropriations**

9.11 Excluding the retrospective appropriation in June 1999, the total amount appropriated in Appropriation Acts as a capital injection for the redevelopment was \$12.3m. This amount was fully drawn.

9.12 Consistently in documentation reviewed by the Audit, this amount is referred to as the Government's contribution to the project. The amount is given prominence in many documents as a fixed amount above which the Government would not contribute.

9.13 Although described as a limit to the Government's contribution, the actual meaning was that \$12.3m was to be the maximum amount which the Government would appropriate for the redevelopment.

9.14 Documentation prepared after the redevelopment was commenced indicates that, in order to eliminate the risk of the Government having to contribute more than \$12.3m, the redevelopment construction was to be phased in such a way that expenditure of \$12.3m would allow the Olympics requirements to be met. The intention was that, if the planned revenue from sale of Stadium products, etc failed to eventuate and/or the \$7m borrowings had not been arranged by the time the \$12.3m was spent, the Government would not be exposed to more than \$12.3m as the redevelopment could be stopped at that point.

### ***Audit Comments***

9.15 From at least December 1997 the \$12.3m was not treated as a limit which could not be exceeded by using funds drawn from other Government sources (see paragraphs 9.22-9.27 of this Chapter). The

\$12.3m, however, was always treated as the maximum which would be appropriated.

9.16 Although, all except the earliest documentation sighted by the Audit supports that the Government's \$12.3m capital injection appropriation was to be expended first, which meant it had to be expended in 1997-98, only \$5.88m was appropriated in 1997-98. The remainder was appropriated in 1998-99.

9.17 Stopping or suspending the redevelopment does not seem to have been given any serious consideration during the progress of the redevelopment. The Audit has been unable to locate documentation or other evidence which provides any evidence that, once the project had commenced, consideration was ever given to ceasing the project at \$12.3m expenditure. As described in the *Report 9 – Market Research and Marketing*, the marketing of Stadium products had not commenced, yet redevelopment continued. Similarly until April 1999 no borrowings had been made, yet the redevelopment continued.

### **Sale of Stadium Products**

9.18 The Stadium financial model<sup>4</sup> contained a gross revenue projection of \$13.9m for the sale of Stadium products in one year. The majority of the projected revenue (\$8m net) was to be used towards meeting the capital costs of the redevelopment (see *Table 9.1*). The remainder was to be used to meet Stadium operating costs. It was originally intended that the marketing process would commence at an early stage in the redevelopment of the Stadium, however, this did not occur (see *Report 9 – Market Research and Marketing* for more information on the sales and marketing program).

9.19 The marketing program, when it was implemented from July 1998 to June 1999, was a failure. As *Table 9.2* shows the sales of Stadium products provided no funds to be used for the capital costs of the redevelopment.

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<sup>4</sup> See detailed Report 7 — Stadium Financial Model

## Government Guaranteed Borrowings

9.20 Initially the only intention was to borrow \$7m of the \$27m costs of the redevelopment. The intention was that the borrowings made would be repaid from the profits generated by the Stadium's operations over seven years. There was Cabinet agreement that the Government would guarantee repayments of the borrowings if the Stadium's profits proved to be insufficient.

9.21 As it transpired no borrowing arrangements were completed other than a temporary facility arranged with the Commonwealth Bank of Australia towards the end of the redevelopment construction (April 1999).

## Expenditure from the Government's Central Financing Unit not Covered by an Appropriation Act

9.22 As *Table 9.2* shows, a net amount of \$17.9m was drawn from the Central Financing Unit of the Chief Minister's Department. This was expended on the redevelopment. Funding from the Central Financing Unit was not initially intended as a source of finance for the redevelopment.

9.23 Obtaining finance early in the life of the redevelopment project was urgent as, until significant revenue was generated through marketing the Stadium's products and/or financing was arranged, the only source of funds available for the project were the amounts appropriated in the Government's 1997-98 budget. As stated previously, the appropriated amount was only \$5.9m for 1997-98. Since no revenues were being generated through sale of the Stadium's products, obtaining the necessary finance for the redevelopment construction to proceed would have been expected to be a matter of immediate urgency.

9.24 The urgency of obtaining finance was removed, however, when the Project Control Group (PCG)<sup>5</sup> was advised in July 1997 that 'the Government will provide interim finance up to 30 June 1998'. This statement is recorded in the minutes of a PCG meeting. What the statement meant was that funds held in the Territory's bank accounts

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<sup>5</sup> For more information on the role and composition of the Project Control Group see *Report 12 - Governance and Management*.

maintained by the Central Financing Unit would be used for the project until alternate financing sources were obtained.

9.25 As foreshadowed, the Cabinet agreed on 8 December 1997 to the funding being provided by the Central Financing Unit in the following terms:

- agreed that to ensure construction continues, funds be provided from the Central Financing Unit to provide project finance for the full redevelopment until the new financing structure is in place; and
- noted that the new financing structures must be in place and external finance received by 30 June 1998.

9.26 Although the Cabinet decision required that a financing structure be in place by 30 June 1998 this did not occur. The Central Financing Unit continued to fund the redevelopment project through most of 1998-99.

9.27 The existence of ready access to funds from the Central Financing Unit allowed the redevelopment to proceed without any hindrance arising from funds from intended sources not being available. Because of the availability of this Central Financing Unit finance, the failure of the marketing program to produce the \$8m intended to help fund the construction, and the delays in obtaining borrowings had no effect on the construction. If the Central Financing Unit funds had not been available the redevelopment construction could not have proceeded past the expenditure of the appropriated \$12.3m unless some other lawful source of funding was found (e.g. an additional appropriation was passed).

9.28 The lawfulness of using the Central Financing Unit is addressed in *Report 11 — Lawfulness of Expenditure*.

## **AUDIT OBJECTIVE**

9.29 The objective addressed in this part of the audit was to provide an independent opinion to the Legislative Assembly on:

- whether the management of the financing arrangements to meet the costs of redeveloping the Stadium were effective.

## AUDIT OPINION

9.30 The Audit's opinion on the management of financing arrangements is as follows.

- *management of financing arrangements to meet the costs of the redevelopment was not effective.*

## BASIS OF AUDIT OPINION

9.31 The audit opinion was based on the following findings and associated comments.

### Selection of Merchant Bankers

- *Two proposals were received to arrange a financial structure for the redevelopment.*
- *Both proposals required that the Government guarantee all loan repayments of finance advanced.*
- *A proposal, which could potentially provide the necessary finance at a better rate than the Territory could borrow in its own right, was accepted in December 1997.*
- *The better rate could only be achieved if the successful proponent's tax assumptions were correct.*

### Audit Comments

9.32 Proposals to develop a financing structure for the redevelopment were received from Natwest and from Deutsche Bank. Both of the proposals received recognised there were commercial risks inherent in the Stadium, particularly in the achievement of the cash flows projected in the Stadium financial model.

9.33 Although the Natwest proposal did not reject the Stadium financial model's projected cashflows outright, it did provide a proposal which reflected the risks inherent in the redevelopment project. This proposal required Government guarantees. The selected proponent, Deutsche Bank also recognised the commercial risks and catered for these in their proposal by having the Territory provide guarantees that it would make up to the financier any shortfalls in the Stadium revenues needed to pay interest and to repay borrowings.

9.34 Deutsche Bank were able to produce the apparently more attractive proposal because of the taxation benefits the Bank considered would be available. The Natwest proposal did not consider taxation benefits were available. To achieve the Deutsche Bank taxation benefits, the Deutsche Bank proposal contained a degree of complexity which was greater than the other proposal.

9.35 The selection of Deutsche Bank was consistent with the objective of obtaining the finance at least cost to the Territory. There was, however, considerable uncertainty to achieving the lower cost as the taxation assumptions had to be proved to be sound.

9.36 Acceptance of the Deutsche proposal committed the Territory to paying for the taxation and legal advice that Deutsche needed to obtain. The total amount paid for this advice was approximately \$231,700. The Under Treasurer also engaged taxation and legal advisers. The amounts paid to these advisers totalled approximately \$139,900.

9.37 A firm of financial advisers had been engaged to assist with inviting the structuring proposals and evaluating the proposals received. The advisers' engagement continued with the purpose of assisting with the development and implementation of the successful proposal. The advisers were eventually paid approximately \$187,000.

9.38 Because of various factors, some of which are described later, the proposal was never implemented.

### **Implementing Initial Finance Structuring Arrangements**

- *Several issues arose which delayed the implementation of the intended financing structure.*
- *Some of these would not have arisen if the financing arrangements had been put in place prior to the redevelopment commencing.*
- *The eventual identification of the requirement for the proposed entities to pay sales tax led to the abandonment of the approach.*
- *No action was taken to evaluate other possible cost effective methods of debt financing.*

*Audit Comments*

9.39 The proposal accepted to implement a financial structure which would produce a financial benefit for the Territory, relied upon income taxation advantages being generated. The concept of the structure meant that many complex issues had to be addressed and solved. In addressing these issues unforeseen problems were identified. Solving these problems delayed the implementation of the structure. Eventually the process ground to a halt when the requirement for the proposed entities to pay sales tax was identified.

9.40 For the full benefits potentially available from the financing structure to be achieved, the structure needed to be in place before expenditure on the redevelopment commenced. This, however, does not seem to have been recognised. A carefully planned approach to the financing would have ensured the structure was in place prior to expenditure occurring. Attempts to implement the structure after the redevelopment expenditure had commenced contributed to the complexities of the arrangements.

9.41 No alternative position was identified which could be adopted if the selected proposal proved to be incapable of producing the benefits claimed for the Territory. In the Audit's opinion, considering the complexity of the issues involved in the Deutsche Bank proposal, sensible management practice should have included identifying options for obtaining finance for the construction.

9.42 When the Deutsche Bank proposal did fall over, no option seems to have been considered other than to request the Deutsche Bank to arrange a revised structure. There is no documentation which provides evidence that any other alternative was considered.

9.43 In the Audit's view, the major benefit of implementing the 'tax based' structure was that it was potentially a more cost effective method of obtaining finance for the redevelopment than if the Government borrowed in its own right. This is consistent with the Audit's understanding of the initial purposes of the financing.

9.44 With the 'tax based' structure ruled out, and if it was wished to pursue alternate structures, action should have been taken to evaluate whether there were other possible methods of debt financing which could

produce a more cost effective result than the government borrowing in its own right. This type of evaluation did not occur. That this evaluation did not occur indicates that obtaining finance at least cost, which was the major objective at the commencement of the process, was no longer a major consideration.

### **Adoption of Revised Structuring Arrangement**

- *A decision was taken to retain Deutsche Bank to implement a ‘debt based’ structure; there is no documentation showing who made the decision or why.*
- *The decision to proceed with the ‘debt based’ structure was apparently based on three benefits, two of which could only be regarded as benefits if reducing the financial information available to the Assembly and the electorate is seen as a benefit.*

### **Audit Comments**

9.45 The external financial advisers identified three benefits from continuing with the Deutsche Bank structure. The first benefit identified was that of reducing the immediate cash outlay. This benefit is not, however, a benefit specifically arising from continuing with the Deutsche Bank structure. It would be available with any form of borrowing.

9.46 The second benefit identified was that the Stadium would be off balance sheet for reporting purposes. There are no tangible financial benefits from this. The third benefit identified was that the operational results would not be open to public scrutiny. There is no financial advantage from this.

9.47 At this point it should have been recognised that there were no financial benefits available from continuing with a financial structure.

9.48 As there were no financial benefits identified as obtainable by adopting the revised structure, the Audit is of the view that attempts to implement a structure should have ceased. The cessation should have been no later than July 1998 when it was clear that any possible income tax advantage would be offset by sales tax costs.

## Comments on the Revised Arrangements

- *The revised arrangement proposed by Deutsche Bank provided no financial benefits to the Territory nor would it reduce any of the Territory's financial risks.*

### *Audit Comments*

9.49 Nowhere in evaluations of the revised structure is it suggested that any cost benefit to the Territory would be generated by implementing the revised structure proposed by Deutsche Bank. Implementation of the revised structure, if it had proceeded, would have been at a net additional cost to the Territory.

9.50 The Audit's review of the benefits for the Territory identified in various evaluations reveals that the financial structure was irrelevant to all except the so called off balance sheet benefit. Generally the benefits identified, other than the off balance sheet matter, would have been available using standard public sector structures and arrangements.

## CONCLUSION

9.51 Initially the Under Treasurer's intention was to create an attractive financing structure to financially benefit the Territory through securing a lower cost of finance than the Territory could obtain from borrowing in its own right. This intention, however, was defeated when attempts to implement a financially beneficial structure failed in June 1998.

9.52 The Audit is firmly of the view that efforts to put in place a financing structure should have ceased no later than July 1998. At this time it should have been clear that there was no financing structure available which would be more financially beneficial to the Territory than the Territory directly borrowing on its own behalf. The decision taken in June 1999 to appropriate the funds for the redevelopment was therefore the correct decision in the Audit's opinion. The decision, however, should have been made in July 1998 or earlier.

9.53 The main priority of the officials managing the redevelopment was to deliver the full Stadium redevelopment to the original design concepts including targeting the premium end of the market. The Audit is of the view that the availability of the unappropriated Central

Financing Unit funds led to controlling the costs of the construction to the estimates advised to the Cabinet and the Legislative Assembly being a lower order priority than completing the full redevelopment to the original design, scope and size. The approach seems to have been to spend the available money (i.e. from the Central Financing Unit) to construct the full redevelopment and to work out later how to recoup the money spent. Other reports, particularly *Report 8 — Actual Costs and Cost Estimates*, also comment on this matter.

9.54 Using Central Financing Unit funds eventually led to the position where approximately \$27m not covered by an appropriation had been spent. The only option that seems to have been considered to resolve this situation was to implement a relatively complex financing structure. Over time, the approach seems to have become that the structure would be implemented, irrespective of whether the implementation would produce any financial benefits for the Territory.

9.55 Once it was clear (in July 1998) that the planned sources of finance (i.e. borrowings with a beneficial cost of finance and the revenue from sales of Stadium products) were not going to eventuate, in the Audit's opinion, an Assembly appropriation should have been sought. This option apparently was not recognised as an available option.

9.56 In summary the Audit's opinion is that the management of the financing arrangements to meet the costs of the redevelopment was ineffective. Clear indications of poor management are:

- the development of borrowing arrangements commenced in September 1997 and by June 1999, some 20 months later, had not been put in place;
- external legal and other costs incurred in developing and attempting to implement the structure reached more than \$680,000;
- the intended financing structure had no potential to provide financial benefits to the Territory;
- the intended financing arrangement was inefficient as it required two companies and a Trust to be created which, in turn, would have created ongoing legal and financial obligations and generated costs; and
- creation of the companies and the Trust was necessary only to enable the financing structure to work.

**DEPARTMENTAL RESPONSE**

9.57 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 6 – Financing Arrangements*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister’s Department for his consideration and comments. The Chief Executive’s response is set out following. It is also included in the detailed *Report 6*.

9.58 Readers should note that the Chief Executive’s response was made in respect of detailed *Report 6* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit’s summary of detailed *Report 6*.

1. *“This report finds that the management of the financial arrangements to meet the costs of redeveloping the Stadium was not effective. The reasonableness of such a sweeping conclusion is questionable.*

2. *While private financing arrangements for the bulk of the cost of the redevelopment were not implemented, the report acknowledges that the necessary arrangements had been developed before the Government decided to meet the total cost of the redevelopment through appropriations. The fact that private financing arrangements ultimately were not adopted does not, by itself, justify the conclusion that the management of these arrangements was not effective.*

3. *I do agree, however, that it would have been prudent to abandon the private financing objective in June 1998 when it became clear that such arrangements would not yield any financial benefit to the Territory. My understanding is that this decision was not made because officials were still committed to limiting the cost to the Territory to the original \$12.3m.*

4. *From the material I have seen, I am satisfied that the officers in the Office of Financial Management approached the issue of the financing of the redevelopment in good faith. Undeniably, errors were made in the interpretation of the requirements of the Financial Management Act.*

*These errors cannot be excused, even if they can be understood in the context of the transition from cash to accrual accounting. The need for more structured and continuing training in the requirements of the Financial Management Act is acknowledged.*

5. *Chapter 2 of this report finds that the purpose intended to be achieved from raising finance – to obtain finance at least cost to the Territory — was initially clear. As Audit has not criticised this intention, it would seem to be safe to conclude that this intention was reasonable. The difficulty and complexity in seeking such an outcome cannot be denied. The officials involved sought, and obtained, appropriate professional advice.*

6. *The officials undertaking this activity were required to operate in the real world, with all the attendant limitations of time constraints and lack of access to the benefits of hindsight. In assessing their performance, the report offers no such concessions. For example, the report argues that the financing structure should have been in place before construction commenced. Such a conclusion is fine in theory, but it ignores the circumstances of the redevelopment of Bruce Stadium where outcomes were required to be achieved by a given date.*

7. *Similarly, the report argues that sensible management practice would have been to identify alternative options for obtaining finance, given the complexity of the issues involved in the Deutsche proposal. The report suggests no such alternatives, while the sequence of events described in the report demonstrates the considerable efforts made by officials to select and implement the most favourable arrangement for the Territory.”*

## CONCLUDING COMMENTS

9.59 The Audit’s view on the issues identified in the Chief Executive’s response are discussed in the following paragraphs.

9.60 In *paragraph 2*, the Chief Executive comments that the financing arrangements had been developed when the Government decided to meet the total cost of the redevelopment through appropriations. That is the arrangements had reached the stage where they could be implemented. It needs to be remembered that it had taken twenty months to reach this stage. Taking twenty months of itself, does not justify the conclusion that management was not effective. When, however, the time taken is considered in the context of what occurred during the twenty months

period, the Audit's opinion is considered to be well founded. This is consistent with the Chief Executive's comment in his *paragraph 3*.

9.61 In *paragraph 3* the Chief Executive expresses his agreement that it would have been prudent to abandon the private financing objective in June 1998 when it became clear that such arrangements would not yield any financial benefit to the Territory. That the efforts continued beyond June 1998 is clear evidence of ineffective management. Also in *paragraph 3* the Chief Executive comments that the decision to continue with developing a finance structure was taken because officials were still committed to limiting the cost to the Territory to \$12.3m. In *Report 6 (paragraphs 1.10 to 1.18)* the misconceptions reflected in the officials' commitment are addressed. That the responsible executive had such misconceptions is clear evidence of ineffective management. It also should be mentioned that the original intention was to borrow \$7m and the borrowing requirement had reached more than \$30m by the time the financing arrangement was abandoned.

9.62 In *paragraph 4* the Chief Executive comments that the officials in the Office of Financial Management approached the issue of the financing of the redevelopment in good faith. The Audit is unable to determine the responsible executive's motivations and therefore cannot respond to the Chief Executive's comment. The Chief Executive goes on to state that errors made were understandable. The executive responsible for the financing was the most senior financial official in the ACT public service. It would be expected that he should have had a complete knowledge of the operation of the Financial Management Act. On this basis the Audit does not agree that the errors were understandable.

9.63 In *paragraph 5* the Chief Executive comments that the officials involved sought, and obtained, appropriate professional advice. This is correct. The extent of the advice and the costs are set out in the Audit report. One of the Audit's points is that, at least from June 1998, no further advice should have been sought as the financing arrangements could not generate the low cost of finance which was originally thought to be available.

9.64 The Audit makes no comment on the Chief Executive's reference to hindsight in *paragraph 6*. In relation to the reference to the financing structure being in place before construction commencing, the Audit would point out that, although this was not contemplated by the responsible executives, it was achievable. The project manager was

appointed in early April 1997 and construction did not commence until September 1997. There were almost five months available to develop a structure prior to construction commencing, however, no work was done.

9.65 In relation to *paragraph 6* of the Chief Executive's response the obvious alternatives were to seek an appropriation, or for the Territory to borrow directly in its own right.

9.66 All of the matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive's response they were reconsidered. The Audit conclusion is that the content of the Chief Executive's response does not change the Audit's opinion.

## **10 STADIUM FINANCIAL MODEL SUMMARY**

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### **INTRODUCTION**

10.1 The Stadium financial model was first presented to executives in September 1996 by CRI Limited, a consultant who assisted the Government in preparing the bid to host Olympic soccer in Canberra and in formulating a redevelopment plan for the Stadium. The financial model was produced by Graf Consulting International, who had been engaged by CRI to assist in its consultancy work from July to September 1996. In March 1997, CRI Project Management Pty Ltd was appointed as project manager for the redevelopment. Graf Consulting was involved in preparing CRI's successful proposal to project manage the redevelopment and was subsequently sub-contracted by CRI to provide a range of services including financial modelling and business plan preparation.

10.2 Over twenty versions of the model were produced until June 1999. Most versions of the model were produced by the consultant, although later versions were produced under the direction of, or directly by, government executives.

10.3 The model is a computer spreadsheet showing financial projections for the redevelopment and the redeveloped Stadium. The model was intended to be a predictive tool for use in decision making. In particular, it could be used to project cash flows, net present values, returns on investment, borrowing requirements, and revenue flows to the Stadium and its hirers. Although the consultant and executives often refer to the financial model as a 'business plan', the model is not a business plan as conventionally understood.

10.4 The results produced by the model were used regularly as an indicator of the commercial viability of the redeveloped Stadium and as a justification for a number of major decisions on the Stadium's redevelopment and operation. The model continued to inform official views of the Stadium's commercial viability as late as June 1999.

10.5 Several versions of the model have been examined by the Audit because of their significance to decision making and to provide an indication of the changes which were made to the model's projections

throughout its development from September 1996 to June 1999. The versions examined by the Audit were:

- *Version 2* (1996), which was the key financial document in the decision to bid for Olympic soccer and redevelop the Stadium;
- *Versions 6 and 7* (1996 and 1997), which were key documents in CRI's successful submission for the role of the redevelopment project manager;
- *Versions 11 and 11a* (1997), which have been identified by Graf Consulting as a fully developed version of the model; and
- *Versions 12d* (1998), *BRUC1* (1998) and *AA* (1999), which were produced under the direction of, or directly by, government executives, and were the final versions of the model produced.

10.6 In addition, the Audit examined a major independent review of the model, conducted by Arthur Andersen in 1997 (referred to in this Report as the Andersen Review).

10.7 The material in this Chapter is a summary of *Report 7 — Stadium Financial Model* and for a complete understanding should be read in conjunction with that Report.

## AUDIT OBJECTIVE

10.8 The objective addressed in this part of the Audit was to provide an independent opinion to the Legislative Assembly on:

- whether it was reasonable to use the Stadium financial model as a reliable primary document for decision making.

## AUDIT OPINION

10.9 The Audit's opinion on the use of the Stadium financial model is:

- ***It was not reasonable to use the Stadium financial model as a reliable primary document for decision making.***

## BASES OF AUDIT OPINION

10.10 The audit opinion was based on the following findings and associated comments.

### The Model in General

- *The large projected revenue increases in all versions of the model were very questionable.*
- *In all versions of the model, the improvement in the financial performance of the Stadium is projected to be almost immediate; this was also very questionable.*

### Audit Comment

10.11 Graf Consulting has identified three key assumptions which it considers would generate the increased attendance and revenue in the model. These were the redevelopment itself, aggressive marketing, and improved management of the Stadium. There is little evidence, however, that the projected increases in the various versions of the model would result from the implementation of these three general assumptions. Two of the assumptions have been fully or partly implemented with little effect on revenues.

### Version 2 (19 September 1996)

- *Government executives did not subject Version 2 to reasonable critical examination before its results were referred to in important documents and used to support important decisions.*
- *Version 2 was an unsuitable document for use in decision making.*
- *The consultant who prepared Version 2 has advised the Audit that it was an unsuitable document for use in decision making.*

### Audit Comment

10.12 In *Version 2*, the Stadium is projected as being transformed from having a small cash deficit in 1995-96 to having a \$6.8m cash surplus in 1998-99. This transformation is based on an \$8m increase in operating revenue. The increase in operating revenue is based on seemingly unrealistic changes such as an increase in attendance to nearly six times the 1995-96 level at the same time as ticket prices more than triple. A further \$9.6m is projected to be received in capital payments in the 20 month period up to December 1998, most of which is received within a 12 month period.

10.13 The increases in revenue, attendance and ticket prices were so large and so quick in *Version 2* that even a cursory review could not have failed to notice them. It is reasonable to expect therefore that the projections would have been questioned and their achievability tested before *Version 2*'s results were referred to in important documents and relied on for important decisions. This is particularly so given the size and financial significance of the project.

10.14 The evidence available to the Audit suggests that little serious questioning and no detailed analysis of *Version 2* occurred. No considered reason was put forward for why attendance, ticket prices and revenues would increase so dramatically. In the Cabinet submission *Canberra — an Olympic City* and in the subsequent Capital Works proposal the huge increases in revenue are justified solely by a reference to 'the increased earning power of a modern Stadium compared to an outdated 1970's vintage Stadium'.

10.15 Graf Consulting, who prepared *Version 2*, advised the Audit that its projections should not have been used as they were not intended to be fully researched projections capable of being relied upon for investment-related decision making. The Audit's review of *Version 2* indicates that the projections were clearly very doubtful.

#### **Versions 6 (2 December 1996) and 7 (26 February 1997)**

- *Attendance and revenue figures in Version 7 were so much higher than recent results or the Lend Lease projections that it was reasonable to expect that the assessment committee should have conducted a detailed analysis of the competing models.*
- *No detailed analysis of Version 7 or the Lend Lease model was undertaken by the assessment committee.*
- *Graf Consulting has advised the Audit that Versions 6 and 7 were not meant to be reliable forecasts.*

#### ***Audit Comment***

10.16 The process by which CRI was chosen as project manager is discussed in *Report 5 — Selection of the Project Manager*. That Report concludes that there is no evidence that the assessment committee systematically analysed the business plans/financial models submitted by the short listed proponents, CRI and Lend Lease. The Audit's review of

*Version 7* supports the view that no systematic analysis of *Version 7*'s projections occurred.

10.17 The Lend Lease and CRI models produced very different projections for the redeveloped Stadium. The Lend Lease model showed far lower capital and net operating revenues than the Graf model. As a result, the Lend Lease model showed that the Government would have been required to contribute \$17m during the redevelopment and could not expect a return on this investment for 15 years. The CRI model shows that the Government's contribution could be limited to \$12m and that the Government could expect a significant stream of surpluses from the Stadium's operations.

10.18 Given the significance attached by the committee to the projections in the two financial models and the wide differences in projected results between the models, it is reasonable to expect that a careful comparison of the two models would have been conducted and that the results of this comparison would have received close attention from the committee. No such comparison occurred.

10.19 *Version 7* of the model projected lower attendance and revenue figures than *Version 2*. Nevertheless, the figures projected in *Version 7* were still far above previous actual figures. The Audit has concluded that the differences between actual figures and those contained in *Version 7* were so great that it is reasonable to expect that executives would have subjected *Version 7* of the model to close scrutiny before accepting it as a reasonable financial forecast which was sufficiently reliable to be used in making important decisions about the redevelopment.

10.20 The Audit is of the view that if *Version 7* had been closely scrutinised, its projections must have been recognised as questionable. This recognition may have led to a review of the proposed financing, design, size and scope of the redevelopment.

10.21 The importance of close scrutiny at the time is highlighted by the representation of Graf Consulting to the Audit that Graf Consulting did not consider that *Versions 6* and *7* contained, or were required or intended to contain, financial forecasts for the redeveloped Stadium. The Audit notes that this view is inconsistent with the description of the financial model contained in CRI's first and second stage proposal

documents. These proposals clearly indicate that the models were intended to be serious, realistic and based on research.

#### **Versions 11 (14 October 1997) and 11a (20 October 1997)**

- *Version 11a has revenue projections which are lower than those contained in Version 6, but which are significantly higher than past actual results.*
- *It is reasonable to expect that officials and executives would have subjected Version 11a of the model to close review before accepting it as a reasonable financial forecast.*
- *The Audit has not located or been provided with any documentary evidence that executives undertook a close review of Versions 11 or 11a.*

#### ***Audit Comment***

10.22 According to Graf Consulting, *Versions 10 to 12a* were properly or fully developed versions of the model. Although *Version 11a* projects smaller capital and operating revenue than *Version 6*, the projections in *Version 11a* are still significantly higher than previous actual results. The cash surplus in 1999-2000 was projected in *Version 11a* to be \$1.9m higher than the actual figure in 1995-96. In addition, upfront capital revenue of \$7.7m was projected from the sale of products such as naming rights and passholder memberships. The Audit has concluded that, as with previous versions, it was reasonable to expect that executives would have had *Version 11a* of the model subjected to close scrutiny before accepting it as a reasonable financial forecast on which to base investment decisions.

10.23 Other than the independent reviews mentioned in the following paragraph, the Audit has not located any evidence that executives undertook a close review of *Version 11a* or of the other models identified by Graf Consulting as properly or full developed versions of the model (i.e. *Versions 10 to 12a*).

10.24 Independent reviews of *Version 10* were conducted by Arthur Andersen and IMG. The Audit has concluded that neither review provided a high level of assurance in regard to the model's projections. Documentation has not been sighted to support the view that a close analysis of either review report was undertaken by executives. The

Andersen Review is discussed later.

### Versions 12d, BRUC1 and AA

- *Version 12d (12 November 1998) produced slightly less optimistic results than Version 11a but nevertheless projected that the government contribution would be \$12.3m and that the project would produce a small, positive Net Present Value.*
- *Versions BRUC1 and AA produced more optimistic results than Version 12d.*
- *The last version of the model produced by government executives – Version AA dated 21 June 1999 – was so unreliable it did not project a reasonably accurate result for the 1998-99 financial year.*

### *Audit Comment*

10.25 Graf Consulting has advised that *Versions 12b to 12d* were produced under direction from government executives. The audit has examined the changes made between *Versions 11a* and *12d*. These changes appear to be a balancing act between the pressures of emerging reality and the desire for the model to project results that were consistent with the Government's objectives of appropriating no more than \$12.3m and of the Stadium appearing to be commercially viable.

10.26 *Version 12d* shows that the Government contribution could be maintained at \$12.3m and that the project would produce a small positive NPV. These results are achieved despite reductions in some important revenue projections and a significant known rise in projected construction costs being included in the model. To offset these, other revenue projections have been increased and expense projections reduced.

10.27 Of particular note is the increase in projected revenue from entertainment. These events had not been held at the Stadium for several years. The increase in projected revenue from entertainment does not appear to be supported by any systematic research or reasoning. No documentary evidence has been found by the Audit or provided to it which explains why the projected number of entertainment events was increased from one per year in earlier versions to five per year in *Version 12d*.

10.28 After *Version 12d*, new versions of the model were directly prepared by executives. These included *Versions BRUC1* and *AA*. The financial model became less realistic during the seven months it was directly prepared by executives and therefore less useful for decision making. The Audit's view is that the versions prepared by executives were virtually useless for decision making.

10.29 The total cash surpluses projected to be generated from the redevelopment over the life of the project increased from \$76.1m in *Version 12d* to \$129.1m in *Version AA*. The capital injection from government is maintained at \$12.3m and the net present value increases from \$5.2m to \$22.5m. These results are achieved by reducing projected payments by a larger amount than the reduction in projected receipts, and by removing the cost of furniture, fittings and equipment from the cost of construction.

10.30 The last version of the model produced by executives – *Version AA* dated 21 June 1999 – was so unreliable it did not project a reasonably accurate result for the 1998-99 financial year despite being prepared only nine days before the financial year ended. By this date the redevelopment had been completed and the financial model had been in existence for nearly three years. The lack of accuracy is therefore notable. On the other hand, it is unclear what purpose the model was now serving.

### **The Andersen Review of the Model**

- *The Andersen Review Report should not have been represented as providing a high level of assurance about the reliability of the projections in the financial model.*

### ***Audit Comment***

10.31 The Andersen Review was presented in important Cabinet submissions as being part of a rigorous testing of the financial model which gave a significant degree of confidence that the model's results could be relied upon as sound information on which to base decisions.

10.32 The Audit has concluded that executives should not have accepted the Review Report or presented it as providing a high level of assurance about the financial model. If the report had been carefully reviewed, and questions asked, the executives would have recognised

that the report's content was unreliable for providing even a moderate level of assurance.

10.33 The Review report does not provide a clear statement of its conclusion as required under the relevant Auditing Standard. Conclusions on specific matters are often presented obscurely or avoided. There are numerous basic errors and omissions in the text and tables. Most of the Review Report was material written by Graf Consulting and supplied to Arthur Andersen during the course of the Review.

10.34 The Stadium redevelopment was a risky venture with major financial implications for the Government. The financial model was the key document in the Government's understanding of these financial implications. The Andersen Review of the model was identified by executives as being rigorous testing in support of the model. Given these three points, the Audit expected to find considered written assessment of the Andersen Review Report by an officer or officers with financial expertise and an understanding of audit reviews. Such an assessment has not been found by the Audit or provided to the Audit.

10.35 If executives had ensured the Report had been reviewed carefully, and questioned Andersen on the Report, they would have recognised that the Report's content should not have been relied upon for providing even a moderate level of assurance.

## **CONCLUSION**

10.36 All versions of the model show attendance and revenue projections which were significantly higher than actual figures at the time. The large projected revenue increases in all versions of the model were very questionable. In all versions of the model, the improvement in the financial performance of the Stadium is projected to be almost immediate. This was also very questionable. Little evidence has been presented to the Audit to support the projected increases in the model.

10.37 The evidence available to the Audit suggests that little serious questioning and no detailed analysis were conducted of any version of the model. This was despite the significant reliance placed on various versions of the model throughout the project and despite the financial significance of the project.

10.38 In particular, there is no evidence that the assessment committee for the selection of a project manager systematically analysed the financial models submitted by the two short listed proponents. This was even though *Versions 6 and 7* of the Graf financial model produced attendance and revenue projections far above the model presented by the other proponent. Graf Consulting has represented to the Audit that it does not consider that *Versions 2, 6 or 7* contained, or were required or intended to contain, financial forecasts for the redeveloped Stadium.

10.39 The Andersen Review Report did not provide even a moderate level of assurance about the financial model. It was largely material written by Graf Consulting and supplied to Arthur Andersen during the course of the Review. There are numerous errors and omissions in the text and tables. The Report does not provide a clear statement of its conclusion.

10.40 The last versions of the model, produced directly by executives, became less, rather than more, reliable. In the Audit's view none of the versions of the financial model was suitable to be relied upon for investment decision making.

## DEPARTMENTAL RESPONSE

10.41 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 7 – Stadium Financial Model*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister's Department for his consideration and comments. The Chief Executive's response is set out following. It is also included in the detailed *Report 7*.

10.42 Readers should note that the Chief Executive's response was made in respect of detailed *Report 7* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit's summary of detailed *Report 7*.

1. *"I agree with the report's conclusion that the short term revenue projections in the financial model represented such a change from previous experience that officials should have been more cautious in relying on the predicted outcomes. Commitment to the achievement of these revenue predictions in turn resulted in a delay in accepting that additional direct Government funding needed to be sought. That in turn*

had consequences for the type of financial arrangements which were pursued.

2. As with most events that appear, with the benefit of hindsight, to have been significantly misguided, there was a quite reasonable basis for proceeding at the time and subsequent actions were pursued logically and diligently.

3. Drawing on the experience at other major venues, the proposition that substantial revenue could be achieved from commercial sources is reasonable. As I have observed in response to other reports, there are good prospects that much of that revenue may well be achieved over the medium term, other than the projected up-front payments.

4. In addition, officials did seek to validate the outcomes of the financial model through the use of two additional expert organisations. I agree that some of the advice received as a result was less than clear and that the summary advice to Ministers on the outcome of these additional checks was more favourable than a closer reading of the material might support. The very tight timescales imposed by the Olympics provides some explanation for this shortcoming.

5. I believe that it was quite reasonable for Cabinet to rely on the subsequent advice and to take comfort that the predicted outcomes from the financial model had been the subject of expert third party review.

6. The report argues that all of this external advice should have been the subject of further “reasonableness reviews”. This is a somewhat difficult argument to sustain. Consultancy advice is sought where officials lack either the available resources or the necessary expertise or knowledge. Officials are obliged to ensure that they understand the nature of the advice received; but if they lack the relevant expertise it may

*difficult to undertake the reasonableness reviews suggested in the report. The alternative would be to seek yet more consultancy advice, but who would then check the reasonableness of that advice.”*

## CONCLUDING COMMENTS

10.43 The Audit’s view on the issues identified in the Chief Executive’s response are discussed in the following paragraphs.

10.44 The Chief Executive’s comment in *paragraph 1* that ‘officials should have been more cautious in relying on the predicted outcomes’ in the model is an understated recognition of the issues raised in the Audit’s Report on the Stadium financial model.

10.45 As this Report shows, the model was the only financial analysis underpinning the decision in September 1996 to redevelop the Stadium. It was a key factor in the selection of the project manager in early 1997. It was relied upon in important Cabinet submissions on hiring arrangements and financing in 1997 and 1998. It was the basis for revenue targets for the marketing campaign conducted in 1998 and 1999. It continued to inform official views about the financial prospects for the Stadium in late 1999.

10.46 The financial model has been at the heart of decisions made about every aspect of the redevelopment project discussed in this Audit. As this Report shows, over the last four years the financial model has never been subjected to rigorous testing by officials. This is despite the very questionable nature of the projections contained in every version of the model.

10.47 The Chief Executive states in *paragraph 2* that ‘there was a quite reasonable basis for proceeding at the time and subsequent actions were pursued logically and diligently’. The Chief Executive offers no evidence for this statement in regard to the use of the Stadium financial model. The content of this Report raises serious doubts about such a statement. Not only were successive versions of the model relied upon without serious questioning by officials, but during the seven months the model was directly under the control of officials, it became less reliable. As the problems with revenue projections became more obvious, other parts of the model’s revenue projections were increased without reason

or justification. The Audit cannot agree that there was a quite reasonable basis for proceeding and subsequent actions were pursued logically.

10.48 The Chief Executive states in *paragraph 3* that ‘Drawing on the experience at other major venues, the proposition that substantial revenue could be achieved from commercial sources [is] reasonable’. The evidence on other stadiums which has been gathered by the Audit suggests that the experience at Bruce Stadium of financial failure and write-downs is common. The key question, however, is whether the revenue projections in the financial model for Bruce Stadium were reasonable.

10.49 In this regard, the Chief Executive further states in *paragraph 3* that ‘there are good prospects that much of that revenue [projected in the model] may well be achieved over the medium term, other than the projected up-front payments’. This is not supported by the Stadium Authority’s forward estimates, which show a cash deficit of about \$0.9m in 2003-04. This is consistent with the actual deficit in 1998-99 of \$1m. The Audit notes that this forward estimate is based on optimistic assumptions about receipts and payments. In contrast with the Stadium Authority’s estimates, the latest version of the model sighted by the Audit projected a cash surplus of \$3.8m in 2003-04. The Audit is unaware of the ‘good prospects’ referred to by the Chief Executive that the revenue projections in the model will be achieved in the medium term.

10.50 The Chief Executive states in *paragraph 4* that the advice received from two ‘expert organisations’ on the model ‘was less than clear and that the summary advice to Ministers on the outcome of these additional checks was more favourable than a closer reading of the material might support’. The Chief Executive’s response goes on to say that ‘the very tight timescales imposed by the Olympics provides some explanation for this shortcoming’. The Audit notes that the reviews conducted had nothing to do with the Olympics. They were commissioned in response to concerns expressed by the major hirers about the projections in the model. The review reports were received in August and October 1997 and used in Cabinet submissions in December 1997 and December 1998. The statement that the Olympics timetable prevented critical assessment by officials is unsupported.

10.51 The Chief Executive states in *paragraph 6* that ‘Officials are obliged to ensure that they understand the nature of the advice received;

but if they lack the relevant expertise it may [be] difficult to undertake the reasonableness reviews suggested in the report. The alternative would be to seek yet more consultancy advice, but who would then check the reasonableness of that advice'. In the Audit's view, if officials lack the expertise to understand the advice of consultants, then an alternative to commissioning further consultancy work might be to seek advice from other officials who do have the necessary expertise. Moreover, if particular officials lack the expertise to understand the advice of consultants, it could be asked why these officials are commissioning, receiving and using this advice to in turn provide advice on major decisions costing tens of millions of dollars to the Territory. Of concern is the inference that it was reasonable for senior officials to provide advice to Cabinet from a position of ignorance.

10.52 The matters raised by the Chief Executive were identified during the Audit and carefully examined. On receipt of the Chief Executive's response they were reconsidered. The Audit's conclusion is that the content of the Chief Executive's response does not change the Audit's opinion.

## 11 ACTUAL COSTS AND COST ESTIMATES SUMMARY

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### INTRODUCTION

11.1 The Cabinet made various decisions in relation to the Bruce Stadium redevelopment, several of which were based, in part, on cost estimates.

#### **Estimates Advised to Cabinet**

11.2 The initial cost estimate was contained in a submission to the Cabinet in September 1996 titled *Canberra — An Olympic City*. The Cabinet was advised the ‘total cost of the Master Plan’ for the Bruce Stadium redevelopment was estimated at \$27m, which would be funded from various sources, including a \$12m ‘equity investment’ by the Government. The Cabinet agreed to the full redevelopment proceeding if the Olympic soccer bid was successful.

11.3 In March 1997, following a process to select a project manager for the redevelopment, the Cabinet was advised the ‘indicative construction cost’ of the redevelopment would be up to \$27m (Cabinet Submission titled *Bruce Stadium Redevelopment — Recommended Tenderer*). It was confirmed that the Government’s funding would be limited to \$12m.

11.4 In December 1998, a submission to the Cabinet titled *Bruce Stadium Financing* included an outline of a revised budget for the redevelopment. The Cabinet was advised that ‘cost pressures’ on the project, summarised in the submission, had caused the cost of the redevelopment to increase to \$33.5m. The Cabinet noted the increased cost and agreed to proceed with the full redevelopment while maintaining the government’s existing commitment of \$12.3m. The Cabinet also noted that other than the \$12.3m, there would be no further call on the ACT for the redevelopment.

11.5 The material in this Chapter is a summary of *Report 8 — Actual Costs and Cost Estimates* and for a complete understanding should be read in conjunction with that Report.

## AUDIT OBJECTIVE

11.6 The objective addressed in this part of the audit was to provide an independent opinion to the Legislative Assembly on:

- whether the actual costs of the redevelopment were contained within the cost estimates on which Cabinet decisions were based.

## AUDIT OPINION

11.7 The Audit's opinion on actual costs and cost estimates is as follows:

- *the actual costs of the redevelopment were not contained within the cost estimates on which Cabinet decisions were based.*

## BASIS OF AUDIT OPINION

11.8 The Audit opinion was based on the following findings and associated comments.

### Comparison of Actual Costs with Cost Estimates

11.9 *Cost Estimates* — The Cabinet was advised in March 1997 that cost estimates for the redevelopment were \$27.3m. In December 1998, the Cabinet was advised of a revised budget totalling \$33.5m. In addition, a further \$2.5m was made available to the project from other appropriations.

11.10 *Actual costs* — A summary of the actual costs of the redevelopment is presented in *Report 8 — Actual Costs and Cost Estimates*. Briefly, expenditure relevant to the cost estimates advised to the Cabinet totalled \$38.8m, with further expenditure of \$2.5m being met from other appropriations. Expenditure of \$3.6m was not covered by the cost estimates advised to the Cabinet. This was for furniture, fittings and equipment (\$3.1m) and capitalised interest, financing and legal costs (\$0.5m). Total costs for the redevelopment were \$44.9m.

11.11 The cost estimates advised to the Cabinet were for the direct design and construction of the redevelopment. The estimates included an

allocation for a video replay board but did not include furniture, fittings and equipment (FF&E), or the offsite works which were met from other appropriations. It is therefore reasonable to compare the cost estimates advised to the Cabinet with the actual costs of the design and construction including the video replay board, but excluding FF&E and offsite works.

11.12 This comparison presents the most conservative view of the difference between actual costs and the costs advised to the Cabinet. The results of this comparison follow:

<b>Table 11.1 — Comparisons between Actual Costs and Estimates Advised to the Cabinet</b>	
<b>Design and Construction Actual Costs Excluding Furniture, Fittings and Equipment and Other Agency Appropriations</b>	<b>\$38.8m</b>
Variation from initial cost estimate (\$27.3m)	\$11.5m
Variation (%)	42.1%
Variation from December 1998 revised cost estimate (\$33.5m)	\$5.3m
Variation (%)	15.8%

11.13 This comparison shows the variation between cost estimates advised to the Cabinet and actual costs was very high. This is particularly so based on the original cost estimate advised to the Cabinet of \$27.3m. On this basis, the excess was 42.1%.

11.14 In the case of the revised cost estimate, the excess was 15.8%. Considering that the Cabinet was advised of the increased estimate in December 1998, which was only six months before the redevelopment was completed in June 1999, the excess of 15.8% is also very high.

11.15 An alternative comparison is between the total costs of the redevelopment and the total of cost estimates advised to the Cabinet and other appropriated funds.

11.16 The Cabinet made decisions based on cost estimates contained in submissions it received. Some payments for the redevelopment, however, were made from other agency appropriations. Adding the initial estimated cost and the appropriated amounts, the total funds available were \$29.8m, or \$36m when the December 1998 revised cost estimate is taken to account.

11.17 The Audit believes this is the best comparison for accountability purposes. It compares all costs of the redevelopment with the total of all funds which could be considered as authorised in some way for use on the redevelopment; i.e. the estimated costs advised to the Cabinet and other agency appropriations.

11.18 The results of the comparison follow:

**Table 11.2 — Comparisons between Actual Costs and Total Funds Available**

<b>Total Direct and Associated Costs</b>	<b>\$44.9m</b>
Variation from total available funds March 1997 (\$29.8m)	\$15.1m
Variation (%)	50.7%
Variation for total available funds December 1998 (\$36.0m)	\$8.9m
Variation (%)	24.7%

11.19 This comparison also shows large cost overruns. When the total costs are compared with funds initially available, the overrun is \$15.1m or 50.7%. When compared with the revised cost estimate, the overrun is \$8.9m or 24.7%.

***Audit Comments***

11.20 The two comparisons presented by the Audit in this summary clearly show that actual costs exceeded the estimated costs advised to the Cabinet by very significant amounts. In detailed *Report 8 – Actual Costs and Cost Estimates* the Audit has presented other comparisons. These also show large excesses of actual costs over estimates.

**Initial Estimate and Advice to the Cabinet – September 1996**

- *The Cabinet agreed in September 1996 to redevelop the Stadium to ‘full specifications’, at an estimated cost of \$27m, subject to the Olympic bid for soccer being successful.*
- *The initial estimate (\$27m), which was the basis for the Cabinet agreement and included the Olympic bid, was indicative only.*
- *The Audit has sighted no evidence to indicate the cost estimate was reviewed for reasonableness or in detail before it was included in the September 1996 submission to the Cabinet or the Olympic bid.*

***Audit Comment***

11.21 The estimated cost of \$27m included in the Cabinet submission which led to the decision to redevelop the Stadium was based on notional sketches. No detailed design had been prepared. The available evidence indicates clearly the estimate was indicative only.

11.22 This preliminary estimate became integral to all following considerations of redeveloping the Stadium. Importantly it was the basis for the advice to the Cabinet that \$27m was the amount required to be expended to complete the full redevelopment.

11.23 The estimate was not reviewed (either for reasonableness or in detail) before it was included in the September 1996 submission to the Cabinet and the Olympic bid document. Analysis should have been conducted to ensure the basis on which the estimate was prepared (and its likely accuracy) and the items covered by the estimate were understood.

**Estimated Cost and Advice to the Cabinet – March 1997**

- ***The Cabinet was advised in March 1997 that the indicative total construction cost of the redevelopment would be \$27m.***
- ***The Audit has sighted no evidence to indicate that the cost estimate on which the advice to the Cabinet was based was reviewed for reasonableness or in detail.***

***Audit Comment***

11.24 The Cabinet, in March 1997, was advised that the successful project manager for the redevelopment had estimated the construction cost of the redevelopment as up to \$27m in their successful proposal.

11.25 The cost estimates and the scope of works proposed by the selected project manager (CRI) were not reviewed for reasonableness or in detail by the selection assessment committee. Consequently, the committee did not understand the basis on which the estimates were prepared and the items covered by the estimates and, in particular, the successful project manager's estimate. Such an understanding was clearly necessary. It was necessary to the conduct of an effective selection process. It was necessary in order to ensure that the Cabinet was provided with reliable information on likely costs. It was also necessary to facilitate the supervision of the selected project manager in

the actual implementation of the redevelopment project.

### **Agreed Project Budget – June 1997**

- *The budget presented by CRI in June 1997 was not adequately analysed to ensure it was reasonable for the scope of works proposed for the redevelopment.*
- *Variations from earlier estimates and the effect of stated exclusions were not fully explored.*
- *It was clear from early in the redevelopment project that achieving the proposed redevelopment within the agreed total project budget would be a major challenge.*

### **Audit Comment**

11.26 The government executives did not conduct either a reasonableness review or a more in-depth analysis of the June 1997 cost estimate. Consequently they did not fully comprehend that the \$27m estimate could be at the lower end of the potential cost of the redevelopment and keeping the cost within the \$27m would require very close management.

### **Approval for Expenditure on Furniture, Fittings and Equipment**

- *No mention of furniture, fittings and equipment was made in any of the submissions to the Cabinet concerning the redevelopment, although clearly it would not be possible to operate the redeveloped Stadium without significant investment in fittings and equipment.*
- *Although efforts had not been made to seek an operator for the Stadium, it was resolved in October 1997 that furniture, fittings and equipment items, including the video replay board would be provided though an operator and thus could be removed from the construction budget.*
- *In January 1998, it was agreed in principle that furniture, fittings and equipment funding estimated at \$5.5m would be made available through the project financier, rather than by the Stadium operator, although no financier had been procured.*
- *It was agreed in January 1998 that procurement of furniture, fittings and equipment items could proceed, although no definite source of funds was available for this purpose.*

*Audit Comment*

11.27 Expenditure on fittings and equipment was critical to the functionality of the redeveloped facilities, as clearly it would not be possible to operate the redeveloped Stadium without significant investment in furniture, fittings and equipment. Only a minor allocation for furniture, fittings and equipment was included in the June 1997 project budget.

11.28 The omission of the substantial estimates of furniture, fittings and equipment costs in submissions to the Cabinet gave the Cabinet an understated view of the overall costs of the Stadium redevelopment.

**Early Project Budget Pressures and Variations**

- *The proposed redevelopment included upgrading all Stadium seating, but the budget accepted in June 1997 did not include the seat upgrade.*
- *It was apparent in October 1997 that the balance of uncommitted funds was around \$6.4m to meet tendered costs of about \$8.6m; i.e. funds available to the project at that time were insufficient to meet the expected costs of the work for which tenders had been called.*
- *From September to December 1997, the project manager recommended that the project expenditure limit be increased from \$12.3m to the full budget of \$27.3m; government executives did not agree to the recommendations.*
- *In December 1997, a submission to the Cabinet sought, among other things, approval for ‘project financing’ of the full redevelopment by the Central Financing Unit until June 1998; this was approved, and accordingly government executives on approved an expenditure limit for the project of \$27.3m.*
- *The Cabinet was not informed of the government executives’ decision some months earlier to upgrade existing seating; nevertheless, the project expenditure limit was increased by \$1.2m to \$28.5m in March 1998.*

*Audit Comment*

11.29 It became evident from late 1997 that the Stadium could not be redeveloped to the full specifications proposed at the start of the project

within the \$27.3m budget. It was not until December 1998, however, that the Cabinet was formally advised of this.

11.30 The difficulties presented by the early project budget pressures could have been addressed by reducing the scope of the redevelopment or by rejecting recommendations for variations which would add to the cost. Alternatively, if reducing the scope of the redevelopment was unacceptable, prompt action could have been taken to seek the acceptance of the Cabinet to an increase in the estimated cost. This did not occur.

### **Pressure to Increase the Budget to \$33.5m**

- *By April 1998, the project's cost planners had revised their total forecast construction cost to more than \$33.1m; a further \$6.0m was forecast for furniture, fittings and equipment costs, bringing the total to more than \$39m.*
- *In July 1998, agreement was given to tender for the West Stand works to a maximum cost of \$7.2m; this effectively signified an intention to proceed with the full redevelopment to an estimated construction cost of \$33.5m.*
- *In August 1998, it was resolved to complete the redevelopment including all current contract commitments, the roof to the East Stand and completion of the West Stand; the scope of works for the West Stand tender was now estimated to cost more than \$8.7m; a new construction budget of \$34.4m was considered.*
- *By the December 1998, project commitments had exceeded \$27.2m and the forecast final construction cost was \$35.7m; further cost pressures were expected.*

### **Audit Comment**

11.31 Through the period of December 1997 to December 1998, government executives consistently rejected giving formal agreement to an increase of the redevelopment budget from \$27.3m. It seems clear, however, that the project was intended to proceed to the full redevelopment, although the final cost would be well in excess of the estimated cost advised to the Cabinet.

### **Submission to the Cabinet Outlining the Revised Budget**

- *The total budget was revised to \$33.5m in December 1998.*

- *The submission included no reference to the \$6m furniture, fittings and equipment allocation.*
- *Information in the submission did not reflect an up-to-date estimate of final construction costs; the latest estimate was \$35.7m.*
- *Of the two options presented to the Cabinet, one – to cut back the scope of works to that achievable within \$27.3m — was incapable of implementation.*

### ***Audit Comments***

11.32 The submission to the Cabinet was inaccurate in some respects with regard to the cause, nature and extent of the increased costs of the redevelopment. As well, the omission of the substantial furniture, fittings and equipment costs caused the total cost of the project to be understated to the Cabinet. Further, in presenting options to the Cabinet for consideration, the submission was neither timely nor realistic.

11.33 There were no further submissions to the Cabinet advising of increased costs for the redevelopment. The Cabinet made no further decisions in relation to costs.

### **Variations Resulting in Additional Costs**

- *Many of the design changes and resultant costs could have been avoided or, at least, recognised in cost estimates, if enough resources had been allocated to designing and developing the project earlier in the development process.*

### ***Audit Comment***

11.34 Overall variations for the redevelopment of the Stadium resulting from design changes were large by industry standards.

11.35 The Audit has identified over \$2.7m spent on design changes during the course of redeveloping the Stadium to improve the functionality of the Stadium. Some of these costs would have been avoided, or at least recognised in cost estimates, if enough consideration had been given to the design and development process before construction commenced.

11.36 A total of \$1.7m was paid to contractors to speed up their work so that facilities could be available in time for three key football events. There is no evidence to suggest that ways by which these costs could be minimised were considered.

11.37 Some \$1.5m of all variations was associated with the upgrade to all seats and a further \$1.3m was to improve the marketability of the Stadium. No evidence was located by the Audit or provided to the Audit showing that the responsible government executives undertook any analysis to assess whether the increased costs were justified on commercial grounds.

## **CONCLUSION**

11.38 It seems to the Audit that there was a commitment to the ‘full’ redevelopment being completed. In this regard, the main priority became to deliver the full Stadium redevelopment to the original design concepts including targeting ‘the premium end of the market’. Containing costs to the estimates advised to the Cabinet was a secondary objective.

11.39 Because of the availability of Central Financing Unit funds, (see *Report 6 – Financing Arrangements*) meeting the commitment to the full redevelopment was not impeded by not having access to funds. The problem of spending above estimates on the redevelopment was seen only as a ‘timing’ problem. This appears to be because it was anticipated that once the fully redeveloped Stadium was operational more than enough revenues would be generated to cover all expenditure on the Stadium.

11.40 The Audit opinion based on the evidence assembled by the Audit and reflected in this Report cannot be other than that the actual redevelopment costs were not contained within estimated costs advised to the Cabinet.

11.41 There was not one overall budget prepared for the redevelopment which consolidated all costs irrespective of the source of funds. The presence of a single budget would have been sensible practice to facilitate the management and control of the redevelopment’s overall costs.

## DEPARTMENTAL RESPONSE

11.42 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 8 – Actual Costs and Cost Estimates*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister’s Department for his consideration and comments. The Chief Executive’s response is set out following. It is also included in the detailed *Report 8*.

11.43 Readers should note that the Chief Executive’s response was made in respect of detailed *Report 8* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit’s summary of detailed *Report 8*.

1. *“This Report essentially addresses five substantive issues:*
  - *the basis and comprehensiveness of the cost estimates provided to the Cabinet for the redevelopment of Bruce Stadium;*
  - *the adequacy of scrutiny of cost estimates and subsequent cost pressures by officials;*
  - *the provision for furniture, fittings and equipment in the total cost estimates of the project;*
  - *the total cost of the project, compared with initial estimates; and*
  - *the reasons for cost increases in the project, the extent of those cost increases, and the measures taken to contain these cost increases.*

### ***Basis of Cost Estimates***

2. *The Report argues that the initial advice to the Cabinet on the cost of the Redevelopment implied a precision which “was not warranted” and was not the subject of detailed review. These assertions are not supported by the evidence.*

3. *The Submission to the Cabinet in September 1996 stated that the figure of \$27.3m was an “estimate”, while the related Submission of March 1997 stated that \$27.3m was the “indicative construction cost”. Costs provided in such a manner cannot reasonably be held to be “precise”.*

4. *The Report goes on to argue that the “estimate” of \$27.3m should have been subjected to a “reasonableness review”. The construction cost estimate of \$27.3m was provided by the selected Project Manager, CRI on the basis of advice from the WT Partnership –*

*an international firm of 50 years standing — who were contracted to provide cost planning advice to the project. The WT Partnership subsequently provided a series of cost review reports to the Project Manager and the Project Control Group.*

5. *The construction cost estimate was used by the Project Control Group essentially as a cost cap – a means of seeking to control the ultimate construction costs of a project by the consideration of offsetting adjustments for emerging cost pressures.*

6. *The Report is also critical that the initiate cost estimates were based on “notional sketches”. However, this is a quite normal estimating process, with detailed elements of costs then being developed as detailed design proceeds. As part of that process, choices about aspects of the detailed project can be made to control overall costs. This was the process used by the Project Control Group.*

#### ***Scrutiny of Cost Estimates***

7. *The Report is critical of the officials on the Project Control Group, contending that they did not fully understand the basis of the cost estimates, analyse these estimates, effectively address the cost pressures, provide progressive advice to the Chief Minister on project costs, or manage the overall project within the approved budget. These are serious criticisms and it is important that the Audit review distinguishes between an assessment of the actions of the Project Control Group and speculation on what other actions might have been taken.*

8. *As noted above, the Project Control Group had the benefit of the advice on professional cost planners who provided the Group with several reports on the basis of cost estimates and emerging cost pressures. The Report notes that the Project Control Group met 31 times between June 1997 and August 1999, i.e. more than monthly. By any measure that is a considerable degree of formal project scrutiny.*

9. *The Project Control Group used the initial construction cost estimate as a means of seeking to contain overall costs. Consideration was given on a number of occasions to ways of containing costs, and tenders let for parts of the project deliberately allowed for future reductions in the scope of works without cost penalty. In addition, a value management workshop was undertaken to prioritise needs and to explore a strategy to deliver the balance of the project. A submission was put to the Cabinet in December 1998, proposing a revised and increased budget for the project.*

10. *A number of factors impacted on the final cost of the project. These factors included the need to complete construction to meet the playing schedule of the major stadium tenants – the Raiders and the Brumbies, the impact of increasing construction costs a result of the large increase in construction associated with the Sydney Olympics, and the eventual need to fund the cost of furniture, fittings and equipment, due to the inability to attract a commercial operator for the Stadium who would have been responsible for such costs.*

11. *One area of cost scrutiny which was deficient was the lack of a regular and formal advice to the Chief Minister on the progress of the project, including cost issues. The provision of such reports should be a standard element of all major projects. This approach is now being followed for major ACT Government projects.*

#### ***Furniture, Fittings and Equipment***

12. *As Audit was advised by relevant officials, the cost of furniture, fittings and equipment, other than the video replay board, were considered to be a cost of the operation of the Stadium, rather than its construction and were considered to be an expense to be borne by the anticipated commercial operator of the Stadium. On the basis of the commercial plan accepted at the time, that was a reasonable assumption. The ultimate need to directly fund the provision of furniture, fittings and equipment contributed to the final total cost of the project, but does not represent an error in the initial cost estimates.*

#### ***Estimated Versus Final Costs***

13. *The Report contends that the most appropriate measure of the ultimate increase in the cost of the Redevelopment of Bruce Stadium is the difference between the initiate cost estimate of \$27.3m in September 1996 and the final cost of \$44.9m in August 1999. This approach misrepresents the true scale and nature of the cost increases, fails to compare “like”*

with “like”, makes no provision for price escalation and – especially in the summary parts of the Report – does not explain the various causes of the cost increase.

14. Rather than the initial construction cost estimate of \$27.3m, a more relevant and appropriate benchmark for cost comparison purposes is the sum of that construction estimate, the initial (May 1997) estimate of

\$4.3m for furniture, fittings and equipment, and the \$2.5m in non-project costs (including off site works and Departmental costs). The sum of these

costs is \$34.1m. This is the relevant figure for comparison with the final cost of \$44.9m. On this basis, the gross cost increase for the project was \$10.8m or 32%.

15. The figures presented in the report do not make any provision for price escalation due to inflation. Applying the relevant price adjustment of 6% for the project period to the construction and furniture, fittings and equipment estimates gives a price adjustment of \$1.9m. This leaves a net project cost increase of \$8.9m or 26%.

16. As the Report acknowledges, some parts of this increase were reasonable and understandable, including routine cost overruns as specifications are refined or unforeseen circumstances encountered (\$0.945m), extraordinary latent conditions which could not be foreseen or allowed for at the time (\$0.803m), general cost under estimates (\$0.508m) and enhanced safety measures recommended by ACT Workcover (\$0.210m). These reasonable adjustments total \$2.45m or some 8% of the initial total construction and furniture, fittings and equipment estimate. The Report acknowledges that a reasonable and routine provision for overall real cost increases would be 10% to 15% of the estimated cost.

17. The \$6.5m balance of the cost increase relates to four factors (\$1.7m in acceleration payments, \$1.5m to upgrade all seating, \$1.3m for changes for marketing purposes and \$2.7m for changes for functional reasons). Some \$4m of these costs were addressed in the revised project cost estimate which was provided to the Cabinet in December 1998. To that extent, the cost pressures were addressed appropriately.

18. However, the objective of managing overall costs would have benefited from more expert project management within the ACT Administration. In recognition of this limitation, the Government has

*agreed to establish a Purchasing Board within the Department of Urban Services to oversight major contracts, to require relevant purchasing*

*officials to meet formal skills accreditation standards, and the project management function now provided to TotalCare is to be relocated with the Department of Urban Services to provide the necessary level of project management expertise, especially in the area of capital works.”*

## CONCLUDING COMMENT

11.44 The Chief Executive’s response to the Report identifies various issues for specific comment. The Audit’s view on these issues is discussed in the following paragraphs.

### **Basis of Cost Estimates**

11.45 *Paragraphs 2 and 3* of the Chief Executive’s response discuss the Audit’s view regarding the precision of the initial cost estimate for the redevelopment. The Audit agrees that terminology such as ‘estimate’ and ‘indicative construction cost’ do not, on their own, imply precision. However, the cost estimates were used as if they were reasonably precise; they were in the Olympic bid document, various Cabinet Submissions, and the expression of interest documentation. The figure was discussed in the Legislative Assembly and released publicly by the Chief Minister. The figure was quoted in the submissions to the Cabinet without qualifying words to indicate whether the estimates were researched estimates or ‘back of envelope guestimates’. Without such qualifiers, it is reasonable that the Cabinet, Assembly Members, and the public would presume the figure was soundly derived and suitable for making major capital investment related decisions.

11.46 *Paragraph 4* of the Chief Executive’s response comments that the initial cost estimate for the redevelopment was provided by CRI on advice from WT Partnership. The Audit notes that at the time the initial estimate was prepared (September 1996) WT Partnership was contracted by CRI in relation to the Olympic bid document preparation. WT Partnership was further engaged by CRI in relation to CRI’s project manager proposals in February 1997. The Audit accepts that WT Partnership provided professional advice to CRI, but notes that WT Partnership was not formally contracted to the Territory to provide ‘quantity surveying services’ in relation to the redevelopment until late November 1997.

11.47 *Report 12 – Governance and Management* discusses the reliance on consultants throughout the redevelopment project. The Audit accepts that executives should seek advice from subject matter experts, including consultants, on matters where the executives' expertise is limited. However, the Audit remains firmly of the view that unquestioning acceptance of such advice is inappropriate and inconsistent with sound management practices. In relation to the initial estimate of costs for the redevelopment – a matter that was clearly of significance – the responsible executives should have reviewed the advice provided by the consultant to ensure the basis on which the estimate was prepared and the items covered by it were well understood. This should have included an understanding of the precision attached to the estimate by the consultant.

11.48 The Chief Executive's response at *paragraph 6* comments that the Report is inappropriately critical that cost estimates were based on 'notional sketches'. The Audit's point is not that initial cost estimates should never be based on notional sketches. It is understood that this is usual practice for 'normal' projects. But the Bruce Stadium redevelopment was not a 'normal' project; it was a project of many inter-dependent parts based on an untested and ambitious proposal. The Audit's point is that a commitment to a project described in a Ministerial submission as 'the single biggest construction project to be undertaken by the ACT Government' should not have had, at its centre, a cost estimate based only on notional sketches.

### **Scrutiny of Cost Estimates**

11.49 The Chief Executive's comments at *paragraphs 7-10* of the response cover a wider range of matters than scrutiny of the cost estimates. The various matters have been addressed in the Audit Report.

11.50 The Audit accepts that WT Partnership provided CRI, the PCG and thus the Territory with frank advice and considered options and acted in a professional manner throughout the project.

11.51 The actions of the PCG as referred to at *paragraphs 8 and 9* of the Chief Executive's response are discussed, in particular, in *Chapters 6 and 7 of Report 8*. The PCG is also discussed in *Chapters 5 and 7 of Report 12 – Governance and Management*.

11.52 The Chief Executive refers to a value management workshop to

prioritise needs for the final construction contract. The workshop and the contract are discussed at *paragraphs 7.11-14 of Report 8*. The Chief Executive also refers to the Cabinet Submission of December 1998, which proposed a revised budget for the redevelopment. The submission is discussed in detail in *Chapter 8 of Report 8*.

11.53 The factors that influenced the final cost are described in various Reports of the Audit. The Chief Executive comments that one of the contributing factors was the need to fund the cost of furniture, fittings and equipment, due to the inability to attract a commercial operator for the Stadium who would have been responsible for such costs. The Audit notes that during the course of the redevelopment, there was no effort to attract a commercial operator for the Stadium.

### **Furniture, Fittings and Equipment (FF&E)**

11.54 The following comments are provided on the Chief Executive's *paragraph 12*. The proposal put forward by the successful project manager is by no means clear concerning the proposed operating structure for the redeveloped Stadium. It does not, for example, clearly provide for a commercial operator to be appointed. The proposal included no reference to an operator purchasing the FF&E items and the financial model submitted with the proposal does not refer to FF&E. It was not until July 1997 that the possibility of FF&E being provided by a commercial operator was raised in the PCG, and that was in the context of WT Partnership advising that the \$27.3m budget could not accommodate the \$4.3m FF&E requirement proposed by Graf Consulting. The concept of securing FF&E through a commercial operator was replaced in January 1998 by a resolution to use lease financing. This, in turn, was replaced by using Central Financing Unit funds, the same source as for the rest of the funding for the redevelopment.

11.55 The idea of an operator purchasing the FF&E was short-lived.

### **Estimated Versus Final Costs**

11.56 The Chief Executive's response in *paragraphs 13 to 18* comments on the Audit's comparisons of actual costs with estimates.

11.57 The purpose of the Audit's comparison is to compare the estimates advised to the Cabinet, the Assembly and the public with actual costs. In *paragraph 14* the Chief Executive refers to the \$4.3m estimate for FF&E indicating that for comparison purposes this estimate should be added to the estimates advised to Cabinet. The FF&E budget allowance was known only to the PCG. It was never advised to the Cabinet and therefore is irrelevant to the Audit's comparison.

11.58 Reference is made in *paragraph 15* to the use of a price deflator. The Audit recognises the argument regarding the use of a price deflator. However, the revised redevelopment budget presented to the Cabinet in December 1998 took into account escalation of costs. Tables presented by the Audit are reasonable representations of the actual costs compared to the estimates advised to the Cabinet and the public. The introduction of the price deflator does not materially change the result of these comparisons. If the deflators were applied from December 1998 to May 1999, when the project was completed, the effect would be negligible.

11.59 *Paragraphs 16 and 17* of the Chief Executive's comments are explaining that the costs were reasonable. The Audit does not disagree with this. An audit conclusion contained in *Report 2 – Value for Money* is that costs for the physical construction and associated works for the recent redevelopment were 'fair and reasonable'. The purpose of this Report, as shown by the objective addressed, is to provide an independent opinion to the Legislative Assembly on whether the actual costs of the redevelopment were contained within the cost estimates on which Cabinet decisions were based, not whether the costs were reasonable. Whether the costs were reasonable is addressed in *Report 2 – Value for Money*.

### ***General Comment***

11.60 Each of the matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive's response they were reconsidered. The Audit conclusion is that the content of the Chief Executive's response does not change the Audit's opinion.

11.61 In relation to the Chief Executive's comments in *paragraph 18* of his response, it is very encouraging to see that positive actions are being taken.



## 12 MARKET RESEARCH AND MARKETING SUMMARY

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### INTRODUCTION

12.1 The proposed redevelopment relied on raising large sums of upfront capital revenue from the sale of mainly new products for much higher prices than had previously been achieved by the Stadium or in Canberra. Market research to assess the likely success of the sale of these new products did not occur in the early phases of the project.

12.2 In mid-1997 the Stadium's major hirers questioned whether the revenues projected in the Stadium financial model could be raised in the Canberra market place. A market research firm was appointed in August 1997 as a result of these concerns.

12.3 The market research report was provided in October 1997. The report was used as an endorsement of the projections in the Stadium financial model.

12.4 In July 1998 Nationwide Venue Management was appointed to market and sell the Stadium's products<sup>6</sup> with the aim of raising \$13.9m in one year as projected in the Stadium financial model. This revenue, particularly the upfront capital component of \$10.3m was essential to help fund the Stadium's redevelopment construction. Research was conducted in the local market after the engagement of the consortium<sup>7</sup>. The results of the research raised serious doubts about whether some of the most important products could be sold to raise the upfront capital. Only a fraction of the forecast revenue was raised by the consortium.

12.5 The material in this Chapter is a summary of *Report 9 — Market Research and Marketing* and for a complete understanding should be read in conjunction with that Report.

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<sup>6</sup> The products marketed predominantly by the Stadium include the passholder memberships and subscriptions, corporate suites, naming rights and rights to the video replay board.

<sup>7</sup> A group of consultants coordinated by Nation Wide Venue Management Pty Ltd, a subsidiary of Spotless Services Australia Limited.

## APPLICATION OF SECTION 19 OF THE AUDITOR-GENERAL ACT TO PARTS OF THIS REPORT

12.6 Nation Wide Venue Management a subsidiary of Spotless Services Australia Ltd was engaged to conduct a sales and marketing program for the Stadium. On 30 August 2000, Spotless Services Australia Ltd and Nation Wide Venue Management lodged a claim for damages for breach of contract (Statement of Claim S.C. 555 of 2000) in the ACT Supreme Court against the Stadiums Authority. The claim relates to the non-payment for services relating to the sales and marketing program referred to in this Report.

12.7 Under the heading ‘Reporting Sensitive Information’ the *Auditor-General Act 1996* includes:

- (1) The Auditor-General shall not include particular information in a report for the Legislative Assembly if —
  - (a) the Auditor-General is of the opinion that its disclosure in the report would be contrary to the public interest because it could —
    - (i) have a serious adverse impact on the commercial interests of any person or body;

12.8 Section 19 also includes:

- (3) If because of paragraph (1)(a) the Auditor-General omits information from a report for the Legislative Assembly, the Auditor-General may prepare a special report for the Public Accounts Committee that includes that information.
- (4) The Auditor-General shall give a special report to the presiding member of the committee.
- (5) The presiding member shall present the report to the committee.
- (6) A special report presented to the committee shall be taken for all purposes to have been referred to the committee by the Legislative Assembly for inquiry and such report as the committee considers appropriate.

12.9 Findings and conclusions were drawn during the Audit of market research and marketing which, in the Auditor-General’s opinion could potentially impact adversely on the commercial interests of either or both

the Territory (Stadiums Authority) and Spotless (NVM). In accordance therefore with section 19 of the Auditor-General Act those findings and conclusions, which could potentially have an adverse impact, have been omitted from this Report. A special Report which includes the parts omitted from this Report will be given to the presiding member of the Public Accounts Committee as provided by section 19(4).

## AUDIT OBJECTIVE

12.10 The objective addressed in this part of the Audit was to provide an independent opinion to the Legislative Assembly on:

- whether the management of market research and marketing has contributed to the commercial viability of the Stadium's operations.

## AUDIT OPINION

12.11 The Audit's opinion on the management of market research and marketing activities is as follows.

- *management of market research and marketing has not contributed to the commercial viability of the Stadium's operations.*

## BASIS OF AUDIT OPINION

12.12 The audit opinion was based on the following findings and associated comments.

### Initial Market Research

- *The revenue target of \$13m (mainly from upfront capital) for the sale of Stadium products was derived from the Stadium financial model, and was based on desk research and the experience and judgement of the consultant who prepared the model.*

### August 1997 Market Research

- *In order to convince the major hirers, a market research company was engaged to assess whether the Stadium financial model's revenue projections were achievable.*
- *The scope and objectives set for the market research did not require market research of the Canberra and surrounding region market.*
- *The market research undertaken was mainly desk research.*

### October 1998 Market Research

- *Market research was undertaken in October 1998 specifically of the Canberra market.*
- *When this research was conducted at least \$30m had already been committed to the Stadium redevelopment.*

### *The Importance of Market Research Generally*

12.13 Where major capital investment is involved, organisations generally conduct detailed market research of potential consumers before entering a market. Should potential consumers researched reject the product concept and/or price, the organisation can decide whether or not to proceed with the product, adjust the price or modify the product. Alternatively a strategy can be developed to convince the market to accept the product. These adjustments or actions can be made before investing significant capital in the particular product or project.

### *Audit Comments*

12.14 Poor decisions were made in relation to the adequacy and timing of market research. Quantitative market research of the target consumer group was not conducted at any stage. Qualitative research was performed, but at a very late stage in the redevelopment.

12.15 Around \$30m had been expended on the redevelopment before local market research was conducted. This was clearly too late in the project cycle. If the appropriate research had been undertaken before significant capital expenditure had been committed for the

redevelopment, as it should have been, it is possible that different decisions may have been made about the financing, design, size or scope of the redevelopment.

### **August 1997 Research Results**

- *The researcher's report did not include an overall conclusion on whether the \$13.9m revenue target could be achieved.*
- *In general the report provided a range of advice including that it could take a number of years for important upfront capital revenue to be raised; the Audit has not sighted documentation evidencing a close review of the Report was undertaken.*

### **October 1998 Research Results**

- *Qualitative market research of Canberra consumers was conducted in October 1998.*
- *The results from the qualitative market research indicated that the demand for corporate suites and the passholder program would be weaker than anticipated in the Stadium financial model.*
- *As a result of the research, various revenue projections were revised significantly downwards.*

### **Audit Comments**

12.16 Market research carried out in August 1997 identified some problems with the Stadium financial model's revenue projections, however, these were generally not acted upon.

12.17 Results from research in the Canberra market, when it was eventually carried out in October 1998, showed that the revenue projections then in the Stadium financial model could not be achieved.

12.18 The ramifications of these findings on the success of the sales and marketing program and consequently the commercial viability of the

redeveloped Stadium were very important. Corporate suite sales and the passholder program<sup>8</sup> were intended to generate substantial revenue in the first year of the redeveloped Stadiums' operations to help fund the construction costs of the redevelopment. Only a fraction of these funds were ever received.

12.19 In 1997 the major hirers advised that they doubted whether the revenue projections in the financial model could be generated. The results of the market research conducted in 1998 confirmed these views as did the actual results of the sales and marketing program.

### **Outcome of the Sales and Marketing Program**

- *The sales revenue projections assigned to the marketing and sales consortium in July 1998 were largely unchanged (in total) from revenue projections in versions of the financial model produced in 1996.*
- *The version of the Stadium financial model current at the time contained revenue projections of \$13.9m; this amount was included in the sales and marketing program to be raised in one year.*
- *Of the \$13.9m to be raised \$10.3m was to be upfront capital revenue from the sale of Stadium naming rights, corporate suites, passholder memberships and food and beverage rights.*
- *The main objective of the sales and marketing program was to raise the \$10.3m upfront capital revenue.*
- *Virtually none of the \$10.3m upfront capital revenue target was raised.*
- *Only 3% of the total revenue target of \$13.9m was raised from sales by the consortium or through the Stadium.*

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<sup>8</sup> Memberships for premium stadium seating proposed in the financial model. The membership entitles the holder to a seat in a preferred seating area of the Stadium for a number of years and for a range of game and event options.

### ***Audit Comment***

12.20 The revenue objectives in the marketing plan (and in the Stadium financial model) were clearly not achieved. There was apparently a complete rejection from the Canberra and region market of the concept of upfront capital contributions.

12.21 The Audit view as explained in *Report 7 — Stadium Financial Model* was that the achievability of the initial revenue projections were very questionable.

### **Monitoring the Consortium's Performance**

12.22 This section of the Report was not published because of the legal claim for damages referred to in *paragraph 12.6* of this Chapter.

### **CONCLUSION**

12.23 The \$13.9m revenue target in the Marketing Plan was clearly not achieved. The amount generated was only about \$0.43m. There was a complete rejection from the market of the concept of raising \$10.3m in upfront capital contributions.

12.24 Overall the Audit concluded that market research was inadequate and ineffective for providing any reasonable level of assurance that the Stadium products would sell at the quantities and prices projected in the Stadium financial model.

12.25 The firm engaged to conduct the 1997 research was a reputable organisation but the focus of their research was not specifically within the Canberra market. The October 1998 research, while essential to conduct, was of less value than it should have been because of the time which had elapsed and the redevelopment costs incurred before it was conducted. Focus group research within the Canberra market, should obviously have occurred in the earliest stages of the project. This would have given a more realistic projection of the revenues that could be anticipated from the redevelopment. The information should have been available to those deciding on the financing, design, size and scope of the redevelopment.

12.28 Paragraphs 12.26 to 12.27 have been omitted from this Report for reasons see *paragraph 12.6*.

12.29 The management of market research and marketing has not contributed to the commercial viability of the Stadium's operations. This view was reached after considering all significant findings and the following key findings:

- suitable market research was not undertaken early in the project;
- market research conducted in 1997 was not adequate;
- no formal contract documentation for the engagement of the sales and marketing consortium was completed; and
- there was insufficient formal monitoring of the sales and marketing program.

## DEPARTMENTAL RESPONSE

12.30 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 9 – Market Research and Marketing*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister's Department for his consideration and comments. The Chief Executive's response is set out following. It is also included in the detailed *Report 9*.

12.31 Readers should note that the Chief Executive's response was made in respect of detailed *Report 9* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit's summary of detailed *Report 9*.

1. *The main conclusion of this report is that the management of the market research and marketing activities has "...not contributed to the commercial viability of the Stadium's operations". This conclusion is supported, subject to the important caveat that the success of the marketing of new products such as corporate suites and stadium naming rights needs to be assessed over a much longer period than the first couple of years of the redeveloped stadium's operations. A more accurate conclusion would be that the outcomes of the marketing activities have not yet contributed substantially to the commercial viability of the Stadiums' operations.*

2. *In one important respect, this report sets out to erect a straw man and then proceeds to tear it down. The straw man is the proposition that*

*the redevelopment of Bruce Stadium was intended principally as a commercial venture and that the limitations and failures of the market research and later marketing are fundamental to an assessment of the overall success or failure of the project.*

3. *As the relevant Cabinet submission on the proposed redevelopment makes clear, the central objective of the redevelopment was to respond to the need to provide a major upgrade for Bruce Stadium, and that such an upgrade would serve the dual purpose of assisting in securing Olympic Football for Canberra as well as providing a facility that would meet the needs of the major hirers — the Raiders and the Brumbies. The success of the proposed commercial strategy was central to the viability of the chosen financing approach, but not to the broader economy and community benefits which were to be derived or protected as a result of the redevelopment.*

4. *The scale and complexity of the Bruce Stadium redevelopment project was such that in many areas officials did not have, and could not reasonably have been expected to have, all the required skills or experience. In such areas, including developing and implementing sales and marketing programs, officials needed to call on external consultants. It is not unreasonable to then rely on the advice provided.*

5. *In relation to the marketing of Stadium products during the course of the project, officials had advice from:*

- *an expert in the field of Stadium financial modelling (1996-98)*
- *an international accounting firm (1997)*
- *a reputable and experienced sports marketing organisation (1997)*
- *a sales and marketing consortium (1998-99)*
- *further market research (1998)*

6. *I agree that more regard should have been had to the observations and reservations provided by some of these consultants. The predominance given to the achievability of the Stadium financial model was, in retrospect, unwise.*

7. *The important objective is to learn and benefit from such experiences. In the area of contract management, the Government has already implemented a number of changes. The Government's Purchasing*

*Policy Principles are:*

- (1) *value for money,*
- (2) *open and effective competition,*
- (3) *probity and ethical behaviour,*
- (4) *environmentally responsible purchasing,*
- (5) *buying locally, and*
- (6) *risk management.*

8. *The recently developed ACT Purchasing Policy and Principles Guideline provides an operating framework for government agencies engaging in procurements processes. The Guideline incorporates a set of procedures for undertaking performance monitoring of contracts, keeping adequate written records of all dealings with contractors, requirements for contractors to provide written reports on their performance and the need for continual evaluation of contractor performance throughout the contract. It also specifies the need to advise a contractor in writing if there is dissatisfaction with any significant aspects of the consultants' performance.*

9. *ACT Contracts and Purchasing also provides regular training to ACT Government staff in ACT purchasing policy, contractual matters and practices. This training provides ACT Government staff with the information and skills necessary to conduct procurement processes in line with the ACT Purchasing Policy and Principles.*

## **CONCLUDING COMMENT**

12.32 The Audit's view on the issues identified in the Chief Executive's response are discussed in the following paragraphs.

12.33 In *paragraph 1* of the Chief Executive's response, while generally agreeing with the Audit's opinion on market research and marketing, the Chief Executive states that:

*'a more accurate conclusion would be that the outcomes of the marketing activities have not yet contributed substantially to the commercial viability of the Stadium's operations'.*

12.34 The Audit undertaken addressed whether the market research and marketing activities which had already been undertaken had contributed

to the commercial viability of the Stadium. There is no doubt, in the Audit view, that the activities covered by the Audit have not contributed to the Stadium's commercial viability. This is not to say that future market research and marketing could not make a contribution. In fact the Audit considers that properly designed and directed market research is essential to assist the future management of the Stadium.

12.35 In *paragraph 2* the Chief Executive states:

‘in one important respect, this report sets out to erect a straw man and then proceeds to tear it down’.

12.36 The proposition that the Audit erected a ‘straw man’ is completely inconsistent with the facts. The straw man was created through the chosen financing approach. Unarguably the financing approach relied for success on the Stadium becoming a commercially viable entity. To be commercially viable it needed to sell its products. Readers attention is drawn to *Report 2 – Value for Money* where the various objectives intended to be achieved through the redevelopment, including commercial viability, are addressed.

12.37 *Paragraph 4, 5 and 6* of the Chief Executive's response refer to the use of external consultants. The Audit agrees that the use of external consultants is often appropriate, however, unquestioning reliance without close examination of the consultants' reports and advice, is not.

12.38 Each of the matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive's response they were reconsidered. The Audit conclusion is that the content of the Chief Executive's response does not change the Audit's opinion.

12.39 It is very pleasing to read the Chief Executive's comments in *paragraph 7 to paragraph 9*.

## 13 STADIUM HIRING AGREEMENTS SUMMARY

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### INTRODUCTION

13.1 An essential part of the plan to redevelop the Stadium was to negotiate new hiring agreements with the Raiders and Brumbies. The Raiders and the Brumbies were expected to set aside their old agreements in order to accept the new arrangements. The old arrangements gave the major hirers virtually all the revenue from the Stadium. The new arrangements were intended to give a greater share of revenue to the Stadium and increased revenue for the hirers.

13.2 Negotiations with the Raiders and Brumbies commenced in April 1997 and continued throughout 1998. Heads of Agreements which included revenue guarantee clauses were settled with the major hirers as forerunners to the negotiation of long term hiring agreements. A Cabinet submission was prepared in December 1997 with the intention of obtaining the agreement of the Cabinet to include revenue guarantees in the negotiations for formal long term hiring agreements.

13.3 The formal long term hiring agreements eventually settled included revenue assurance guarantees which were much larger than the amounts originally proposed, particularly for the Raiders.

13.4 The material in this Chapter is a summary of *Report 10 — Stadium Hiring Agreements* and for a full understanding should be read in conjunction with that Report.

### AUDIT OBJECTIVE

13.5 The Audit objective addressed in this part of the audit was to provide an independent opinion to the Legislative Assembly on:

- whether the negotiation of the Stadium hiring agreements has contributed, or will contribute, to the commercial viability of the Stadium's operations.

## AUDIT OPINION

13.6 The Audit's opinion on the negotiation of the Stadium hiring agreements is as follows.

- *the negotiation of the Stadium hiring agreements has not contributed, and will not contribute, to the commercial viability of the Stadium's operations.*

## BASIS OF AUDIT OPINION

13.7 The audit opinion was based on the following findings and comments.

### Principles Agreed for Negotiation of Hiring Agreements

- *The formal Heads of Agreement documents negotiated during 1997 contained revenue assurance guarantee clauses for both the Raiders and the Brumbies.*
- *The wording of the revenue assurance guarantee clauses was general in nature and unclear as to its meaning.*
- *A submission to the Cabinet implied that the major hirers had signified their agreement in the Heads of Agreement documents to the principles to be followed for the calculation of revenue assurance guarantee amounts; the Heads of Agreement document only stated that guarantees would be given.*
- *The Cabinet agreed to revenue assurance guarantees based on the submission which implied that only small amounts would need to be guaranteed.*

### Audit Comment

13.8 The major hirers signed the Heads of Agreement documents for the hire of the redeveloped Stadium during 1997. These documents contained revenue assurance guarantees. These guarantees were a central inducement to the major hirers to sign the documents.

13.9 Although the Heads of Agreement documents contained revenue assurance guarantee clauses the terminology of the clauses was unclear as to their scope and meaning. Nevertheless a submission was prepared for the Cabinet which implied that the Heads of Agreement documents

contained revenue assurance guarantee clauses which were clear as to their scope and meaning.

13.10 The submission identified amounts which were likely to be involved in the guarantees. The amounts were small and unlikely to significantly concern the Cabinet.

### **Revenue Sharing Arrangements and Effects**

- *The Stadium and the hirers share the revenues of the Stadium.*
- *The Stadium is entitled to 8-15% of ticket sales revenue; the Stadium's revenue therefore is only slightly affected by attendance variations and/or increased ticket prices.*
- *The Stadium is entitled to a major share (43-93%) of the revenue from the sale of corporate suites, the passholder program, naming rights and advertising from the video replay board (referred to as Stadium revenues); the Stadium would therefore receive a significant improvement in revenues from increases in the sale of these products.*
- *Few of the products for which the Stadium is entitled to the major revenue share have sold well to date.*
- *The hirers retain approximately 90% of the proceeds from the sale of products which have always enjoyed a high level of demand and historically were marketed successfully by the major hirers; the major hirers bear the risk from poor sales of these products.*

### **Audit Comments**

13.11 It is clear that the agreed revenue sharing arrangements (including the revenue assurance guarantees) are heavily weighted in favour of the major hirers with the Stadium bearing the greater share of the risk from the arrangements.

13.12 The major hirers retain approximately 90% of the revenues from the sale of products which are mostly marketed by the major hirers and have sold well in the past and continue to sell well.

13.13 On the other hand, for other Stadium products which have been difficult to sell, the Stadium is entitled to up to 93% of the sales revenue. As sales have been low the Stadium has received relatively little revenue from these Stadium products. As the Stadium guarantees the hirers' revenue share of these products the major hirers are not financially disadvantaged if the products do not sell.

## **Revenue Assurance Guarantees**

### *Raiders*

- *The Raiders' hiring agreement revenue guarantee provisions ensure that the Raiders bear no risks from poor sales of certain Stadium products until 2004; the Territory bears all the risks.*
- *The Raiders are guaranteed that their share in relation to the relevant products will be \$1.37m per annum until 2004 irrespective of sales of the products.*
- *Although the hiring agreement has a provision for 'claw back' of revenue assurance guarantee payments the provision is inoperative.*
- *Guarantee payments will have to be made from other Stadium revenues if the sale of Stadium products does not improve considerably.*
- *Revenue from the sales of the Stadium's products would have to increase several fold for the revenue guarantee payments to be zero.*

### *Brumbies*

- *The Brumbies' hiring agreement revenue guarantee provisions ensure that the Brumbies bear no risks from poor sales of certain Stadium products until 2004; the Territory bears all the risks.*

- *Based on 1999 outcomes the Brumbies are guaranteed approximately \$300,000 per annum after 1999 irrespective of sales of Stadium products; if the Brumbies outcome improves from 1999 the amount of the revenue guarantee will also increase.*
- *Although the hiring agreement has a provision for ‘claw back’ of revenue assurance guarantee payments the provision is inoperative unless Stadium product sales significantly improve on 1999 sales.*
- *Guarantee payments will have to be made from other Stadium revenues if the sale of Stadium products does not improve considerably.*

### **Audit Comments**

13.14 The Audit concluded that the need to meet the revenue assurance guarantee payments will contribute to the Stadium’s operations producing net cash deficits for at least the next few years.

13.15 If sales of the products subject to the guarantee remain at low levels, increases in attendance alone will not generate any significant revenues for the Stadium to be used towards covering the guarantees. Alternatively, revenue from the sales of the Stadium’s products would have to increase several fold for the revenue guarantee payments to be zero. Until such time as this occurs the requirements to pay the revenue assurance guarantees will continue to have a significant negative effect on the Stadium’s cash flow and consequently its commercial viability.

### **Raiders Negotiations**

- *The Raiders did not accept the draft hiring agreement provided to them as a basis for negotiations principally due to the amounts reflected in the revenue assurance guarantee provisions contained in the draft.*
- *The final negotiated revenue assurance guarantee amount is 5.7 times the amount proposed in the relevant Cabinet submission.*

*Audit Comments*

13.16 In the final stages of the negotiations the main objective of the negotiations with the Raiders became to ensure the Raiders remained as long term Stadium tenants. This of course was an essential objective as the Stadium, without the Raiders would have no viability, commercial or otherwise. Consequently the negotiating task was to induce the Raiders to complete long term hiring agreements at the least cost to the Stadium and at the lowest revenue assurance guarantee amount agreeable to the Raiders.

13.17 The outcome of the negotiations, in the Audit view was the result of the executives involved in the final stages of the negotiations acceptance that the Raiders required financial assistance in order for them to continue to operate at 1998 levels. The executives assessed that the amount required was \$1.37m. Without this assistance the executives perceived that the Raiders would be forced to consider options for their future including playing half their home games away from Canberra. The executives were apparently of the view that a revenue assurance guarantee amount of \$1.37m would induce the Raiders to remain in Canberra in the long term.

**Brumbies —Negotiations**

- *The Brumbies accepted the draft hiring agreement provided to them as a basis for further negotiations.*
- *The final negotiated revenue assurance guarantee amount was double the amount proposed in the relevant Cabinet submission.*

*Audit Comments*

13.18 The Territory guarantees the revenue assurance payments to the Brumbies — thereby bearing the risk if the relevant products do not sell. However, unlike the Raiders whose guarantee amount is fixed, the Brumbies revenue assurance guarantee amount is affected by the Brumbies actual revenue and attendance performance. The Brumbies guaranteed amount will therefore vary each year.

13.19 Based on attendance and revenues in 1999 the estimated amounts

of the revenue assurance for the Brumbies is around \$300,000 which is twice the figure put forward in the Cabinet submission of \$140,000.

13.20 The Brumbies revenue assurance guarantee amount negotiated is significantly less than the amount for the Raiders. The Brumbies guarantee payments will therefore have a lesser impact on the Stadium's commercial viability than the Raiders' payments.

## **CONCLUSION**

13.21 It was foreseeable from the commencement of negotiations that there would be difficulties in negotiating the new agreements. The hirers had to be convinced that their financial position would be at least maintained if they accepted the new arrangements.

13.22 Initial drafts of the Heads of Agreement, negotiated by the consultant who prepared the Stadium financial model, did not include revenue assurance guarantees. The major hirers signed the Heads of Agreement after the subsequent introduction of revenue guarantee clauses. In short, the hirers were not prepared to accept the revenue sharing principles contained in the Stadium financial model without assurances that their revenue shares as projected in the model would be guaranteed.

13.23 The Audit has been advised that the Raiders' guarantee was discussed with the Chief Minister, and the consequences explained, before the hiring agreement was finalised.

13.24 The Audit sighted a minute signed by the Under Treasurer, dated 5 January 1999 (several days after the signing of the agreement) which advised the Chief Minister of the guarantee.

13.25 In summary the minute indicated that to continue to operate at 1998 levels the Raiders needed financial assistance to augment the amount they could generate from the use of the Stadium. In effect, it was agreed that the financial assistance could be provided through the revenue assurance guarantee.

13.26 The amounts of the revenue guarantees, eventually included in the final agreements signed in late 1998, far exceeded the amounts proposed in the relevant submission to the Cabinet. The amounts

included in the submission were around \$239,000 annually for the Raiders and \$140,000 annually for the Brumbies.

13.27 According to the Cabinet submission and decision, the revenue assurance guarantee amounts were to be linked to the attendance and revenue performances of the hirers. While the Brumbies' finalised agreement provides for the guarantee amount to be linked to performance, the Raiders guaranteed amount is not linked. The Raiders' amount is fixed.

13.28 According to the Audit's calculations, for the Raiders, the circumstances which would allow recovery of guarantee assurance payments will not eventuate. In the case of the Brumbies, the Audit's calculations show that unless there is a considerable improvement in the sale of Stadium products from 1999 levels no recoveries will be possible.

13.29 As the agreements are structured (with revenue guarantees to the major hirers) the Stadium (i.e. the Territory) bears all the risk in the event of poor sale results for the products covered by the guarantees.

13.30 The Audit's calculations show that the size of the guarantee payments will have a major negative effect on the Stadium's finances. The guarantee payments significantly contribute to ensuring the Stadium's operations are not commercially viable.

13.31 The successful negotiation of the hiring agreements, consistent with the revenue sharing principles in the Stadium financial model and the model's revenue projections, was seen as essential to the commercial viability of the Stadium. In the Audit opinion, however, based on 1999 results and currently known information, the revenue which can be generated from the Stadium's operations is insufficient to support, the viability of the hirers as well as the Stadium.

13.32 Because of the Stadium's actual revenue generating capacity being less than the projections, the actual position was that if the terms of the hiring agreements had assured the Stadium's viability, the viability of the hirers would have been jeopardised. Alternatively if the terms of the signed agreements supported the hirers' viability then the Stadium would not be commercially viable. The alternative occurred.

13.33 The outcome of the negotiations is that the major hirers have been

provided with a major financial incentive to remain in Canberra, in the form of revenue assurance guarantees which heavily impact on the commercial viability of the Stadium.

## DEPARTMENTAL RESPONSE

13.34 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 10 – Stadium Hiring Agreements*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister’s Department for his consideration and comments. The Chief Executive’s response is set out following. It is also included in the detailed *Report 10*.

13.35 Readers should note that the Chief Executive’s response was made in respect of detailed *Report 10* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit’s summary of detailed *Report 10*.

1. *As the report acknowledges, the securing of the continued presence of the major hirers (the Raiders and the Brumbies) was a major component of achieving and sustaining a commercially viable Stadium operation. The hirers therefore held a major advantage in the negotiations on the hiring agreements. This advantage is reflected in the outcomes of the negotiations. However, the negotiations did secure the continued presence of the Raiders and the Brumbies at the only venue in Canberra which meets the standards required by the competitions in which these teams compete. (Bruce Stadium, pre-redevelopment, did not meet the explicit standards set down by the National Rugby League.)*

2. *The key audit finding in this report understates this achievement. It is true that the negotiated outcome represents a net cost to the financial operations of the Stadium, at least in the short to medium term, but this cost would be very much greater if the Brumbies and the Raiders were not at the Stadium. In addition, the Stadium stands to be the predominant beneficiary from any future improvements in revenue in areas such as naming rights and corporate suites. Selection of a naming rights sponsor is expected in the next few months, while there has already been some*

*improvement in revenue from corporate suites. In addition, and importantly, the Stadium receives the revenue from food and beverage sales.*

3. *While not given prominence in the report, it should be noted that the revenue guarantees which impact particularly on the net financial position of the Stadium only run to 2004, while the hiring agreements continue beyond that date – to 2006 for the Brumbies and to 2008 for the Raiders.*

4. *The report is critical of the comprehensiveness of the Heads of Agreement which were agreed by the Cabinet and which formed the basis of the negotiations with the major hirers. Such comments misunderstand the nature of Heads of Agreement which are, by definition general in nature. The Heads of Agreements signed by the hirers were commitments to negotiate in good faith to establish hiring agreements. The Agreements provided a basis from which to begin to negotiate hiring agreements, which become the detailed documents.*

5. *The report also contains two significant errors which need to be addressed. These errors relate to unsupported assertions which are made about the content and implications of the Cabinet Submission of 18 December 1997 “Bruce Stadium Redevelopment – Hiring Arrangements”.*

6. *The third of the significant findings listed after **paragraph 2.3** incorrectly states that the “Cabinet Submission implied that the major hirers has signified their agreement in the Head of Agreement documents to the principles to be followed for the calculation of revenue assurance guarantee amounts”. There is no such statement or implication in the Submission. The Cabinet decision of 22 December 1997 relating to the consideration of that Submission is quite explicit about the principles set out in the Heads of Agreement. None of the principles listed go to the “calculation of revenue assurance guarantee amounts.”*

7. *Similarly, the assertion at **paragraph [2.33]** is not supported by the Submission. Greater care needed to be exercised in distinguishing between factual statements, and the presentation of arguments and opinions in the report.*

## CONCLUDING COMMENT

13.36 The Chief Executive's responses to the Report identifies various issues for specific comment. The audit's views on these issues are discussed in the following paragraphs.

13.37 *Paragraph 1* of the Chief Executive's response refers to the hirers holding a major advantage in negotiations. The Audit agrees with this statement. The Audit also makes the point that this was apparently not recognised at the time it was decided that new agreements with the hirers were necessary. Once construction commenced an advantage crystallised. If it had been recognised, the negotiations may have progressed quite differently. Strategies could have been developed to offset the hirers' advantages. An obvious approach, which could have been adopted prior to construction commencing, would have been to conduct the negotiations on the basis that construction as proposed would not go ahead unless the hirers agreed to the Territory's terms. The Olympic commitment of course would have complicated this approach. As stated once construction commenced the hirers' advantage, and the Territory's disadvantage, crystallised.

13.38 In relation to *paragraph 2* of the Chief Executive's response the Audit agrees that the Stadium needed the major hirers. It must be pointed out, however, that there is no evidence that either major hirer had any intention of not staying in Canberra and continuing to use the Stadium.

13.39 The Audit agrees with the statement made in *paragraph 3* of the Chief Executive's response. The Report clearly states that the hiring agreements do not require that the revenue guarantees be paid after 2004.

13.40 In relation to *paragraphs 4, to 7* of the Chief Executive's response, the Audit Report is not being critical of the comprehensiveness of the heads of agreement documents. The point being made by the Audit relates to the content of the Cabinet submission on the hiring agreements, not the heads of agreement documents. In summary the purpose of the hiring agreements submission was stated in the submission as being to explain the basis of the heads of agreement. The heads of agreement documents contained a number of clearly stated principles and these were accurately explained in the submission. The

submission, however, goes on to also explain proposed terms of revenue assurance guarantees for the hirers which are not in the heads of agreement documents. Proposed amounts of the guarantees are provided in the submission. The submission, through its structure and terminology, clearly implies that there was the same detailed level of agreement in the heads of agreement documents about the guarantees as there was for the other principles. This was not so.

13.41 Each of the matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive's response they were reconsidered. The Audit conclusion is that the content of the Chief Executive's response does not change the Audit's opinion.

## 14 LAWFULNESS OF EXPENDITURE SUMMARY

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### INTRODUCTION

14.1 The issue of whether payments made by the ACT Government for the redevelopment of the Bruce Stadium complied with relevant laws of the Territory was extensively discussed in the Legislative Assembly and in the local media during April to June 1999. The payments totalled \$24m. Of this total, \$9.7m was paid in 1997-98 and \$14.3m in 1998-99. The discussion culminated in a motion of no confidence in the Chief Minister being moved in the Assembly on 23 June 1999. The motion was debated on 30 June 1999 and was defeated by one vote.

14.2 Although the matter has been debated in the Assembly there is an expectation that the Auditor-General will provide an opinion on whether the payments and other related transactions were lawful.

14.3 The material in this Chapter is a summary of *Report 11 - Lawfulness of Expenditure* and for a full understanding should be read in conjunction with that Report.

### AUDIT OBJECTIVE

14.4 The objective addressed in this part of the Audit was to provide an independent opinion to the Legislative Assembly on:

- whether payments made for the redevelopment in excess of the amounts appropriated were lawful; and
- whether the overnight borrowing on 30 June 1998 was lawful.

### AUDIT OPINION

14.5 The Audit's opinion on the lawfulness of expenditure is:

- *the payments made for the redevelopment in excess of the amounts appropriated were not lawful; and*
- *the overnight borrowing on 30 June 1998 was not lawful.*

## **BASIS OF AUDIT OPINION**

14.6 The audit opinion was based on the following considerations.

### **Compliance with Section 6 of the Financial Management Act**

- *Section 6 of the Financial Management Act 1996 was not complied with in that expenditure on the redevelopment was made without being appropriated by the Legislative Assembly.*

#### *Audit Comment*

14.7 It is a feature of all governments based on the Westminster model that expenditure of public moneys must be authorised by appropriation or by some other legislation passed by the Parliament. The Australian Capital Territory is no exception. The Territory's *Financial Management Act 1996* adopts this principle.

14.8 Legal advice provided to both the Government and Opposition agree on this matter. It is accepted that the expenditure was not in compliance with section 6 of the Act.

### **Classification of the Redevelopment Expenditure as an Investment**

- *Expenditure on the redevelopment was not of a nature which constituted an investment in accordance with section 38(1) of the Financial Management Act.*

#### *Audit Comment*

14.9 The Government advanced the view that the expenditure in excess of that appropriated was an investment and therefore, in accordance with section 38 of the Financial Management Act, did not need to be authorised by an appropriation.

14.10 The issue of whether the payments could be classified as an investment was not addressed directly in the Government's legal opinion. The advice provided to both the Independent Member and the Audit was that the expenditure could not constitute an investment within the meaning of section 38 of the Act. The Audit has concluded that the expenditure was not an investment and therefore was not lawful through the operation of section 38.

### Effectiveness of Retrospective Guidelines

- *Guidelines issued under section 67(2) of the Financial Management Act cannot be given retrospective effect to make lawful the unappropriated expenditure on the redevelopment.*

#### *Audit Comment*

14.11 Financial Management Guidelines were issued in May 1999 with the intended effect of retrospectively prescribing the redevelopment payments, in excess of appropriation, as an investment made in accordance with section 38 of the Financial Management Act.

14.12 The Government's legal adviser and Parliamentary Counsel advised that issuing Financial Management Guidelines with retrospective effect could make the redevelopment expenditure lawful. The three other opinions advised this was not legally possible. On the basis of the persuasiveness of the latter advice, the Audit has concluded that guidelines issued under section 67(2) of the Financial Management Act cannot have the retrospective applicability intended by the Government.

### Compliance with Section 37(1) of the Financial Management Act

- *Section 37(1) of the Financial Management Act was not complied with in that money for the redevelopment was withdrawn from the Territory bank account without being authorised by a warrant signed by the Treasurer in accordance with an appropriation.*

#### *Audit Comment*

14.13 The Act stipulates certain requirements in relation to the operation of the Territory's main bank account. The requirements include that moneys can only be paid out of the bank account if authorised by law. This authorisation can occur through an Appropriation Act or other enactments.

14.14 As outlined previously the expenditure was not appropriated in accordance with section 6 and was not in the nature of an investment in accordance with section 38. Accordingly, section 37 of the Act was not complied with in that money for the redevelopment was withdrawn from the Territory bank account without being authorised by a warrant signed by the Treasurer in accordance with an appropriation.

### **Compliance with Section 58 of the Australian Capital Territory (Self-Government) Act**

- *Section 58 of the Australian Capital Territory (Self-Government) Act 1988 (Cth) was not complied with in that public money of the Territory was spent on the redevelopment without authorisation by enactment.*

#### ***Audit Comment***

14.15 The *Australian Capital Territory (Self-Government) Act 1998* is a Commonwealth Act which effectively is the constitution for the Australian Capital Territory. This Act reflects the Westminster model of government and requires that the expenditure of Territory public money be authorised by enactment

14.16 Expenditure was not made in accordance with any Territory Appropriation Act, was not expenditure of a type allowed by the Financial Management Act to be made without appropriation, and was not made in accordance with any other legislation. Accordingly, section 58(1) of the *Self-Government Act 1988* was not complied with.

### **Compliance by Chief Executives with Section 31 of the Financial Management Act**

- *Section 31 (2) (a) and (c) of the Financial Management Act was not complied with in that the responsible Chief Executives did not ensure that moneys spent by their departments were within the appropriations made for their departments; nor did they ensure their department's officials complied with the Act.*

#### ***Audit Comment***

14.17 The Act states that the responsible Chief Executive of a department shall be responsible under the responsible Minister, for ensuring that the moneys spent by the department are within the appropriations made for the department. The Act also states that officers and employees of the Department shall comply with the requirements of the Act and the Financial Management guidelines.

14.18 The payments above the amounts appropriated were clearly outside the appropriations made for the relevant departments. Consequently, the relevant Chief Executives did not ensure that the

moneys spent by their departments were within the appropriations made for their departments as required by law. It follows also that those Chief Executives and acting Chief Executives, did not ensure that department officials, who were responsible for the payments, complied with the requirements of the Act as required by section 31(2)(c).

### **Compliance with Section 40 of the Financial Management Act**

- *Section 40 of the Financial Management Act was not complied with in that the \$9.7m overnight borrowing on 30 June 1998 was not reasonably characterisable as being in the interests of, or for the benefit of, the Territory.*

### ***Audit Comment***

14.19 An overnight borrowing was made on 30 June 1998 for the amount of the expenditure made in 1997-98 above that appropriated.

14.20 The overnight borrowing was not reasonably characterisable as being in the interests of or for the benefit of the Territory. Accordingly, in the Audit's opinion the overnight borrowing was not lawful.

### **CONCLUSION**

14.21 There have clearly been serious breaches of laws.

14.22 Breaches of the law relating to expenditure of public funds without legislative authority are serious as they contravene a most important principle of the Westminster tradition.

14.23 The breach related to the overnight borrowing is also serious. On the basis of the Under Treasurer's statement explaining the decision to make the borrowing, it seems clear that the decision was made on the basis of various misconceptions. To quote from the Audit's legal advice 'the explanation reflects misconception heaped upon misconception'.

14.24 The Audit has obtained no evidence that the breaches of law occurred with an intentional disregard of the law. Accordingly, it appears that the breaches occurred as a result of ignorance of the law. In the Audit's opinion, such a pervasive ignorance of the law needs to be addressed.

14.25 The retrospective Appropriation Acts passed in July 1999 had the effect of making all the payments referred to in this Report lawful. Accordingly on this the basis all expenditure on the Bruce Stadium to 30 June 1999 has retrospectively been made lawful.

## DEPARTMENTAL RESPONSE

14.26 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 11 – Lawfulness of Expenditure*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister’s Department for his consideration and comments. The Chief Executive’s response is set out following. It is also included in the detailed *Report 11*.

14.27 Readers should note that the Chief Executive’s response was made in respect of detailed *Report 11* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit’s summary of detailed *Report 11*.

1. *‘This report is predominantly concerned with issues of a legal nature, which have been the subject of often conflicting legal opinions.*
2. *The Government’s legal advice was provided by RRS Tracey QC, a member of the Melbourne Bar eminent in the practice of administrative law, on the basis of instructions settled (except in relation to two questions submitted for advice) with the Audit Office. Further advice was provided by the ACT Parliamentary Counsel. In both instances, the instructions on which the opinions were provided are presented in the appendices to the report. The same is true of the advice provided to the Auditor-General. However, this is not the case with the other legal opinions which are appended to the report. Such omissions are of concern as the advice of counsel can be influenced by the nature of such instructions.*
3. *The pursuit of further legal debate on the issues raised in this report is likely to add little of material effect. There are only three legal issues on which I would comment.*
4. *Firstly, there is the question of whether the loans provided by the Central Financing Unit were investments within the scope of the power granted by Section 38(1)(e) of the Financial Management Act 1996.*
5. *The Audit conclusion at paragraph 34 of the report is not agreed. On the basis of the advice provided by Mr Tracey QC (Appendix 1, paragraph 24) the Bruce Stadium Project could have been made a*

*prescribed investment under an appropriately worded Financial Management Guideline. This advice is important as it remains the Government's view that a key defect in the actions taken at the time was not that such investments could not be made, but that to do so in accordance with the Financial Management Act required that a specific guideline be issued to authorise the investment. The officials involved at the time erred in not being aware that such a specific guideline was required. They proceeded incorrectly on the basis of the arrangements which prevailed under the Audit Act which was in place before 1996.*

6. *In addition, as explained by the Chief Minister in the debate in the Assembly on 30 June 1999, these loans can be characterised as investments for two reasons. There was an interest revenue component to the loans and the redevelopment was an investment in real property for the purpose of securing a monetary return on the money invested, obtaining rental profit, permitting a subsequent sale or realising capital appreciation.*

7. *The second legal issue concerns the financial management responsibilities of Chief Executives. Section 31(2) of the Financial Management Act 1996 requires that Chief Executives "ensure" that the moneys spent by the department are within the appropriations made for the department; and that officers of the Department comply with the requirements of the Act and the Financial Management guidelines. The audit conclusion at paragraph 54 states that certain Chief Executives failed to meet this requirement. That conclusion is not agreed.*

8. *The fact of administrative errors resulting in unlawful actions is not denied, although it is equally true that these actions were subsequently regularised by the amendments to the 1999-2000 Appropriation Bill and the Appropriation (Bruce Stadium and CanDeliver Limited) Bill 1999 which provided funding for the Bruce Stadium Redevelopment. The issue turns on the meaning of the term "ensure".*

9. *The officers concerned, did not act without diligence or improperly but relied on long-standing practices, which proved to be of*

*dubious legal value. Whilst it is acknowledged that there were administrative shortcomings, actions taken by departmental officers at the time were thought to be lawful.*

10. *Clearly Chief Executives, and Ministers, must rely on the advice and actions of others. They meet their accountability obligations by ensuring that officers have a clear understanding of Government policies and management requirements, that appropriate policy guidelines and financial delegations are in place, that officers are made aware of these requirements, receive appropriate training, there is appropriate scrutiny of performance against key outputs and performance measures and effective two-way management communications.*

11. *Given the conflicting legal opinions in relation to the effectiveness of retrospective guidelines, the Audit conclusion at paragraph 1.40 is not supported. A more sustainable conclusion would be that this is a matter which remains in dispute, and that, therefore, there is some doubt that guidelines issued under Section 67(2) of the Financial Management Act can have the retrospective applicability intended by the Government.*

12. *In relation to this report, the key issues are what happened, why, for what purpose, how has it been remedied and what has been done to ensure that identified errors are not repeated.*

13. *In summary what happened was that there was a failure to be aware that a specific financial management guidelines needed to be in place before the loans from the Central Financing Unit were actioned. This error was compounded by a misunderstanding of the implications of the Executive decision that required the loans to be repaid before the end of June 1998. The overnight loan taken out on 30 June 1998 was, in fact, not required.*

14. *These errors came about because of an incorrect assumption that the practices which were acceptable under the previous Audit Act were also permitted under the new Financial Management Act which was passed in 1996. The officers involved believed they were acting legally to give effect to decisions which had properly been considered and agreed by the ACT Executive.*

15. *It is relevant to note that such defects in administration are not as exceptional as might be implied from this Report. The Chief Minister's speech in the Assembly debate of 30 June 1999, referred to a recent \$3 billion retrospective adjustment in New South Wales. As in this case, that*

*error came about in the transition from cash accounting to accrual accounting.*

16. *In performance audits, an important consideration is the actions taken or proposed to ensure that identified errors are not repeated. A number of actions have been taken in this instance:*

- *An Independent Review of Superannuation and Insurance Provision Unit and the Central Finance Unit has been completed by Mr Bernie Fraser, encompassing the structure and governance of the functions of these units, appropriate processes and procedures and investment philosophies. Government has considered the report and accepted all recommendations.*
- *A review of the Financial Management Act 1996 has been undertaken. The Guidelines issued under section 67(2) of the FMA were reviewed in 1999, and consolidated financial management guidelines, including some retrospective guidelines have been issued. A review of the delegations of the Treasurer's powers under the FMA was also undertaken in 1999, which highlighted some areas where the wording or limitations of the delegations required clarification. As a result of this review the Treasurer considered a revised set of delegations under the FMA and approved several changes. These were signed by the Treasurer in December 1999. There is also currently a review of all Chief Executive Financial Instructions, which will identify any further delegations of power required by agencies to effectively manage their operations.*
- *The Department of Treasury and Infrastructure has allocated a senior officer to review and advise upon operations under the provisions of the Act. This review is focussing on the processes and practices of the Central Financing Unit, DTI and agencies.*
- *The Cabinet Handbook has been revised to take account of recent decisions and to reflect concerns regarding the quality and timeliness of submissions. Amendments have also been made to take account of changed departmental structures and to clarify existing procedures. The revised handbook gives renewed emphasis to the importance of peer review and consideration of risk in the preparation of Cabinet papers.'*

## CONCLUDING COMMENT

14.28 The Chief Executive's response to the Report identifies three of

the Report's conclusions for specific comment.

14.29 The first is in relation to whether the expenditure on the redevelopment in excess of that appropriated could have been prescribed as an investment under section 38(1) of the Financial Management Act. The Audit's strong view, which is clearly supported by the Audit's legal advice (see *Report 11, Appendix 7, paragraphs 5.1 to 5.44*), is that the expenditure was not in the nature of an investment as envisaged by section 38 and therefore could not be prescribed as an investment. The Government's view is that the expenditure could have been prescribed as an investment.

14.30 This seems to be a matter which needs to be clarified by the Legislative Assembly through an amendment to the Financial Management Act. The amendment should clarify that, for expenditure to comply as an investment with section 38, the dominant purpose of making the expenditure must be to secure a profitable return on the use of the money. Section 38 currently does not include a purpose requirement.

14.31 The second matter raised in the Chief Executive's response is related to breaches of section 31 of the Financial Management Act. While the response does not disagree that section 31 was not complied with, an explanation for the non-compliance is presented. The Audit understands the explanation advanced. Nevertheless the Act was not complied with and the Legislative Assembly should be aware of this. In the review of the Act being conducted, careful consideration should be given to the whole of section 31. The circumstances of the redevelopment expenditure should be given due regard in the review.

14.32 The third matter raised in the Chief Executive's response relates to whether guidelines issued under section 67 of the Financial Management Act can have retrospective effect. The Audit's view supported by its legal advice is that the guidelines cannot have retrospective effect. The Chief Executive considers the matter unresolved. To ensure future confusion is avoided this is an issue which should be clarified through amendment to the Financial Management Act.

## 15 GOVERNANCE AND MANAGEMENT SUMMARY

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### INTRODUCTION

15.1 The Audit included how the redevelopment was governed and managed including reviewing the governance framework in the Territory as it applied to the oversight and management of all aspects of the project to redevelop and operate the Stadium.

15.2 The Stadium redevelopment was managed and controlled within the Government's departmental structure.

15.3 The material in this Chapter is a summary of *Report 12 - Governance and Management* and for a full understanding should be read in conjunction with that Report.

### AUDIT OBJECTIVE

15.4 The objective addressed in this part of the audit was to provide an independent opinion to the Legislative Assembly on:

- whether governance and management arrangements for the redevelopment project were effective.

### AUDIT OPINION

15.5 The Audit's opinion on governance and management arrangements is as follows.

- *governance and management arrangements for the redevelopment project were not effective.*

### BASIS OF AUDIT OPINION

15.6 The audit opinion was based on the following findings and associated comments.

### Framework for Direction

- *The Cabinet has a collective responsibility for governing the Territory.*
- *Ministers have responsibility for major decision making within their portfolios and the overall performance of their departments.*
- *Chief Executives are responsible for the management and business of their departments, subject to overriding Ministerial responsibility, and for providing advice to Ministers on important matters relating to their departments.*
- *The preparation of submissions for Ministerial signature occupies a central role in decision making processes of Cabinet.*
- *The preparation and clearance of submissions to the Cabinet is a most important responsibility of executives and Chief Executives respectively. In the end, however, it is the Minister who is accountable to the other members of the Cabinet for the content of his or her submissions.*

### Audit Comments

15.7 The statutory provisions for governing the Territory and the responsibility for making related decisions are clear. The Cabinet, which is chaired by the Chief Minister and includes other Ministers, has a collective responsibility for governing the Territory.

15.8 Major decisions of the Cabinet are normally made following consideration of a formal submission by one or more Ministers. A Minister's submission to the Cabinet reflects his or her position on the matter under consideration. The preparation and clearing of those submissions for Ministerial signature is a most important responsibility of Chief Executives and other executives.

15.9 There is a clear line of formal responsibility from the Cabinet through individual Ministers, including the Chief Minister, to Chief Executives and thence to responsible executives. Ministers have responsibility for all aspects of strategic decision making and broad responsibility for the performance of their departments.

15.10 Chief Executives are legislatively responsible for the administration and business of their departments, subject to an overriding responsibility of Ministers, and for providing strategic advice to Ministers on all issues arising within their departments. Other executives are responsible to the relevant Chief Executive for the achievement of assigned outputs. In discharging their responsibilities, Chief Executives and other executives are required to exercise reasonable care and skill, act impartially and act with probity.

15.11 The redevelopment project was a Departmental responsibility and consequently the framework as outlined was applicable.

### **Direction and Control of the Redevelopment Project**

- *The Cabinet's involvement in the setting of the strategic direction for the project is evidenced by the fact that it made decisions on nine submissions on the redevelopment from September 1996 to March 1999.*
- *The Chief Minister had Ministerial responsibility for almost all aspects of redeveloping the Stadium.*
- *Four Chief Executives had legislative responsibility at different times for the project.*
- *It seems that no Chief Executive exercised Chief Executive responsibility for the project during the critical period leading up to the decision in September 1996 by the Cabinet to redevelop the Stadium.*
- *From the end of March 1998, it appears that the redevelopment project was progressed essentially without significant Chief Executive involvement.*
- *No arrangements were put in place to identify, analyse, prepare for and treat risks that could arise during the redevelopment.*
- *Only a small number of Ministerial directions or submissions, briefs or notes on the redevelopment prepared for Ministers were located on departmental files.*
- *The Audit did not identify that any directions were given to executives by the Chief Minister.*

*Audit Comments*

15.12 Four Chief Executives had legislative responsibility for the project, i.e. Mark Baker (BASAT), Annabelle Pegrum (BASAT), Alan Thompson (CMD) and Rod Gilmour (CMD). It seems that although Mr Baker had legislative responsibility, no Chief Executive exercised Chief Executive responsibility for the project during the critical period leading up to the decision by the Cabinet to redevelop the Stadium and bid to host Olympic football.

15.13 Ms Pegrum had Chief Executive legislative responsibility for the project from the time she was appointed as Chief Executive of BASAT until the Department was abolished in March 1998. During this time, Ms Pegrum was closely involved in the project.

15.14 Although Mr Thompson commenced as Chief Executive of the Chief Minister's Department in June 1998, he had little apparent involvement in the project. Mr Gilmour commenced as Chief Executive of the Chief Minister's Department in March 1999, however, his involvement was also minimal. If a Chief Executive had been more involved in the redevelopment project during this time, it is possible that at least some of the difficulties identified by the Audit may have been addressed.

15.15 No formal consideration appears to have been given to the risks which confronted the project. No formal arrangements were put in place to identify, analyse, prepare for and treat risks that could arise during the project.

15.16 While the Cabinet set the strategic direction for the project and the Chief Minister had Ministerial carriage of it, there appears to have been no Chief Executive level direction of the project during crucial periods. There was no formal consideration of the risks confronting the project.

15.17 The Audit has been unable to confirm the nature, adequacy and extent of advice submitted to the Chief Minister or of directions which the Chief Minister may have given to executives on aspects of the project.

### Submissions to the Cabinet

- *Seven of the nine submissions to the Cabinet were inaccurate and/or incomplete.*
- *Limited consultation in the preparation of submissions and the short notice that the Cabinet was given to consider submissions may have had an adverse effect on the quality of the decision making processes.*

### Audit Comments

15.18 The Cabinet had overall responsibility for making major decisions associated with the redevelopment of the Stadium. Nine submissions were submitted to the Cabinet to inform it in making decisions in this regard.

15.19 The contents of seven of the nine submissions on the redevelopment contained significant inaccuracies and/or were incomplete. In some, the presentation and consideration of options was not balanced. Where options were identified, they were not always feasible.

15.20 The Audit considers that the Cabinet was not well served by the quality of the submissions that were presented to it. The provision of accurate and complete information together with viable options may have had a significant impact on the Executives' decision making processes.

### Operational Management

- *Two executives had direct responsibility for managing the redevelopment project.*
- *Those executives had a range of other unrelated duties and only applied a small proportion of their time to the redevelopment project.*
- *The limited time applied by those executives may have created difficulties, particularly in ensuring that important issues were given in-depth consideration and timely decisions were made.*
- *The responsible executives did not ensure that they were supported by sufficient qualified and experienced officers.*

- *The Project Control Group had no formal charter, membership arrangements were unclear and no one was formally appointed as chairperson.*
- *No business plan was approved for the project. There was no formal and agreed analysis of the business environment and the way ahead.*

### ***Audit Comments***

15.21 The two executives who had direct responsibility for managing the redevelopment project were Ms Ford and Mr Lilley. Both of these executives had a range of other concurrent and unrelated duties and only applied a small proportion of their time to the redevelopment. This may have created difficulties particularly in ensuring that important issues were given in-depth consideration and timely decisions were made.

15.22 The Project Control Group<sup>9</sup> had no formal charter. Membership arrangements were not settled in that individual members' responsibilities and accountabilities were not defined. No person was formally appointed as a chairperson. The Audit is unable to draw a definite conclusion on whether these matters allowed significant problems in the implementation of the redevelopment to go unresolved or to be resolved in an unsatisfactory manner. It would have been sound management practice, however, to formally settle these matters.

15.23 A business plan was not prepared for the redevelopment. The development and endorsement of a business plan would have been expected to be an essential step in the overall management of the project. A well considered, agreed and understood business plan would have facilitated consistent decisions. The absence of a comprehensive business plan meant that there was no formal and agreed analysis of the business environment, including a strategic assessment of the strengths, weaknesses, opportunities and threats facing the Stadium.

15.24 The Audit's conclusion is that operational management of the redevelopment was inadequate.

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<sup>9</sup> For composition and functions of the Project Control Group see the detailed report.

### Consultants and Staffing

- *For a number of important activities consultants' work was relied upon without a reasonable level of review.*
- *Only one person was initially assigned to the project on a full time basis and that person had limited relevant experience or qualifications.*
- *Staffing arrangements were inadequate and led in part to weak and in some cases non-existent administrative and decision making processes.*

### Audit Comments

15.25 The Audit's review of various aspects of the redevelopment project, as explained in several of the reports of the Audit, revealed that for a number of important activities consultants work on the redevelopment was accepted and relied upon for important matters without any review. The Audit acknowledges that there may be limitations on the ability of some executives to critically examine the work of some experts. Nonetheless, in the present circumstances executives should not expect to rely on the work of experts as an acceptable reason for outcomes for which they are responsible not being achieved.

15.26 Not one person with substantial relevant experience or professional qualifications was initially assigned to the project on a full time basis. There was minimal capacity to oversight or manage what was a complex and risky project. The understaffing of the project significantly contributed to weak and, in some cases non-existent, administrative and decision making processes and the other difficulties encountered during the project. In short, staffing arrangements were inadequate.

15.27 The Audit's conclusions are that there was significant over reliance on consultants, and there were inadequate Government staff allocated to the redevelopment project.

### Project Control Group Procedures

- *The four major construction contracts featured an excessive number and value of contract variations.*

- *Contract variations were not approved by the Project Control Group in a timely manner and documentation available does not generally indicate that the Project Control Group considered the impact of the variations on the project overall or the project budget specifically.*
- *Documentation in support of many budget variations, especially internal transfers within the approved budget, was insufficient to offer the Project Control Group a sound basis for decision-making.*
- *Opportunities for executives to consider the implications of budget variations were limited, as many variations were actioned in apparent anticipation of Project Control Group approval.*

### *Audit Comments*

15.28 The four major construction contracts included a large number and value of contract variations. Many of the variations were a factor of continual increases to the scope of works for the project.

15.29 Contract variations were not approved by the Project Control Group in a timely manner and documentation available does not generally indicate that the Project Control Group considered the impact of the variations on the project overall or the project budget specifically. In addition, the documentation proposing many of the budget variations, especially internal transfers within the approved budget, was insufficient to offer the Project Control Group a sound basis for decision-making.

15.30 The papers prepared for consideration by the Project Control Group generally lacked detail. In most cases Project Control Group papers contained insufficient detail for informed decisions to be made on them. It is acknowledged that Project Control Group members may have had other information available to them to assist with their deliberations.

15.31 On the balance of the information available, the Audit concludes that the procedures adopted by the Project Control Group did not provide a satisfactory management and accountability trail to support budget variations and transfers.

### **Analyses to Support Decision Making**

- *Sound economic and financial analyses have not been undertaken.*
- *The analyses that have been prepared have been of little reliability.*
- *Treasury guidelines are available to provide advice on the undertaking of economic and financial analyses to assist decision makers.*

### **Audit Comments**

15.32 It is the Audit view that the ACT Government has never had conducted for it proper economic or financial analyses of the Stadium redevelopment or Olympic soccer. No such analysis was conducted before bidding for Olympic soccer or proceeding with the redevelopment. None has been conducted since the decision to proceed was made.

15.33 Several benefits to be produced from redeveloping the Stadium and hosting Olympic soccer have been put forward. Reliable estimations, however, of these benefits have not been made. All of the official documents which the Audit has seen containing claims of large benefits to the ACT include unreliable information. The results of analyses were inaccurate and were unsuitable for decision making purposes or public release.

## **CONCLUSION**

15.34 The Audit's opinion, based on the evidence gathered during the Audit, is that project governance and management arrangements were not effective.

15.35 Governance arrangements were not effective in that:

- no Chief Executive appears to have exercised Chief Executive responsibility for the project during the critical period leading up to the Cabinet’s decision to redevelop the Stadium;
- from the end of March 1998, it seems that the project was progressed without any significant Chief Executive involvement;
- seven of the nine submissions to the Cabinet on the redevelopment contained significant inaccuracies and/or were incomplete;
- effective arrangements were not put in place to identify, analyse, prepare for and treat risks that could arise during the project;
- proper economic or financial analysis of the redevelopment or of hosting Olympic soccer was not undertaken; and
- a very limited number of Ministerial directions, submissions, briefs and notes could be located to evidence that the Chief Minister was kept informed on the project’s progress or issued any directions in relation to the redevelopment project.

15.36 Management arrangements were not effective in that:

- the two executives who were assigned responsibility for the project had many concurrent and unrelated duties and responsibilities and only applied a small proportion of their time to the redevelopment project;
- no effective business planning process was adopted for the project and no business plan was approved for the project;
- the Project Control Group was not effective in managing the redevelopment project;
- consultants work was mostly accepted and relied upon without question;
- only one person was initially assigned to the project on a full time basis and that person had limited relevant experience and no relevant tertiary qualifications; and
- administrative and decision making processes were weak and in some cases non-existent.

15.37 In summary, the Territory has a statutory and administrative

framework in place to provide for the effective governance and management of major projects. In respect of the redevelopment of the Stadium, however, there were a number of omissions and deviations from the framework which resulted in both governance and management arrangements not being adequate.

## DEPARTMENTAL RESPONSE

15.38 In accordance with section 18 of the *Auditor-General Act 1996*, a late draft of the detailed *Report 12 – Governance and Management*, on which the preceding summary is based, was provided to the Chief Executive of the Chief Minister’s Department for his consideration and comments. The Chief Executive’s response is set out following. It is also included in the detailed *Report 12*.

15.39 Readers should note that the Chief Executive’s response was made in respect of detailed *Report 12* and therefore some issues the Chief Executive addresses in his response may not be contained in the Audit’s summary of detailed *Report 12*.

1. *“The general conclusion of this report, that governance and management arrangements for the project to redevelop Bruce Stadium were ineffective is based on a series of often contestable propositions.*

### ***Ministerial Accountability***

2. *Before dealing with the more contentious of these propositions, I wish to provide some comments on the general concepts of Ministerial and Chief Executive accountability, the formal aspects of which are addressed in this report.*

3. *The traditional view of Ministerial responsibility was that Ministers were responsible to Parliament for their own actions and for the actions of their departments. That principle can no longer be applied in its simplest form because of the size, complexity and pace of modern government. Ministers cannot be expected to be aware of everything that their departments do, or necessarily to possess the specific technical knowledge of their areas of responsibility. The small numbers of Ministers, the combination of state and local responsibilities and the attendant pressures on time, amplify these limitations in a small jurisdiction such as the ACT.*

4. *Put simply, there are real practical bounds to the depth of Ministerial responsibility. Ministers (and Chief Executives) must rely on*

*the advice and actions of others. They meet their accountability obligations by ensuring that officers have a clear understanding of Government policies and management requirements, that appropriate policy guidelines and financial delegations are in place, that officers are made aware of these requirements, receive appropriate training, there is appropriate scrutiny of performance against key outputs and performance measures and effective two-way management communications.*

5. *The practical limitations of Ministerial responsibility are acknowledged in this Audit report, and are well summarised in the Code of Ministerial Conduct adopted in April 1995, which is summarised at paragraph 2.24 of the report.*

6. *In addition, the summary report has found that Cabinet's decisions on the project were consistent with the content of the submissions on the projects provided to Cabinet; and that, if the only information the Cabinet had available was the content of the Cabinet submissions, the Cabinet's decisions on the project were reasonable.*

7. *The second issue of Ministerial responsibility relates to the development and approval of Cabinet submissions. The Cabinet Handbook, as well as convention, makes it clear that Ministers are responsible for the proposals they bring forward. In turn, Cabinet is collectively responsible for the decisions made in response to such submissions.*

8. *Usually, and certainly in the case of the various submissions associated with the redevelopment of Bruce Stadium, submissions are prepared by officials and cleared by the relevant Chief Executive or another senior executive. As with the general concept of Ministerial responsibility discussed above, Ministers sponsoring submissions are entitled to rely on the factual accuracy of the material put forward.*

9. *The real accountability of Ministers is related more to the policy intention embodied in the submission. In that sense the Minister is more the "sponsor" than the "author" of the submission. It is not unknown for Ministers to sponsor submissions with the objective of facilitating a general Cabinet discussion on an issue, without being tied to the specifics of the proposition contained in the submission. Care therefore needs to be exercised in undertaking too literal an approach to the scrutiny of Cabinet submissions.*

10. *The report is in error in its contention that, as Cabinet decisions are often brief, the submissions on which the decisions are based need to be consulted in order to fully understand the context of the decisions.*

*This view is contradicted both by convention and by the Cabinet Handbook. Cabinet decisions must be drafted so as to stand alone and not to require interpretation. Following the course advocated in the report would bring with it the risk of great uncertainty due to the scope for differing interpretations.*

*11. In addition, it is important to be aware that the drafters of submissions as well as those providing briefing notes for use by Ministers will usually have a clear conception of the outcome which they seek. However, actual outcomes are for Cabinet to determine. Aims and outcomes may well differ.*

### ***Accountability of Chief Executives***

*12. The accountability of Chief Executive Officers in the ACT are somewhat more specific than the accountability of Ministers. As the report notes, each Chief Executive has a performance agreement and a purchase agreement with their respective Minister. These agreements set out both general performance standards as well as more specific deliverables. Even when the implementation of such deliverables are the more specific responsibilities of other senior executives, the Chief Executive retains overall accountability. Where specific deliverables are not specified, direct accountability for a specific task rests with the executive that has been assigned that task.*

*13. As with Ministers, Chief Executives have extensive responsibilities and the time they can devote directly to particular issues is necessarily limited. Intensive focus on particular matters – such as responding to these 12 reports on the redevelopment of Bruce Stadium – is necessarily at the expense of other priorities. That is the reality of senior management, particularly in the very small senior management teams that are characteristic of the ACT administration. This reality is not given much recognition in this report.*

*14. I turn now to some of the more specific conclusions of this report.*

### ***Exercise of Chief Executive Responsibility***

*15. The first of these conclusions is the lack of the exercise of Chief Executive responsibility at critical periods in the project. I have reviewed the reported comments of some of the Chief Executives involved at the*

*time. Particularly in the case of those who occupied their positions for considerable periods of time, I am concerned by the assertions that they did not have or exercise responsibility for the project. As a Chief Executive, such responsibility cannot be avoided, at least in terms of providing structured oversight of the more detailed responsibility and work of others. This is less the case with new or short term appointees.*

*16. There is a second aspect of the report's findings on the involvement of Chief Executive which requires comment. The report contains the implication that the relevant Chief Executives should have had more direct involvement in the conduct of the project. Such an implication ignores the practical limitations that I have discussed above, while also relying on the wisdom of hindsight to illustrate issues which "ought" to have been given more attention.*

### ***Lack of Documentation***

*17. The second conclusion I wish to address is the criticism of the lack of documentation in the form of Ministerial directions, submissions, briefs and notes and the more general lack of documentation of meetings etc. Some of these criticisms are well founded, while others simply reflect a lack of experience or understanding of the realities of the senior executive environment, or the particular circumstances and scale of the ACT Government and administration.*

*18. As discussed above, the role of Cabinet and Ministers is to set the strategic direction. Once that direction is set, it is up to officials to manage the implementation. There is simply no need for a great deal of ongoing Ministerial direction. What is required is effective, regular, structured and documented reporting. The senior executives more directly responsible for the redevelopment of Bruce Stadium failed to meet that test. That is an error of process which we are seeking to correct in the conduct of current major projects.*

*19. One mitigating factor in terms of the lack of documentation is the relatively small scale of the ACT administration and the ease and frequency of access to Ministers which that limited scale allows. In such circumstances there is a natural tendency towards informality. The challenge is to find the appropriate balance.*

*20. The report is also correct in finding that there were particular shortcomings in the documentation of the processes for the selection of the project manager. The processes undertaken, or at least the documentation of those processes, did not comply with the capital works*

*guidelines operative at the time. The general guidelines on procurement have been substantially revised over the last two years.*

21. *Where I differ from this aspects of the report's findings is in relation to the criticism of a more general lack of documentation, particularly of conversations. These reports frequently comment that officials involved with the project provided particular advice to Audit but that this advice could not be validated by written evidence and thus was given less weight. Some regard has to be had to practical limitations. It is impossible for Chief Executives and other senior officials to make notes of every conversation or aspects of their work in detail in the way Audit is implying. The combined effects of a higher pace of activity, flatter structures and overall reductions in staff resources have all had an effect.*

### ***Inaccurate and Incomplete Submissions***

22. *Issues relating to specific submissions are addressed in my comments on other reports. These Audits judgements are largely a matter of opinion or emphasis, but one issue relating to governance needs to be noted here.*

23. *Cabinet submissions, in accordance with the guidelines in the Cabinet Handbook , are limited in length. There is need to summarise issues and to focus on the key considerations. Sometimes such summaries may be considered to be in error. The issue is whether such errors are material and that is frequently a matter of opinion.*

24. *The report contends that Cabinet submissions should be complete and comprehensive. However, Ministers have limited time to review Cabinet papers, with a typical Cabinet meeting already addressing some hundreds of pages of material across ten to twenty different subjects. There is along established management theory that observes that while a given decision may analytically be dependent on say twenty variables or factors, only two or three of these factors are decisive. The alternative is 'paralysis by analysis'.*

## **CONCLUDING COMMENTS**

15.40 The Chief Executive comments in *paragraph 1* of his response that the general conclusion of *Report 12*, that governance and management arrangements for the project to redevelop the Stadium were ineffective, is based on a series of often contestable propositions. At paragraphs 1.10 and 1.11 of *Report 12* (paragraphs 15.35 and 15.36 of

this Report), the Audit lists the 12 main grounds on which its findings are based. The content of the Chief Executive's response, however, 'contests' parts of only three of these findings. The Chief Executive, however, also raises a number of other matters.

15.41 The significant issues raised by the Chief Executive are discussed in the following paragraphs.

15.42 The Chief Executive raises the issue of Ministerial responsibility in *paragraphs 2 to 11* of his response. At *paragraphs 3 and 4* the Chief Executive comments that Ministers cannot be expected to be aware of everything that their departments do. The Ministerial Code of Conduct, which is referred to at paragraph 2.24 of *Report 12*, recognises this by stating that Ministers have broad responsibility for the operations and performance of their departments. The Chief Executive also comments that the small number of Ministers in the ACT amplifies the time pressure on Ministers. At paragraph 2.27 of *Report 12* the Audit recognises that as a practical matter Ministers cannot direct and be responsible for all actions taken within their department. The fact, however, that the ACT only has a small number of Ministers should not lessen the extent of their responsibility as established in the Ministerial Code of Conduct.

15.43 The Chief Executive discusses Ministerial responsibility for Cabinet submissions in *paragraphs 7 and 8*. At *paragraph 8* the Chief Executive comments that Ministers sponsoring submissions are entitled to rely on the factual accuracy of the material put forward. The Audit generally agrees that Ministers should be able to rely on the factual content of submissions. However, as Ministers are required to approve and sign all submissions before their colleagues consider them it would be expected that Ministers would carefully review the submissions before approving them. At paragraph, 2.9 of *Report 12*, the Audit draws from the Cabinet Handbook in noting that Ministers are responsible for their own proposals even though others do the drafting.

15.44 The Chief Executive comments at *paragraph 9* that the Minister is the 'sponsor' of a submission and that Ministers may sponsor a submission to facilitate debate on an issue. This is agreed. This is not to suggest, however, that the content of submissions should not be based on accurate factual data.

15.45 The Chief Executive comments at *paragraph 10* that the Report is in error in its contention that, as Cabinet decisions are often brief, the submissions on which they are based may need to be consulted in order to fully understand a decision's context. The Chief Executive then states that to follow this course would bring with it the risk of great uncertainty due to the scope for differing interpretations. The Audit considers that the opposite actually applies. When decisions are very brief, as many reviewed in this Audit were, the risk of differing interpretations arising actually increases if the relevant submission is not consulted.

15.46 An example of where it would have been necessary to refer to the associated submission is the decision of 23 September 1996 on the submission titled *Canberra – An Olympic City*. The decision recorded includes the Cabinet agreeing that, as part of the Olympic bid the Government would guarantee that, if the bid is successful, the Stadium would be 'upgraded to full specifications'. What is meant by the term 'upgraded to full specifications', can only be gleaned from the related submission.

15.47 A further example of where it is necessary to refer to the associated submission is in the decision of 21 December 1998 on the submission titled *Bruce Stadium – Financing*, where the decision recorded includes that Cabinet agreed that 'Option 2 as outlined in paragraphs 18 to 22 of the submission ... ensures the best return on the ACT's investment'. Clearly the submission needs to be consulted in order to ascertain what is meant by Option 2.

15.48 The Chief Executive continues with this theme in *paragraph 11*, where he notes that Cabinet determines actual outcomes intended from a submission, not those drafting the submission. The Audit does not disagree. However, the need to avoid the uncertainty in this regard would seem to argue for clear decisions. In the two examples cited by the Audit above, it is not possible to determine, from the decision alone, what Cabinet intended.

15.49 The accountability of Chief Executives is raised in *paragraphs 12* and *13* of the response. The Audit accepts that Chief Executives have limited time to devote to particular issues. Nevertheless, for a project of such significance as the Bruce Stadium redevelopment, the Audit would expect responsibility and accountabilities to be clearly defined in Chief Executives' performance agreements as was the case with Ms Pegrum. This did not occur.

15.50 The Chief Executive's comments at *paragraph 16* that the Report implies that Chief Executives should have had more direct involvement in the conduct of the redevelopment project. The Chief Executive then goes on to state that this ignores the practical limitations on Chief Executives' time. The Audit recognises that Chief Executives are busy people. *Report 12* notes, however, at paragraphs 3.31 to 3.35, that no formal consideration appears to have been given to identifying, analysing, preparing for and treating risks that could arise during the project. If such an assessment had been undertaken it may have assisted in identifying those high risk issues where Chief Executives should have been more involved in the project.

15.51 The Chief Executive refers at *paragraphs 17 to 21* to the Audit's criticism about the lack of documentation associated with the project. The Chief Executive agrees that some of the Audit's criticisms are well founded and that senior executives failed to provide effective, regular, structured and documented reporting.

15.52 In regard to *paragraph 18* the Audit agrees that in the normal case there may be no need for a great deal of ongoing Ministerial direction when a project is proceeding in accordance with the strategic direction set by the Cabinet. By any measure, however, the redevelopment project did not proceed according to the strategic directions set by Cabinet and hence Ministerial direction would seem to have been required. At paragraph 3.24 of *Report 12*, the Audit notes that the Chief Minister was kept informed of developments on the project on a frequent basis. In the absence of documentary evidence, however, the Audit has been unable to confirm the content of information provided to the Chief Minister or whether the Chief Minister provided directions to executives.

15.53 The Chief Executive states at *paragraph 21* that it is impossible for executives to make notes of every conversation or aspects of their work in detail. The Audit is not suggesting that executives should make notes of all parts of all conversations and all aspects of their work should be recorded in detail. A common sense approach is required. As indicated, it would be expected that records of important information provided to Ministers would be retained and any resulting directions provided by Ministers recorded. Furthermore, it would be expected that formal records would be made of key decisions taken by executives, together with issues considered by them in taking such decisions. This is sensible management practice and a pre-requisite for effective

accountability.

15.54 The Chief Executive also states in *paragraph 21* that advice provided by executives to the Audit during the Audit which could not be validated by written evidence was given less weight in the Audit. This is generally correct. The practice adopted in this Audit is in accordance with the Australian Auditing Standards relevant to performance audits. The advice provided by executives was only given less weight by the Audit where it could not be validated by other means. The Audit sought validation by a number of means including direct evidence, external third party confirmation as well as internal written evidence. No significant written advice was given ‘less weight’ without attempts being made to find supporting evidence.

15.55 The Chief Executive refers at *paragraphs 22 to 24* to the Audit’s finding that seven of the nine Cabinet submissions on the redevelopment project contained significant inaccuracies and/or were incomplete. The Chief Executive notes that Cabinet submissions are required to be of limited length and that as a necessity they summarise information which may subsequently be considered to be in error. He then states that the issue of whether such errors are material is frequently a matter of opinion. The Audit considers that correction of inaccuracies in the submissions referred to in the Audit would not have added to their length.

15.56 Each of the deficiencies in the submissions identified by the Audit at paragraphs 4.14 to 4.21 of *Report 12* were material. Most would not have arisen as a result of any summarising process intended to limit the length of the submissions. In addition, there are established Cabinet practices set out in the Cabinet Handbook to provide additional information to Ministers where it is considered necessary. These procedures include providing attachments to submissions and seeking approval from the Cabinet Office for a more lengthy submission where it is considered warranted.

15.57 All of the matters raised by the Chief Executive were identified during the Audit and carefully considered. On receipt of the Chief Executive’s response they were reconsidered. The Audit conclusion is that the content of the Chief Executive’s response does not change the Audit’s opinion.



## **OVERVIEW OF THE STADIUM REDEVELOPMENT**

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### **Introduction**

1. The purpose of this Appendix is to provide a brief overview of the redevelopment project to provide readers with some additional context in which to review the Audit's results.

### **Development of the Decision to Redevelop the Stadium and the Olympic Bid Submission**

2. The ACT Government has leased the Bruce Stadium from the Australian Sports Commission (ASC) since 1989. From as early as late 1992 successive ACT governments have considered redeveloping the Stadium and bidding to host Olympic soccer.

3. In July 1996, SOCOG, wrote to the Chief Minister outlining the bid process for hosting an Olympic soccer tournament. Although the Stadium did not, at that time, meet all the requirements of SOCOG to host Olympic soccer, the Government considered that there was the potential to submit a bid. A consultant was engaged to assist in preparing the bid.

4. As part of its assistance, the consultant provided a plan for the redevelopment of the Stadium and its financing. The consultant suggested that additional seating could best be achieved if the playing field was rectangular and lowered to allow an 'inner bowl' of seating to be constructed. This advice was accepted and the design for the redevelopment proceeded along these lines. The rectangular shape would provide for use by both the rugby codes and soccer and would result in the redevelopment exceeding the specified requirements to host Olympic soccer. It was recognised that the proposed redevelopment design also meant that the Stadium would not be suitable for Australian Rules football or cricket. The estimated cost of the redevelopment was \$27m.

5. As a further part of the consultant's assistance a sub-contractor to the consultant, prepared a Stadium financial model. In that model the

sub-contractor estimated the revenues which could be earned through selling new corporate products, such as corporate suites, naming rights, video replay board rights and passholder subscriptions, at the Stadium. The sale of these products was projected to generate the majority of the funds needed to construct the redevelopment and also ensure that the Stadium's operations were commercially viable in the future. Apparently based on the model, the Cabinet was advised that the redevelopment could be financed by a \$12m contribution by the Government, \$8m in revenue from the sale of new high quality facilities during the period of construction, and \$7m by way of a 7 year loan, repaid from profits which would be generated from the Stadium's future operations.

6. The underlying concept was that the total revenues which could be earned from the Stadium's operations would be considerably increased as a result of the redevelopment. The concept was that the increased revenue would be generated from corporate or other patrons who would be attracted by the high quality facilities and be prepared to pay high prices to use the facilities. The construction of these facilities was to be a major part of the redevelopment.

7. In September 1996, the Cabinet approved the submission of a bid to host part of the 2000 Olympic Football Tournament. The Cabinet agreed to guarantee to upgrade the Stadium to full specifications if the bid was successful. As previously stated the total estimated cost of the proposed redevelopment was \$27m. This included 25,000 permanent covered seats, 24 additional corporate suites, video scoreboard, roofing and upgrade of concessions and spectator facilities. The net economic benefit to the Territory of redeveloping the Stadium and conducting the Olympic soccer tournament was estimated at \$23m.

8. After the announcement of Canberra as a host venue, contract negotiations with SOCOG proceeded throughout the first half of 1997. A Memorandum of Understanding with SOCOG was signed on 26 September 1997.

### **Selection of the Project Manager**

9. In early December 1996, the Treasurer agreed to a select tender process for the project manager for the redevelopment in anticipation of the Olympic soccer bid being successful. Later that month formal agreement was received from the Commonwealth Minister for Sport to the redevelopment and SOCOG announced Canberra as a host venue for Olympic soccer, subject to negotiations.

10. The tender for project management of the redevelopment proceeded in two stages. Expressions of Interest were assessed in February 1997 and two firms, were short listed to proceed to submit more detailed proposals. Their proposals were submitted and on 10 March 1997, the Cabinet was advised that the consultant who had assisted with the Olympic bid document had been selected as the project manager for the redevelopment. The consultant was formally engaged in April 1997.

11. The consultant was to manage all aspects of the redevelopment including construction, financing, marketing and hiring agreement negotiations.

### **Construction**

12. The physical redevelopment of the Stadium was planned in stages with the aim that the 1998 Raiders and Brumbies seasons could proceed with minimal disturbance. To achieve this, the lowering of the playing surface, the construction of the inner bowl seating (Stage 1A) and the upgrade of player facilities in the East Stand (Stage 1B), were planned to begin immediately after the close of the Raider's 1997 season. They were to be completed in time for the start of the 1998 season. Stage 2, the redevelopment of the West Stand would proceed throughout the 1998 season, with the majority completed in time to host the Rugby World Cup Qualifying Round in September 1998. Stage 3, the redevelopment of the West Stand, was planned to begin at the end of the 1998 season and be completed for the first game of the 1999 season in March 1999.

13. In August 1997, tenders were called for Stage 1A and a contractor was selected. In September 1997, tenders were called for Stage 1B and the same contractor was selected. Both Stages were completed as planned in time for the first game of the 1998 season.

14. Tenders were called in November 1997 for Stage 2, the East Stand redevelopment, consisting of toilets, concessions, corporate suites, corporate boxes, and a lounge, upgraded seating in the stand and completion of the eastern portion of the inner bowl. A different contractor to the contractor who constructed Stage 1A and IB was selected. The majority of the new facilities were constructed and available as planned for the Rugby International played in September 1998.

15. Tenders for Stage 3, which included corporate suites and boxes, a lounge, upgraded stand seating, concessions and toilets in the West Stand and the roof over the East Stand were called on 25 August 1998. The contractor who constructed Stage 1A and 1B was selected.

16. In December 1998, the Cabinet considered a submission on the redevelopment costs which advised that the estimated cost of the redevelopment was \$33.5m. The Cabinet noted the increase in the overall cost to \$33.5m. The Cabinet also noted that there was to be no increase in the Government's contribution of \$12.3m.

17. The construction aspects of the Stadium redevelopment were finalised in mid-May 1999. On 1 July 1999, appropriation was provided by the Legislative Assembly to cover the full costs of the redevelopment.

18. The Stadium was redeveloped substantially to the original size and scope design concepts including the high quality facilities.

### **Stadium Hiring Agreements**

19. A key task of the redevelopment project was to develop new long-term hiring agreements for the Raiders, Brumbies and Cosmos. A sub-contractor to the project manager was initially responsible for this process. The first stage of this process was to seek agreement with the hirers to agree to put aside their existing agreements and negotiate new heads of agreement outlining the principles under which new long term hiring contracts would be negotiated.

20. Information on the proposed new agreements was provided to the hirers' officials at the beginning of July 1997. The draft agreements reflected the revenue projections in the Stadium financial model mentioned previously. The basis on which the various revenue streams would be shared between the Stadium and the major hirers was significantly different to the arrangements in place for the old Stadium.

21. In August and September 1997, the Cosmos and the Raiders signed non-binding Heads of Agreement that would lead to a ten year hiring contract. In December 1997, the Brumbies also signed a non-binding Heads of Agreement. The Cabinet then agreed to the commencement of contract negotiations. In September 1998, the Brumbies signed an eight year contract for the use of the Stadium. A ten year contract for the use of the Stadium was signed with the Raiders in December 1998.

22. Negotiations with the three major hirers for the long term hiring agreements continued throughout 1998.

23. Although hiring agreements were finally signed with the Stadium's major hirers the terms of the agreements were significantly different to those originally proposed.

### **Market Research and Marketing**

24. In April 1998, expressions of interest were called from marketing organisations wishing to undertake a marketing and sales program for naming rights to the Stadium, corporate suites and passholder subscriptions. This program was intended to generate the large revenues projected from the quality facilities being constructed. A consortium was appointed. The agreement included the payment of \$1.795m for the marketing campaign and advertising costs. In addition commission was payable on any sales achieved.

25. The marketing and sales program resulted in a fraction of the projected revenue from the sale of corporate products being raised.

26. The marketing and sales program which was intended to generate the sales revenue needed to meet a substantial proportion of the redevelopment's construction cost was completely unsuccessful. That part of the concept which was for substantial revenue from sales of Stadium products to be received during the construction period or soon after was clearly not achieved.

### **Financing Arrangements**

27. The Government's 1997-98 Capital Works Program included funding of \$10.8m over two financial years (\$5.56m in 1997-98 and \$5.24m in 1998-99) for the redevelopment of the Stadium. In addition, \$1.5m had been carried forward from the 1996-97 program, bringing the total sum appropriated for the redevelopment to \$12.3m.

28. As construction was proceeding and no sales of corporate products had been made or external finance had been raised, the appropriated funds were the only funds available. These were soon exhausted. In order that redevelopment could continue as planned, the Cabinet agreed in December 1997 to finance the redevelopment from the Central Financing Unit of the Chief Minister's Department until external finance had been arranged.

29. Expressions of Interest to arrange the finance were received from two merchant bankers in December 1997 and the Cabinet agreed to the Under Treasurer negotiating the best outcome with the two respondents. Shortly thereafter, one of the respondents was engaged to arrange the finance.

30. On 23 June 1998, however, it was discovered that the financial arrangements had overlooked the requirement that under the proposed structure sales tax had to be paid.

31. Arrangements were not finalised before 30 June 1998. At that time, \$9.7m had been paid from the CFU bank account. On 28 June 1998, the Under Treasurer sought approval from the Treasurer for a short term loan of \$9.7m from the Commonwealth Bank. \$9.7m was borrowed from the Commonwealth Bank and paid to the CFU on 30 June 1998 and withdrawn from the CFU and repaid to the Bank the following day.

### **Summary**

32. The construction of the redevelopment was completed to its original design, size and scope concepts, however, the other major parts of the overall concept i.e. sales of Stadium products, negotiation of Stadium hiring agreements and the financing of the redevelopment were either not implemented or not implemented as intended.

## APPENDIX 2

**BRUCE STADIUM PRIOR TO THE REDEVELOPMENT**

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1. The Bruce Stadium has undergone many changes since the Commonwealth built it for the 1977 Pan Pacific Games. Costing about \$6.5m, the Stadium was designed as a specific purpose athletics venue, with a 400 metre synthetic track around the perimeter of a soccer field. Light towers were added in 1979 for \$2.0m.
2. In 1985 further works were undertaken to host the Athletics World Cup. The Commonwealth spent some \$8.37m constructing a new stand, replacing the Stadium seating, and improving catering and office facilities. The athletics track was removed, creating an oval playing field with a grassed area of about 2.5 hectares which offered scope to play rugby union, rugby league, soccer, Australian Rules football and cricket.
3. Space below the new uncovered East Stand was used to store the machinery and equipment required to maintain the Stadium, and later accommodated the Australian Sports Commission's Horticultural Unit.
4. Further redevelopment occurred in 1989 to prepare for the relocation of the Canberra Raiders. The ACT Government spent \$3.7m on the Stadium and a further \$2.8m on ASC facilities. Works on the Stadium included sponsor boxes, toilet blocks, spectator management, a new function room, caterer's kitchen, change rooms, and media boxes. The facilities were upgraded again in 1996 when the Raiders and a catering contractor spent some \$3.5m on new toilet blocks and improvements to the concession area.
5. At the time the ACT Government lodged the Olympic bid Submission in September 1996 the total ground capacity of the Stadium was about 24,000. The seating capacity was 11,600, including 3,500 seats undercover. Unseated spectators occupied grassed areas at the north and south ends of the arena and either side of the East Stand. All spectators had uninterrupted views of the whole arena. There were 32 fully enclosed sponsor boxes at various levels of the main grandstand.

6. The Stadium has hosted major athletics tournaments, and national standard rugby union, rugby league, soccer and Australian Rules football. In addition, exhibition games of American football, cricket and outdoor concerts featuring national and international artists have been held at the Stadium.

## **Annexure**

### *Reports Published in 1993*

- 1 Management of Capital Works Projects**
- 2 Asbestos Removal Program**
- 3 Various Performance Audits Conducted to 30 June 1993**
  - Debt Recovery Operations by the ACT Revenue Office
  - Publicity Unaccountable Government Activities
  - Motor Vehicle Driver Testing Procedures
- 4 Various Performance Audits**
  - Government Home Loans Program
  - Capital Equipment Purchases
  - Human Resources Management System (HRMS)
  - Selection of the ACT Government Banker
- 5 Visiting Medical Officers**
- 6 Government Schooling Program**
- 7 Annual Management Report for the Year Ended 30 June 1993**
- 8 Redundancies**
- 9 Overtime and Allowances**
- 10 Family Services Sub-Program**
- 11 Financial Audits with Years Endings to 30 June 1993**

### *Reports Published in 1994*

- 1 Overtime and Allowances - Part 2**
- 2 Department of Health** - Health Grants
  - Management of Information Technology
- 3 Public Housing Maintenance**
- 4 ACT Treasury** - Gaming Machine Administration
  - Banking Arrangements
- 5 Annual Management Report for Year Ended 30 June 1994**
- 6 Various Agencies** - Inter-Agency Charging
  - Management of Private Trust Monies
- 7 Various Agencies** - Overseas Travel - Executives and Others
  - Implementation of Major IT Projects

Annexure (continued)

**8 Financial Audits with Years Ending to 30 June 1994**

**9 Performance Indicators Reporting**

*Reports Published in 1995*

**1 Government Passenger Cars**

**2 Whistleblower Investigations Completed to 30 June 1995**

**3 Canberra Institute of Technology - Comparative Teaching Costs and Effectiveness**

**4 Government Secondary Colleges**

**5 Annual Management Report for Year Ended 30 June 1995**

**6 Contract for Collection of Domestic Garbage/Non-Salary Entitlements for Senior Government Officers**

**7 ACTEW Benchmarked**

**8 Financial Audits With Years Ending to 30 June 1995**

*Reports Published in 1996*

**1 Legislative Assembly Members - Superannuation Payments/Members' Staff - Allowances and Severance Payments**

**2 1995 Taxi Plates Auction**

**3 VMO Contracts**

**4 Land Joint Ventures**

**5 Management of Former Sheep Dip Sites**

**6 Collection of Court Fines**

**7 Annual Management Report For Year Ended 30 June 1996**

**8 Australian International Hotel School**

**9 ACT Cultural Development Funding Program**

**10 Implementation of 1994 Housing Review**

**11 Financial Audits with Years Ending to 30 June 1996**

Annexure (continued)

*Reports Published in 1997*

- 1 **Contracting Pool and Leisure Centres**
- 2 **Road and Streetlight Maintenance**
- 3 **1995-96 Territory Operating Loss**
- 4 **ACT Public Hospitals - Same Day Admissions**  
**Non Government Organisation - Audit of Potential Conflict of Interest**
- 5 **Management of Leave Liabilities**
- 6 **The Canberra Hospital Management's Salaried Specialists Private Practice**
- 7 **ACT Community Care - Disability Program and Community Nursing**
- 8 **Salaried Specialists' Use of Private Practice Privileges**
- 9 **Fleet Leasing Arrangements**
- 10 **Public Interest Disclosures - Lease Variation Charges**  
**- Corrective Services**
- 11 **Annual Management Report for Year Ended 30 June 1997**
- 12 **Financial Audits with Years Ending to 30 June 1997**
- 13 **Management of Nursing Services**

*Reports Published in 1998*

- 1 **Management of Preschool Education**
- 2 **Lease Variation Charges - Follow-up Review**
- 3 **Major IT Projects - Follow-up Review**
- 4 **Annual Management Report for Year Ended 30 June 1998**
- 5 **Management of Housing Assistance**
- 6 **Assembly Members' Superannuation and Severance Payments to Former Members' Staffers**
- 7 **Magistrates Court Bail Processes**
- 8 **Territory Operating Losses and Financial Position**
- 9 **Financial Audits with Years Ending To 30 June 1998**

Annexure (continued)

- 10 Management of Schools Repairs and Maintenance**
- 11 Overtime Payment To A Former Legislative Assembly Member's Staffer**

*Reports Published in 1999*

- 1 Stamp Duty on Motor Vehicle Registrations**
- 2 The Management of Year 2000 Risks**
- 3 Annual Management Report for the Year Ended 30 June 1999**
- 4 Financial Audits with Years Ending To 30 June 1999**

*Reports Published in 2000*

- 1. Bruce Stadium Redevelopment — Summary Report**
- 2. Bruce Stadium Redevelopment — Value for Money**
- 3. Bruce Stadium Redevelopment — Costs and Benefits**
- 4. Bruce Stadium Redevelopment — Decision to Redevelop the Stadium**
- 5. Bruce Stadium Redevelopment — Selection of the Project Manager**
- 6. Bruce Stadium Redevelopment — Financing Arrangements**
- 7. Bruce Stadium Redevelopment — Stadium Financial Model**
- 8. Bruce Stadium Redevelopment — Actual Costs and Cost Estimates**
- 9. Bruce Stadium Redevelopment — Market Research and Marketing**
- 10. Bruce Stadium Redevelopment — Stadium Hiring Agreements**
- 11. Bruce Stadium Redevelopment — Lawfulness of Expenditure**
- 12. Bruce Stadium Redevelopment — Governance and Management**

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