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PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL
SPECIAL REPORT No. 68**

Risdon Prison: business case

June 2007

*Presented to both Houses of Parliament in accordance with the provisions
of Section 57 of the Financial Management and Audit Act 1990*

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Tasmanian Audit Office

GPO Box 851

Hobart

TASMANIA 7001

Phone: (03) 6226 0100, Fax (03) 6226 0199

Email: admin@audit.tas.gov.au

Home Page: <http://www.audit.tas.gov.au>

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14 June 2007

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Mr Speaker

SPECIAL REPORT NO. 68

Risdon Prison: business case

This report has been prepared consequent to examinations conducted under section 44 of the *Financial Management and Audit Act 1990*, for submission to Parliament under the provisions of section 57 of the Act.

The performance audit examines the economy, effectiveness and risk management inherent in the creation of the business case for the redevelopment of the new prisons.

Yours sincerely

A handwritten signature in black ink, appearing to read 'H M Blake', with a stylized flourish at the end.

H M Blake

AUDITOR-GENERAL

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Foreword

The Risdon Prison was constructed in the late 1950's and was predominately a maximum-security facility, with limited capacity, limited recreation facilities and no space for industry. Women prisoners were all confined to maximum security. A major capital upgrade or a new facility was required.

A business case for a new prison system was completed in February 2001 and submitted to cabinet. This was necessary to secure the approval of cabinet and to gain the required resources to fund the project.

This objective of this performance audit was to form an opinion about the economy, effectiveness and risk assessment inherent in the creation of the business case for the development of the new prisons.

We found that the Government's requirements of the business case had been met. There had been due regard for economy with all reasonable options considered and financial analysis performed in accordance with state government guidelines. We also found that an effective tender process was used and that although substantial increases in the overall construction cost occurred, in the main the increases were unavoidable and did not reflect deficiencies in the business case.

Although generally satisfied with the business case some improvements were identified, including greater use of sensitivity analysis, inclusion of all costs and benefits in financial analyses and a more complete risk management processes.

This report contains six recommendations that aim to improve the capacity of business cases to provide for economy, effectiveness and risk management.

H M Blake

Auditor-General

14 June 2007

List of acronyms and abbreviations

Department	Department of Justice
GCS	Guaranteed Construction Sum
SMHU	Secure Mental Health Unit
TCS	Target Construction Sum
TGPMG	Tasmanian Government Project Management Guidelines
Treasury	Department of Treasury and Finance

Executive summary

Executive summary

In 2006 the State Government finished construction of a new prison adjacent to the previous prison at Risdon. This redevelopment represented a significant investment by the Government with total expenditure around \$90M.

The previous Risdon prison was constructed in the late 1950s in an era where there was a greater emphasis on providing a secure facility rather than attempting to modify behaviour. It had reached a stage where either a major capital upgrade or a replacement facility was required.

As a major public sector infrastructure project a business case for the new prison(s) was submitted to Cabinet for approval. A business case was necessary to secure the approval of Cabinet and gain the required resources to fund the project.

The objective of the audit was to form an opinion about the economy, effectiveness and risk management inherent in the creation of the business case for redevelopment of the new prisons. It examined projected capital and recurrent costs outlined in the business case, financial comparison between short listed options, the process for short listing of options, risk management and whether sufficient expertise was brought to the process. The audit also inquired into the reasons for unanticipated cost escalations.

The audit was originally commenced in 2005, but was deferred on a number of occasions, because of staff shortages and competing priorities. The audit was finalised in December 2006 and this Report completed in June 2007.

Audit opinion

Economy

Overall, the business case process showed due regard for economy with all reasonable options considered and financial analysis performed in accordance with state government guidelines.

We also found that an effective tender process was used and that although substantial increases in the overall construction cost occurred, in the main the increases were unavoidable and did not reflect deficiencies in the business case.

However, in our view, best practice would have included recurrent benefits as well as costs, and have formally evaluated the “do-the-minimum” option against the other options considered.

We also considered that insufficient use was made of sensitivity analysis with the result that the business case did not indicate the

financial consequences of increasing numbers of prisoners or rapidly rising building costs. Both of those factors did occur and led to substantial increases in overall construction costs.

Effectiveness

We found that the Government's requirements of the business case had been met. We noted that the requirements were initially not well defined and we applauded the process followed by the redevelopment team in submitting a supplementary document to Cabinet for endorsement to ensure both the Government and the department had a common understanding.

We also considered that the business case provided a strong basis for detailed project planning, and that in particular the functional brief was of high standard.

Risk management

We found that the risk assessment appeared to be superficial and incomplete. On the other hand, we were satisfied that despite deficiencies in the formal risk assessment process, appropriate procedures had been implemented to mitigate some of the major risks. These included:

- use of relevant experts
- Treasury review and advice on the business case.

Recommendations

In all, we made six recommendations aimed at improving the capacity of business cases to provide for economy, effectiveness and risk management.

Recommendations and management responses

Recommendations and management responses

List of recommendations

The following table reproduces the recommendations contained in the body of this Report.

No	Report section	Recommendation
1	1.2.3	Financial analyses included in business cases for major projects should include all capital and recurrent costs and benefits, even when it is Government policy that the project should proceed.
2	1.2.3	Financial analyses should be performed for all short listed options including the 'do-the-minimum' option.
3	1.3.2	Financial analyses of major options should include sensitivity analyses of important costs.
4	1.5.2	Advice provided by agencies in support of capital funding decisions should be conservative and well researched.
5	1.5.4	Prior to entering into a major construction contract, Government agencies should have a clear risk management strategy to deal with the possibility of a substantial breach of contract.
6	3.3	Preparation of the business case should include a thorough risk analysis process, supported as necessary by appropriate expertise.

Management responses

Department of Treasury and Finance

I note the recommendations in the Report and consider that the implementation of these recommendations by agencies would further assist the Government in the evaluation of future capital projects.

Department of Justice

Justice was satisfied with the Report.

Introduction

Introduction

Background

In 2006 the State Government finished construction of a new prison adjacent to the previous prison at Risdon. This redevelopment represented a significant investment by the Government with total expenditure around \$90M (Treasurer's budget speech 2005). The original 2001 capital budget for the project was \$53M.

The previous Risdon prison was constructed in the late 1950s and began service in 1960. It was predominantly maximum-security, built in an era where there was a greater emphasis on providing a secure facility rather than attempting to modify behaviour. It had reached a stage where either a major capital upgrade or a replacement facility was required.

Whilst there is a medium security men's section at the old prison, it had a limited capacity of 35 beds, suffered from limited indoor recreational living areas and had no space for industry. There were no minimum-security facilities at Risdon and women prisoners were confined in maximum-security conditions.

As a major public sector infrastructure project a business case for the new prison(s) was submitted to Cabinet for approval. A business case was necessary to secure the approval of Cabinet and gain the required resources to fund the project.

This performance audit is a review of the business case prepared as a basis for the redevelopment project. It examined projected capital and recurrent costs outlined in the business case, financial comparison between short listed options, the process for short listing of options, risk management and whether sufficient expertise was brought to the process. The audit also inquired into the reasons for unanticipated cost escalations.

Business case

The business case is the primary mechanism used to outline a business issue and seek approval for a project to resolve the issue and/or seek agreement on a project's outcomes. The business case is the foundation upon which other project documentation and the resulting project are built.

Typically it is a one-off, start-up document used to assess the advantages and disadvantages of proposed projects, or to assess options for a project that has already had resources allocated.

It should:

- present the business issue

- identify project options
- analyse the benefits, costs and risks for each option
- make a recommendation
- provide sufficient basis for detailed planning.

Utopia versus reality

The utopian model underlying much of our audit asks for the business case to include the following:

- All possible combinations of project elements (e.g. location, financing, management) are grouped into project options for evaluation.
- Economic evaluation takes all costs and benefits into account — not just those easily converted to dollars.
- Sensitivity analyses are performed on all key cost drivers.
- Thorough risk analysis is factored into the decision making, including identification, risk mitigation and avoidance strategies and fall-back strategies.

The utopian model is impractical, particularly for a mid-level project. However, a reasonable approximation is possible, viz

- Options can be short listed using estimation and experience.
- There are established methods to determine an economic value of costs and benefits not obviously quantifiable, e.g. the value of a life might be approximated using insurance values, estimated contribution to GDP or inferred value from other similar decisions of the Government.
- Sensitivity analysis can be restricted to a small number of potentially volatile cost drivers.
- Expertise in risk management is widely available.

Objective

The objective of the audit was to form an opinion about the economy, effectiveness and risk management inherent in the creation of the business case for redevelopment of the new prisons.

Included in that objective were the following particular issues:

- reasons for the increasing project costs
- adequacy of planning and provision of recurrent funding to run the prisons.

Scope

The audit focused on the performance of the Department of Justice (the department) in preparing a business case for the redevelopment of the new prison.

Criteria

Economy

- Did the business case consider all reasonable options?
- Did the business case analysis incorporate both capital and recurrent costs?
- Did the business case include a sensitivity analysis of key cost drivers?
- Was a cost-effective tender process used?
- Did the process deal economically with all major contract alterations?

Effectiveness

- Did the business case recommendation satisfy the Government's criteria for a replacement facility?
- Was there sufficient implementation detail to provide for project planning?

Risk management

- Was the business case developed using sound methodology, and was it appropriately documented?
- Did the business case canvas alternatives, detailed cost benefit analysis and risk analysis?
- Were appropriate external experts consulted?
- Was Treasury input sought prior to the business case being submitted to Cabinet?

Timing

The audit was originally commenced in 2005, but was deferred on a number of occasions, because of staff shortages and competing priorities. The audit was finalised in December 2006 and this Report completed in June 2007.

Resources

The total cost of the audit excluding report production costs was approximately \$89 300.

1 Economy

1 Economy

1.1 *All reasonable options considered?*

The business case defines its purpose as being ‘to present to Government a detailed analysis of options and a preferred option for possible redevelopment of the prison system.’

The business case considered the following parameters:

Size and location:	A number of possible sites in both the north, northwest and south of the state received preliminary consideration. Following on from that process, various options were developed and subjected to financial and other analysis, including: <ul style="list-style-type: none">• A major new facility in the south and remand facility only in the north, and• Smaller facilities in both the north and south of the state.
Service delivery:	Operation of one or more facilities by the private sector, or no private sector involvement.
Financing:	Lease of one or more facilities.
Development period:	A number of approaches were considered with different stages and development periods ranging from six to ten years. The ten-year proposal allowed for a deferred decision to be made as to whether to build the northern site, and thus provided additional flexibility.

The above option categories were incorporated in five scenarios, which received a full evaluation, including detailed financial analysis. In addition, a number of other issues were considered in the business case but not included as options for financial comparison. These included:

Specific location sites:	Location sites were discussed in Appendix 10 to the business case, in which a wide range of possible sites was evaluated against 21 selection criteria, for example, public safety and access for law enforcement. The process appeared thorough in terms of selecting the best sites.
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This decision was particularly straightforward since the Crown already owned the Risdon site and it was clearly the best Southern site in terms of the criteria.

The selection process for the Northern site resulted

in similar evaluations for the preferred peri-urban green fields site and the Launceston CBD site, with the green fields site selected on the basis of design factors. Both sites would have to be purchased.

In this case, the ideal approach might have been to perform an NPV analysis. However, given that the less expensive rural site was selected, it is unlikely that an NPV calculation would have led to a different result.

Prison design: Very little consideration of alternative prison designs is evident in the business plan and attachments. The issue is discussed in the functional brief, which states that the general approach to prison configuration in recent times is what is known as a campus-style design. This model uses self-contained accommodation units to provide housing for inmates of any classification.

The functional brief discusses qualitative benefits of this style of accommodation, but does not consider alternative models. However, we were advised verbally of extensive research by the planners that had found no suitable alternatives. We found the arguments in favour of the selected design to be persuasive.

In summary, there was extensive and thorough analysis of options.

1.2 *Thorough financial analysis?*

1.2.1 *Infrastructure project*

Up until late 2003, the Tasmanian Government Project Management Guidelines (TGPMG) allowed a project to be classified solely as an infrastructure project, which allowed the project evaluation to focus solely on capital cost rather than taking into account ongoing costs and benefits, and the prison redevelopment project was so classified.

However, we found that the analyses performed in the business case, whilst focusing on the capital costs did include the largest recurrent cost item — salaries and wages. Staffing models were developed by a consultant along with senior Corrective Services staff. The bases for the modelling are outlined in the business case, and staffing for the various options varied significantly.

We were satisfied that inclusion of salaries enabled a reasonable comparison of costs between the main options.

1.2.2 *Inclusion of benefits*

Ideally, a business case should quantify all costs and benefits, which might include salary, maintenance, energy costs and benefits associated with projected lower levels of recidivism, riots and custodial officer stress.

For this project, the financial analysis does not include quantitative assessment of benefits. As an infrastructure project it was compliant with TGPMG, but the approach taken leaves unanswered the possibility that a more expensive option should have been selected because of its greater net benefits.

As a hypothetical example (only) it might be less expensive to only have a southern facility, but that sufficient benefits may exist from reduced recidivism, and less escape and suicide attempts to tip the balance in favour of separate southern and northern facilities.

1.2.3 *The do-the-minimum option*

The do-the-minimum option refers to the choice of continuing with the existing situation, making only unavoidable expenditures to ensure that option provides a satisfactory outcome. In our view it is generally desirable to include the do-the-minimum option on the shortlist for financial analysis. However, that approach is impractical unless benefits are included in the financial analysis since the do-the-minimum option is almost by definition the cheapest.

The do-the-minimum option was included in the original Capital Investment Program Submission of December 1999 as an option to be considered 'for comparison' purposes but no attempt to quantify it was carried out, unlike the other options. The submission indicated that the existing Risdon buildings had exceeded their useful economic lives and would need replacement to maintain or obtain the required functionality.

It seems pedantic in this particular case to query this conclusion given the background to the decision to redevelop the prison; nevertheless as a general rule, we consider it preferable that the do-the-minimum option be short listed and quantitatively assessed.

Recommendation 1

Financial analyses included in business cases for major projects should include all capital and recurrent costs and benefits, even when it is government policy that the project should proceed.

Recommendation 2

Financial analyses should be performed for all short listed options including the ‘do-the-minimum’ option.

1.3 *Did the business case include sensitivity analysis?*

Sensitivity analysis is recommended where it is impossible to predict the level of a key cost determinant, in order to inform the decision makers of the full range of outcomes. Decision makers are then in a position to react to the possibility of a worst case scenario in a number of ways, for example:

- choosing to not proceed with the project
- adopting some form of ‘hedging’ to provide insurance against that outcome.

We looked at a number of cost determinants, which we judged to have sufficient impact on the overall project cost to justify sensitivity analysis.

1.3.1 *Number and mix of future prison populations*

A sensitivity analysis had not been performed. Instead the project team had attempted to mitigate the risk by:

- use of an expert to project prisoner numbers and mix
- selection of a modular design and an approach to perimeter fencing that allowed scope for additional blocks to be easily added as necessary.

In practice, it was necessary to use that flexibility, because actual prisoner numbers significantly exceeding the expert prediction, which led to Cabinet being asked to approve three more medium security units at a cost of \$9M. A similar escalation occurred with bed numbers for the Secure Mental Health Unit (SMHU), which resulted in a \$10M escalation in cost.

We accept that prediction of prisoner numbers is not an exact science and depends to some extent on unpredictable future decisions. However, our view is that the greater the uncertainty, the greater the importance of sensitivity analysis.

1.3.2 *Building costs*

We also noted that there was considerable cost escalation (approximately \$12M) due to rapid increases in building costs between the initial appointment of the managing contractor, and acceptance of the detailed design.

At the time of development of the business case (February 2001) the building cost index had been stable for the past four years, and in our view, the rapid increase in the index from 120 in June 2003 to 137 in April 2004 could not have been predicted.

We also noted that the contractual expectation was that the managing contractor's final price (guaranteed construction sum) following the detailed design stage would be no more than the target price set during the tender process. Accordingly, we accept that there was less foreseeable need for a sensitivity analysis in this case.

In this case, the guaranteed construction sum submitted by the managing contractor exceeded the target sum. Although legal advice indicated that this represented a substantial breach of contract, Cabinet subsequently accepted the advice of the department to set a revised target, for reasons of fairness to the contractor and practicality.

However, as noted, a considerable cost escalation did occur and the contract price protection was ineffective. With that in mind, we find that future business cases for similar projects should include sensitivity analysis to the extent of reasonably foreseeable variability, because of the critical importance of this element.

Recommendation 3

Financial analyses of major options should include sensitivity analyses of important costs.

1.4 *Was a cost-effective tender process used?*

The tender process included:

- obtaining advice on the optimal process
- legal endorsement of the contract
- acceptance of the process by various consultants and by the Public Works Tender Board
- a widely advertised Registrations of Interest process with identified criteria
- Request for Tender
- comprehensive evaluation of tender process
- approval of the tender by the Treasurer
- appointment of the managing contractor.

We consider the process followed to have been in accordance with Treasurer's Instructions and with good practice.

1.5 Were major contract alterations avoided?

1.5.1 Overview

Table 1 shows alterations that were made subsequent to the original proposal made in the business case of 2001.

Table 1: Alterations to the original proposal

Date	Alteration	New total	Change
Mar 2001	Business Case Stage B — approved capital funding	\$53.3M	
Sep 2002	Increase in size of the Secure Mental Health Unit and bringing forward the Health Care Unit for operational reasons	\$63.5M	+\$10.2M
Nov 2002	Cost escalation —5% increase in building index, increased cost from Government decision to extend construction timeframe	\$71.2M	+\$7.7M
Mar 2003	Cost saving from use of constructor financing to reduce the duration of the construction phase.	\$68.6M	-\$2.6M
Jul 2004	Revised Target Construction Sum	\$80.6M	+\$12.0M
May 2005	Additional three medium-security units and a workshop.	\$89.6M	+\$9.0M

1.5.2 Increase in size of the Secure Mental Health Unit (SMHU)

The original estimate of 20 beds was made after a series of workshops, involving the departments of Health and Human Services, Police and Public Safety and Justice, in or around September 2000. The purpose of the workshops was to develop a service model for forensic mental health services, following five deaths in custody.

At this time, services at the prison hospital were still fragmented, with the department managing nursing staff, and the Department of Health and Human Services managing Forensic Mental Health with Medical Services reporting through different structures. Participants at the workshop were still exploring the issues and possible solutions.

In addition, there was no reliable data about the usage of the prison hospital, either historically or at that time.

As a result of the workshop, the sizing of the SMHU was estimated to be 20 beds. Subsequent research indicated that the SMHU needed approximately 35 beds, with a capacity for expansion.

Amongst arguments to support the increase was international research, which showed that the incidence of mental illness requiring hospitalisation is between 8–16% of the prison population. On the basis of original projections of approximately 500 prisoners, that argument indicates a need for between 40–80 beds.

In our opinion, the original estimate was unreasonably optimistic, and the original capital funding decision was based on inadequate data.

Recommendation 4

Advice provided by agencies in support of capital funding decisions should be conservative and well researched.

1.5.3 Extended timeframe

The decision taken to extend the construction time frame was taken by the Government and was outside the scope of this audit.

1.5.4 Revised Target Construction Sum

Under Stage 1 of the two-stage Contract, the Managing Contractor was required to develop the design for the prisons redevelopment, and SMHU, and submit these, together with a Guaranteed Construction Sum (GCS). It was a condition of the Contract that the GCS be within the Target Construction Sum (TCS) set by the department, with failure to achieve this requirement constituting a substantial breach.

The department was satisfied that the Managing Contractor, together with the design consulting team, took a very professional approach to the development of the design proposal, whilst attempting to deliver the overall development within the target sums.

Nevertheless, the Managing Contractor's initial offer substantially exceeded the TCS, referring to the unprecedented and unexpected buoyancy that the local tender market was experiencing. Following discussions with the department, the Managing Contractor forwarded an improved offer on 16 May 2004.

After consideration of a number of options, Cabinet opted to accept the advice of the department to not terminate the contract and seek legal redress. Instead, Cabinet reappraised the TCS in the light of the current tender market and required the Managing Contractor to meet the new target and accept all the risk of future escalation.

As a consequence, the total cost increased by \$12M. The Cabinet decision and the department's advice to continue with the contract are outside the scope of the audit. However, we noted that:

- The TCS was established in June 2003, when the Building Activity Index was at 120.
- The contract with the Managing Contractor was not signed until November 2003, at which time the Building Activity Index was at 132.
- In April 2004, when the Managing Contractor submitted its price, the Building Activity Index was at 137.

It is not our intention to be critical of the departmental advice, which argued that the best outcome would be achieved by not terminating the contract and reappraising the TCS. However, it appeared that at the time the Managing Contractor signed the contract, information was already available that the Building Activity Index had increased sharply in the five months since the target sum was set.

It is our view that the apparent inability to practically enforce the contract in those circumstances is of concern and demonstrates the lack of a strategy to deal with a major risk.

Recommendation 5

Prior to entering into a major construction contract, Government agencies should have risk management strategy to deal with the possibility of a substantial breach of contract.

1.5.5 Additional medium-security units

A specialist consultant, based in Canberra, was engaged to assess the required size of the prison system in the light of recent population statistics, using the most current predictive techniques for demand analysis. He determined that a peak prison system capacity of 550 would be a suitable basis for future facilities planning and that prisoner numbers were unlikely to exceed 500 inmates in 2004–05, with an expected decline over the December to January in 2004–05 period

In October 2004, the department found that there had been an unexpected increase in inmate numbers to 533 in that month, for reasons almost entirely beyond its control and that for the first time in modern penal history Tasmania was being forced to 'double up' in cells.

On that basis, the department requested immediate funds to build three additional medium-security blocks and one additional maximum-security block to deal with the existing crisis and to minimise costs by constructing the additional facilities while the Managing Contractor had a workforce on site.

We accept that the department obtained expert advice and made reasonable decisions and that in this case the amendment to the contract was unavoidable.

1.6 *Conclusion – economy*

Overall, we were satisfied that all reasonable options were considered.

Financial analysis was used in accordance with State Government guidelines. However, we believe best practice would have included recurrent benefits as well as costs, and have formally evaluated the do-the-minimum options against the other options considered.

Insufficient use was made of sensitivity analysis with the result that the business case did not indicate the financial consequences of increasing numbers of prisoners or rapidly rising building costs. Both of those factors did occur and led to substantial increases in the overall construction costs.

We also found that an effective tender process was used and that although substantial increases in the overall construction cost occurred, in the main the increases were unavoidable and did not reflect deficiencies in the business case.

2 Effectiveness

2 Effectiveness

2.1 *Government criteria satisfied?*

2.1.1 *Background*

The difficulty in addressing this criterion was that there was no document initiated by the government or by Cabinet that sets the criteria for the business case to meet.

The department's 1997 Strategic Asset Management Plan identified major shortcomings of the existing prison facilities in Tasmania and outlined strategies to address the problem. This led to a Capital Investment Program submission in December 1999.

That document considered a number of options including:

- number of prisons
- private management and coordination of the design and construction process
- private sector operation of the northern prison.

In 2000–01, the department made a submission for \$300 000 to prepare a business case for redevelopment of the Tasmanian prison system infrastructure. Discussions were held at Budget Committee, and the outcome communicated in an email from Treasury to the department that stated only that all options should be kept open at that stage, including private ownership or operation of facilities and a decentralised prison model.

Following this email the department sought further clarification from the Government of the criteria to be addressed in the business case. It did so via a document that outlined a suggested approach and criteria, which was accepted by the Budget Committee. Our opinion is that the document was the closest approximation available to a statement of the Government's criteria.

The document outlined the following matters to be addressed in the business case.

2.1.2 *Size and Location*

The document called for consideration of the following options:

- A three-prison option, with a new facility in the north of the State, the redevelopment of Risdon Prison and the retention of the Hobart Remand Centre. The Hayes Prison and the Launceston Prison would be closed.
- A two-prison option with one new major facility and the retention of the Hobart Remand Centre. The Hayes

Prison would be closed and the future of the Risdon Prison site would depend on further planning analysis for the new major facility. The future of the Launceston facility would be considered in the context of this planning analysis.

We found that the Business Case had looked at one-prison and two-prison options.

2.1.3 *Service delivery*

The document calls for consideration of the following options:

- operation of one or more facilities through a service contract with the private sector
- operation of all facilities through a service contract with the private sector
- no private-sector involvement in the operation of prisons.

The service delivery options were reviewed in an appendix to the business case, which concluded, after analysis of privately managed prisons, that competition from a mix of privately and publicly managed prisons can lead to cost savings. However, it also stated that the introduction of private management should only be considered in Tasmania if the option of having two facilities of similar size were to be pursued.

The analysis also points out that many of these advantages may be obtained, without the disadvantages, by retaining public management but with substantial service components put out to competitive tender.

The five scenarios selected for detailed financial analysis included the various options for public and private management. The selected scenario was for public operation of the Risdon site, with a decision about a privately operated northern prison facility to be made at a later stage.

2.1.4 *Financing of the new facility*

The document called for consideration of a lease-back arrangement with the private sector as a means of financing some or all of the redevelopment. The attraction of lease-back was the possibility of not including a capital cost in State debt.

A financial consultant was appointed to report on the operational lease implications of the intended development under each option. On the basis of the report's findings, an approach was made to the

then Auditor-General in relation to the implications of a lease back agreement.

The Auditor-General's advice was that any such lease of the southern facility would be classified as a financial lease rather than an operating lease with the consequence that the full estimated cost would be included as State debt, rather than being an annual operating expense. Accordingly, benefits would only be available from lease-back financing of a northern prison facility.

All of the scenarios that received detailed financial analysis and involved building a northern facility made use of lease-back financing.

2.1.5 Other requirements

The document also required the following matters to be included in the business case:

- reassessment of the size of the prison system and the proposed accommodation model
- development of detailed functional requirements
- identifying location and site for new facilities.

The above considerations were thoroughly addressed in the business case.

2.2 Sufficient detail to enable project planning?

Project planning relied on the following matters being specified in the business case.

2.2.1 Who would be responsible?

The business case specified that the project would be managed by the department under the direction of an Inter-Department Steering Committee including senior officers from the Departments of Treasury and Finance, Health and Human Services, Police and Public Safety and Premier and Cabinet. It also indicated that the department had appointed a Project Manager for the day-to-day management of the project.

2.2.2 Functional requirements

We found the functional brief to be clear and comprehensive, and it successfully provided a basis for expressions of interest from contractors and for the detailed design process.

2.2.3 Period of implementation

The period of implementation was clearly specified for each of the scenarios, and in particular for the recommended option.

2.3 *Conclusion – effectiveness*

We found that the Government’s requirements of the business case had been met. We noted that the requirements were initially not well defined and we applaud the process followed by the redevelopment team in submitting a supplementary document to Cabinet for endorsement to ensure both the Government and the department had a common understanding.

We also considered that the business case provided a strong basis for detailed project planning, and that in particular the functional brief was of high standard.

3 Risk management

3 Risk management

3.1 Was a sound methodology used?

Our review is based on the *Project Management Fact Sheet: Developing a Business Case May 2004* produced by the Inter Agency Policy and Projects Unit, Department of Premier and Cabinet. Whilst not available at the time the business case was developed, its requirements represent a reasonable methodology for assessment of the business case project. The fact sheet identifies the following steps or activities.

Table 2: Extract from *Project Management Fact Sheet*

Step/Activity	Audit Finding
Define the scope.	As per supplementary information to submission and approved by Cabinet.
Collect sufficient relevant information to demonstrate that all options and issues have been explored.	Thorough analysis of requirements, options and issues.
Identify any assumptions and constraints.	Identified in overview to the business case.
Identify, analyse and compare the options.	As per section 1.1 of this Report.
Make recommendations.	Recommended a two-prison option, over an eight-year period, and on a staged basis.
Seek approval for the preferred option to be pursued as a project.	Yes.
Obtain human, physical and financial resourcing for a project.	Capital and recurrent funding sought.
Seek additional funding external to the agency, i.e. Budget committee.	Yes.
Seek funding for a cross-agency project.	Not applicable.
Document what the project will accomplish and what the benefits will be.	As discussed, we would have preferred benefits to have been quantified and included in the financial analysis. However, benefits have clearly been identified.

We consider the methodology followed was sound, and included all relevant steps and activities.

3.2 *Were appropriate experts consulted?*

Experts were used as follows:

- estimation of future employee costs for each of the fully evaluated scenarios
- prison population forecasting
- estimation of future salary costs
- financing options for funding of infrastructure projects
- cost consultants
- legal advice
- development of a functional brief, operational modelling, accommodation models and operational costings
- accounting treatment of possible leasing options.

We believe that external expertise was used where advisable and that the consultants used were well qualified to provide that advice.

3.3 *Did the business case include risk analysis?*

The business case considers risk under the categories of planning (strategic and statutory), design and construction and operational risk. In general, we considered that there were many substantial risks that had not been considered. Planning risks identified included only

- community backlash against new Northern site
- not receiving planning approval for the redevelopment of the Risdon site.

Planning risks not included were that the plan might not be suitable for Tasmania's current and future needs, that the plan might not achieve its objectives because of lack of expertise or that it might lead to an unnecessarily expensive solution.

In practice, the major planning risks were addressed by some of the actions discussed in this Report, such as use of appropriate experts and a sound methodology. However, it is our opinion that a more rigorous risk management process should have been implemented and documented.

Similarly, design and construction risks were inadequate. Listed risks included the risk of inadequate briefings, and the risk of managing a detailed and complex project. However, the more general risks such as the risk that the constructed facilities might not be in accordance

with the plans, the risk of breach of contract or the risk of withdrawal by the managing contractor were not dealt with.

In our opinion, the risk analysis section was too insubstantial for a project of this importance, cost and magnitude. We also noted that some of the risks identified did not identify any response to reduce or eliminate the likelihood or impact.

Recommendation 6

Preparation of the business case should include a thorough risk analysis process, supported as necessary by appropriate expertise.

3.4 *Was Treasury advice obtained?*

All budget submissions including a Project Initiation Paper first go to Treasury. Treasury officers then perform a review, which forms the basis of a Financial Impact Statement, which is attached to the Cabinet Submission.

We were satisfied that normal processes were followed for the Prison Redevelopment Business Case and that ample time had been allowed for Treasury officers to review and assess the documents.

As previously noted, it is our view that a sensitivity analysis of the financial implications of possible cost escalating factors such as building costs and prisoner numbers would have been beneficial in allowing Cabinet and Treasury to more fully consider the possible financial impact.

3.5 *Conclusion – risk management*

We found that the risk management process appeared to be superficial and incomplete. On the other hand, we were satisfied that sound methodology was used, that appropriate experts were consulted and that Treasury had been given the opportunity to review and advise on the business case.

4 Recent reports

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Year	Special Report No.	Title
2003	45	Business names and incorporated associations: What's in a name?
2003	46	Leave in government departments
2003	47	Public sector web sites
2003	48	Grants to the community sector
2003	49	Staff selection in government agencies
2003	50	Police response times
2004	-	Ex-gratia payment to the former Governor Mr R W Butler AC
2004	51	Special purpose and trust funds: Department of Health and Human Services
2004	52	Internal audit in the public sector
2005	53	Follow-up audits
2005	54	Compliance audits
2005	55	Gun control in Tasmania
2005	56	TT-Line: Governance review
2005	57	Public housing: Meeting the need?
2005	58	FBT, Payment of Accounts and Bridges
2006	59	Delegations in government agencies, Local government delegations, Overseas travel
2006	60	Building security and Contracts appointing Global Value Management
2006	61	Elective surgery in public hospitals
2006	62	Training and development
2006	63	Environmental management and pollution control by local government
2006	64	Implementation of aspects of the <i>Building Act 2000</i>
2007	65	Management of an award breach and Selected allowances and nurses' overtime
2007	66	Follow-up audits June 2007
2007	67	Corporate credit cards

5 Future projects

5 Future projects

Details of performance and compliance audits that the Auditor-General is considering are:

**Building security:
Part 2** Continuing on from Special Report No. 60, the audit will examine physical security at public access sites such as schools, hospitals and libraries.

**Portable and
attractive items** Examines asset control activities at government departments with respect to items that are portable and attractive.

**Property in police
possession** Reviews management of confiscated and forfeited property by Tasmania Police.

**Creditor
processing** As a follow on from Special Report No. 58, which in part examined payment of accounts in agencies, this audit seeks to establish that the accounts payable processes within agencies are in accordance with Treasurer's Instructions.

Procurement This audit examines whether procurement by government departments is in accordance with applicable Treasurer's Instructions. This audit follows on from Special Report No. 34.