



WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Summary of the Performance Examination

The Planning and Management of Perth Arena

Report 1 – March 2010

Background

Perth Arena is under construction and the multi-purpose indoor entertainment and sports venue is planned to be operating by the start of 2012. It is located on the Northbridge Link site on Wellington Street in Perth's CBD.

The Arena is intended to fill a gap in Perth's indoor entertainment and sporting venues, seating between 5 000 and 14 000 people. The keystone event behind the decision to build the Arena was the Hopman Cup tennis tournament. However, to be successful the Arena will need to host a range of other events.

The Department of Housing and Works (DHW) was responsible for scoping, planning, tendering and contracting for the Arena. In December 2007 responsibility for the delivery of the Arena was transferred to the Office of Strategic Projects (OSP) who reported directly to the Minister for Housing and Works (the Minister). Construction work had already commenced when responsibility was transferred to OSP. Responsibility for all works projects has since moved into the Department of Treasury and Finance (DTF) along with OSP which has been renamed DTF Strategic Projects.

The building contractor is BGC Construction which is part of the BGC (Australia) Pty Ltd group of companies. The WA Sports Centre Trust trading as VenuesWest is the client agency for the Arena project, and is responsible for fitting out and operating the Arena. VenuesWest is running a procurement process to engage an operator.

We examined the planning and management of the Arena project including tendering, contract award, and construction between March 2004 and December 2009. Our main lines of enquiry were:

- What is the current status of the project against original cost and time estimates?
- Has the management of the Arena project minimised risk to the state?

What the examination found...

Perth Arena is substantially over budget and late. On current estimates, it will cost \$483 million, more than three times the original estimate of \$160 million. The Arena is scheduled to open almost three years later than originally planned, in November

2011 rather than January 2009. Insufficient scoping and planning meant that both the original cost estimate and opening date were unrealistic.

Key decisions on the project during contract negotiations have altered the planned allocation of risks between the state and contractor, increased the risks to the state, and led to project delays and cost increases. These decisions were made without systematic or sufficient analysis of their impact, consideration of alternatives, external scrutiny or legal advice.

There is little evidence that appropriate planning, monitoring and reporting processes were established or followed. Significant changes to the contract and resulting risks were not reported in writing to the Minister and Cabinet so their decisions may not have been fully informed.

DHW did not implement the project management and governance arrangements required to control a major project like the Arena. This resulted in inadequate transparency, oversight and blurred accountability. Statutory governance, financial and record keeping obligations under the *Public Sector Management Act* and the *Financial Management Act* may not have been met.

Recent changes to governance and project management have improved transparency and strengthened project oversight. But the project remains at risk of further cost increases. Further time delays represent a risk to the Arena's fit out and transition to operation which depends on the agreed construction schedule being met.

What the examination recommended...

Agencies involved in the procurement and delivery of capital projects should:

- put in place governance structures and project management systems which reflect the scale and complexity of the project
- ensure government receives full and complete advice about project status, risks, and decisions
- seek appropriate legal advice and establish and maintain adequate records which meet their obligations under the *State Records Act 2000*.

The Department of Treasury and Finance should exercise more active oversight of major projects.

The Department of Treasury and Finance should reinforce the Strategic Asset Management Framework with more rigorous staged project approval processes that ensures:

- that projects are funded only when well scoped and planned, and announced budgets and timelines are realistic
- the risks at each stage have been identified and addressed
- the governance frameworks implemented by agencies reflect good practice
- transparency of the progress and performance of major projects to government and Parliament.