

LORD HOWE ISLAND BOARD

Business Paper

ITEM

Rodent Eradication Project (REP) – budget shortfall update

RECOMMENDATION

That the Board note progress on addressing the budget shortfall for the REP.

BACKGROUND

In June 2012, the Commonwealth and NSW Governments announced joint funding of \$9.5M for the REP on Lord Howe Island (LHI). Since then, several change events have impacted the project delivery and budget. These include:

- Time delays in commencing the project and additional costs to facilitate community consultation, address community concerns and reaffirm the project scope.
- The costs and time impacts arising from delays and legal challenges in obtaining permits from the Australian Pesticide and Veterinary Medicines Authority (APVMA).
- Additional costs arising from scope changes to the previously designed and costed baiting methodology in response to community concerns and legal actions. This meant that in a large section of the island, where residences are concentrated, bait stations were used instead of hand broadcasting. Hand broadcasting can cover more area in a relatively short period and is less resource intensive. The change in methodology meant that the project experienced increased procurement and servicing costs. The number of bait stations required increased from approximately 2000 to approximately 23,000 and servicing cost increased from \$86/ha to \$1,866/ha.
- A range of day-to-day contingencies in managing a large-scale project in a tight, season-bound timeframe.

In August 2018, the project team reported a \$1.4M shortfall in project budget to the REP SteerCo and received an additional \$1.1M funding from the Commonwealth Government.

As most of the baiting (and project cost) occurred in the winter period of 2019, the full cost impact surfaced in August 2019, resulting in a potential shortfall of a further \$4.5M. The project costs have been funded through the LHI operational accounts for the time being, pending further funding being secured.

CURRENT POSITION

In response to the issue, the LHIB Chair initiated the following to address the shortfall:

- Commissioned KPMG to review and report on total required expenditure and contingences, and assist with the planning for the next phase of work. This work has confirmed the estimate of the likely shortfall; and
- Engaged the Delivery Office within DPIE to
 - work with Board staff on a funding proposal (including 'in-flight' project assurance, costing of a detailed project plan for next phase and contingencies for any incursion event) to take to funding partners to secure additional funds, and
 - to provide project management support and governance going forward.

RECOMMENDATION

That the Board note progress on addressing the budget shortfall for the REP.

Prepared & Endorsed: Peter Adams, Chief Executive Officer



Project status update

Lord Howe Island Rodent Eradication Project Review

—

7 November 2019

DRAFT FOR DISCUSSION

Background

Background

- The Rodent Eradication Project (REP) on Lord Howe Island (LHI) is the largest eradication project ever attempted on a permanently-populated island. The project was first proposed to the LHI Board in 2001 with various feasibility studies and cost-benefit analysis taking place over several years. The project was entered into from the perspective that the REP was the only viable option for long-term ecological benefit of Lord Howe Island. The original funding for the project was received between 2010 and 2015 through submissions to the Commonwealth and State governments for funding.
- The REP was originally budgeted at \$9.5 million project and was funded 50/50 by the Commonwealth, through the Department of the Environment, Water, Heritage and the Arts, via the *Caring for our Country (CFOC)* program and the NSW State Government Environmental Trust (ET).
- As budget shortfall was predicted in September 2017 (4%) and September 2018 (10%), funding requests were submitted to various Commonwealth and State Government grant programs, conservation organisations and private donors.
- Additional funding of \$1.1m was received in April 2019 from the Commonwealth (through the Department of Environment and Energy), via NSW Local Land Services.
- Another budget shortfall of \$860,000 was raised to the project Steering Committee (SteerCo) in July 2019 and in September 2019 the estimated cost overrun in the order of \$4 million was flagged to Chair of the Board. KPMG was engaged to review the project.
- The timeline below provides a high-level overview of the key points in the project.



Note: The above timeline does not include planning activities carried out prior to 2009 as well as a two-year monitoring period that is required after the completion of the operational phase of the project on 1 November 2019.

Scope and approach

Scope

The key objectives of our review are to:

- Determine the amount of the overspend (based on the available data);
- Review the relevant governance, monitoring and reporting processes and controls and identifying any gaps or control failures; and
- Determine the reasons and root causes of the overspend.

Note: The review does not cover any of the technical or environmental aspects in relation the operational delivery of the project and will not provide commentary on any of the environmental or local community impacts.

Approach

The following activities have been undertaken to date:

- Reviewed key project documentation including various versions of operational plans and supporting budgets prepared by the Project Manager, reports to the LHI Board, SteerCo and the funders, minutes of SteerCo and Board meetings, independent consultant reports, various supporting documentation (contracts, invoices, etc).
- Interviewed key personnel including the LHI Board Chief Executive Officer (CEO), Chief Financial Officer (CFO), REP Project Manager and three members of the SteerCo, including the technical adviser, Keith Broome.
- Performed a site visit on Lord Howe island to conduct the interviews, review available documentation and obtain data from the financial systems.
- Performed an analysis of the financial data (refer to Appendix 1 for a high-level overview).

Preliminary observations

The REP is a unique and highly technical project. It is focused on achieving a single critical outcome (i.e. complete eradication of rodents).

In performing our review we noted the following in relation to each of the scope objectives:

Overspend

- The total project expenditure as at 23 September 2019 was \$13.3 million. This is \$2.7 million over the \$10.6 million (original \$9.5 million plus additional \$1.1 million) received for the project. We were advised that the shortfall has been financed from LHI Board funds.
- In addition, an estimated \$2.183 million is estimated as still required to complete the project taking the overall projected overrun to \$4.883 million against \$10.6 million of funding received. It should be noted that approximately \$1 million of interest was received through the life of the project up to year-end FY19.
- The figure for expenditure incurred to date only includes costs actually charged to the project and not those that were incurred by the LHI Board on behalf of the project.
- In reviewing the cost estimates to complete the project prepared by the Project Manager, we were unable to validate \$1.749 million of the \$2.183 million figure. The table below summarises the key cost estimates to complete:

Categories of expenditure	\$'000
Committed – e.g. validated through a Purchase Order	434
Estimates (cannot be validated)	1,749
Total	2,183

- The main cost estimates that could not be verified against supporting documentation relate to monitoring activities required over the next two year period including staff salaries, the biodiversity action plan and the reintroduction of cattle. The Project Manager advised that figures are based on 'best guess estimates'.
- Without more detailed information, the estimates to complete may be understated (e.g. only \$247k and \$227k estimated for FY20 and FY21 respectively).
- The estimate to complete also assumes a successful outcome (i.e. all rodents eradicated by 1 November) without needing further baiting. There is no contingency built into the estimate to address any potential incursion event post 1 November 2019.

- The CFO has indicated that on current projections the Board's bank account will be overdrawn by \$318k as at 30 June 2020. The impact of the project overrun on the finances of the Board has not been formally reported nor has a detailed cashflow analysis been undertaken or reported.

Governance and monitoring

- REP activities were reported to both the SteerCo and the LHI Board.
- The REP SteerCo (first established in 2012) is comprised of representatives of the funding bodies, the LHI CEO, a technical adviser to the project and one of the elected Board members.
- The SteerCo acted as an 'advisory body' to the project rather than a monitoring function. It provided recommendations to the LHI Board and was not closely involved in the detailed operational or financial monitoring.
- The SteerCo members advised that the key focus of the SteerCo was on the achievement of the project outcomes. There has been limited financial focus and review of detailed financial information (e.g. during the major scope change).
- The minutes of LHI Board and SteerCo meetings contain limited evidence of detailed discussions of project financials. The SteerCo and Board reports reviewed contained only high-level budget breakdowns. The financial risks, especially those associated with the major scope changes, were not highlighted in the project risk registers presented to the Board and SteerCo.
- There were significant changes within the project leadership as well as LHI Board and the SteerCo throughout the life of the project. There were also changes of LHI Board CEO and CFO (both in 2018). Key changes are included in Appendix 2.
- We noted the following in relation to the overall financial management and monitoring of the REP:
 - There has been little linkage of finances and project activities. There was no dedicated finance/accounting resources allocated to the project. The responsibility for the production of budgets and financial reporting resided with the Project Manager (who does not have an accounting background).
 - There has been a lack of actual vs budget expenditure reporting or cash forecasting.
 - Key information impacting the financial outcome is not available. As an example, we were unable to obtain and validate the number of personnel involved in the project. Headcount data has not been tracked. This impacts salary and accommodation costs.

Preliminary observations (cont.)

Root causes of overspend

The main causes of overspend included:

- Delays in the project (over a 4-year period) associated with the need for extensive community consultations, obtaining relevant permits (e.g. the Australian Pesticides and Veterinary Medicines Authority permit that was granted, revoked and re-issued) and legal actions. These delays resulted in additional costs which were not originally budgeted for (e.g. salaries of permanent staff, accommodation cancellations, etc.)
- A major scope change in March 2018 in response to community concerns and legal action. This included a change from hand broadcasting of bait to using more bait stations (an increase in bait stations from c2,000 to c23,000). According to Project Manager's estimates, hand broadcasting costs were \$86/ha, whereas bait station servicing costs were \$1866/ha. However, the impact to the budget (i.e. additional time and resources including staff and materials) were not fully costed or considered in detail at the time .
- Various 'unbudgeted expenditure' items which occurred during the course of the project (e.g. over \$200k for the engagement of a contract to remove household waste from residents' properties). Another major cost was legal expenditure (approx. \$470k).
- The various impacts of these changes and delays were not fully assessed from a financial perspective.

Key considerations and next steps

Currently, as there are no robust financial projections to complete the project available, it is unclear what the total cost to complete the project will be and how much more funding is needed.

Short-term actions

In the short term, the following urgent actions should be considered:

- Preparation of accurate cost projections for the remaining costs to completion, including contingency amounts and an estimate of what will be needed if further baiting or actions are required due to the continued presence of rodents past 1 November.
- Formal detailed assessment of the impacts of REP on the LHI Board finances and preparation of the detailed cashflow for reporting to the Board.
- Securing additional funding for the shortfall and determining how the project should be funded going forward.

Consideration should also be given to providing financial management support to the REP team (at least through FY20) which would include allocation of a resource to assist with:

- Robust forecasting of the cost to complete including close collaboration with the technical and operational staff involved in the project and/or engagement of additional technical specialists to validate/challenge key assumptions (e.g. time / number of personnel required for each budgeted activity);
- Maintaining comprehensive financial records; and
- Providing financial administrative support (e.g. preparation of periodic budgetary reports and forecasts to the Board and to the SteerCo).

Long-term considerations

In the longer term, the following key questions should also be considered:

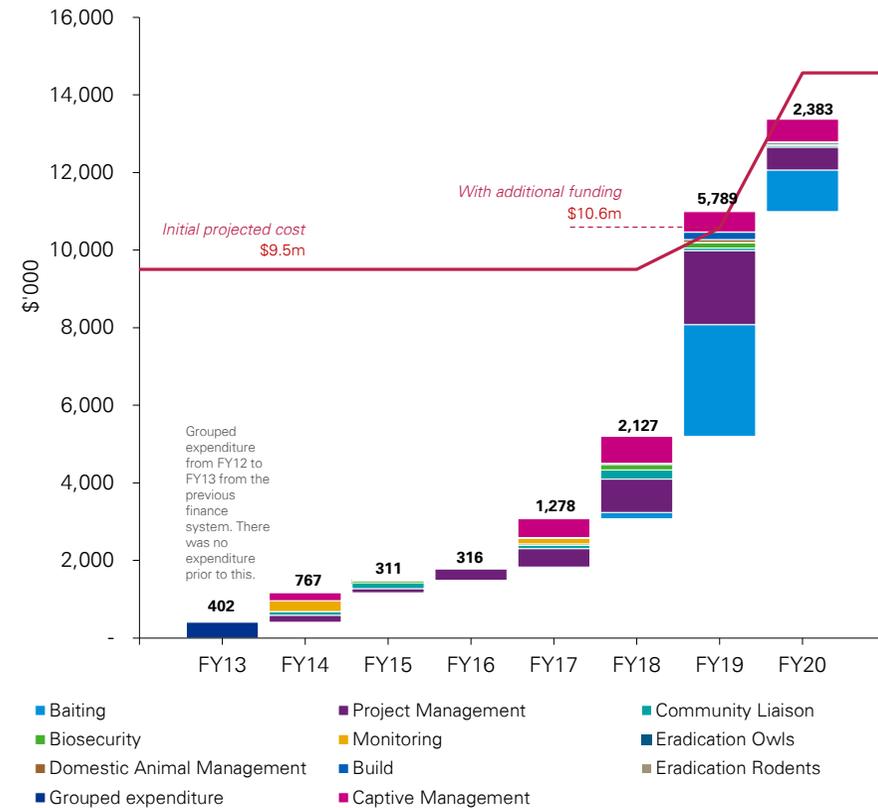
- What specific activities (if any) can be de-scoped / reduced over the two-year monitoring period without affecting the overall outcome of the project? This should be carefully assessed in consultation with the technical experts.
- What is the level of longer term financial support and expertise required to complete the project? Can this be provided remotely?
- What changes in the governance arrangement should be made to ensure successful completion of the REP (i.e. what further oversight and monitoring mechanisms are required over the financial expenditure on the project?)

It should also be determined to what extent the LHI Board has financed the REP overrun and through what means these funds can be recouped.

Appendix 1 - Spend profile

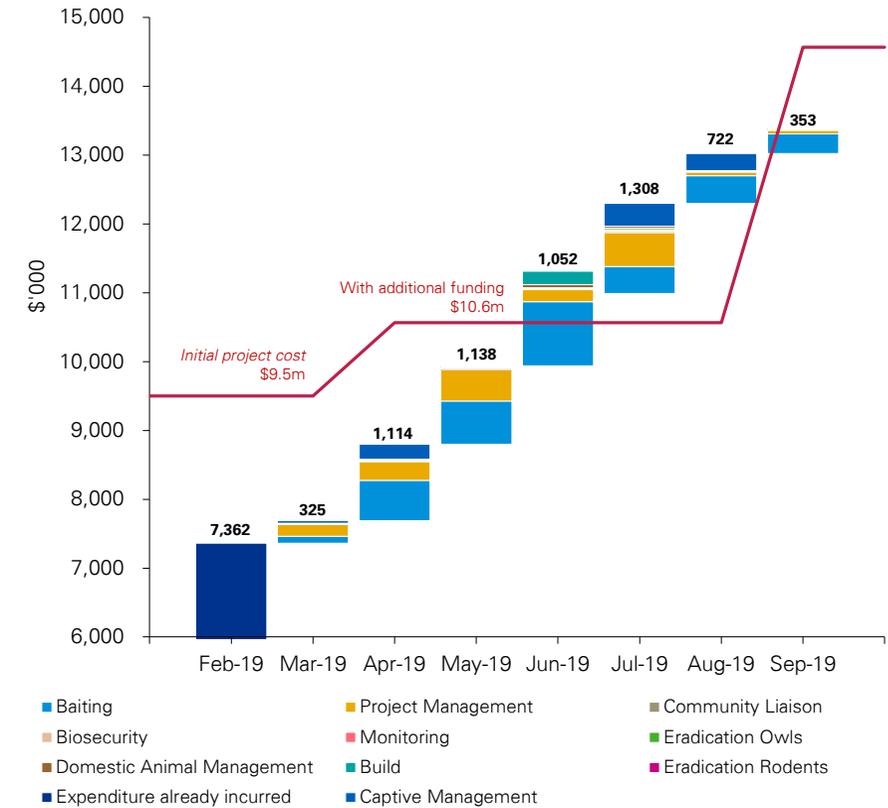
This chart breaks down the actual spend by activity type across FY13 to FY20 (as at 23 September 2019). Total spend per financial year is also provided.

Note: The LHI Board migrated to a new finance system in FY14. Expenditure prior to FY14 have been grouped together (a total of \$0.4 million) showing as a FY13 below.



This chart breaks down spend by activity type across the operational (baiting) period, from April 2019 to 23 September 2019.

Note: Costs prior to March 2019 have not been broken down for the analysis below.



Source: LHI Board's financial systems.

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Appendix 2 – Key governance and project leadership changes

Summarised below are the key changes in the project governance and leadership arrangements since 2015:

Lord Howe Island Board (7 members)

- 5 out of 7 Board members changed including Chair
 - 3 x elected Board Members changed Feb 2018
 - 1 x appointed member ~ Sept 2018
 - Chair change between May and Sept 2019

Lord Howe Island Board Administration – Senior Management Team (4 members)

- 2 x CEOs. Change ~ Jun - Jul 2018
- 2 x CFOs (Manager Business and Corporate Services). Change ~ Jun - Jul 2018
- 3 x Manager Environment and Community Development. Change ~ Nov 2016 and Jun - Jul 2018
- 3 x Manager Infrastructure and Engineering Change ~ Aug 2017 and Jul 2019

Project Steering Committee (5 members)

- 2 x Commonwealth Funding Rep. Change ~ May 2016
- 3 x NSW Funding Rep change Jan and May 2019
- 2 x LHIB Rep Mar 2018
- 2 x LHIB CEO (as above)

3 x Commonwealth Environment Ministers

3 x NSW Environment Ministers

Project Leadership (throughout the project)

- 2 x Technical Advisors
- 2 x Assistant Project Manager – Community
- 2 x Assistant Project Manager – Operations
- 2 x Ground Baiting Manager
- 2 x GIS Manager



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