

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects

Melbourne — 8 October 2012

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr J. Betts, Secretary (affirmed), and

Ms M. Nanscawen, Director (sworn), Market and Product Development, Public Transport Victoria, Department of Transport.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the inquiry into effective decision making for the successful delivery of significant infrastructure projects.

On behalf of the committee I welcome from the Department of Transport: Mr Jim Betts, secretary; and Ms Melanie Nanscawen, director, market and product development, Public Transport Victoria. Members of Parliament, department officers, members of the public and the media are also welcome.

In accordance with the guidelines for public hearings, I remind members of the public gallery that they cannot participate in any way in the committee's proceedings. I am sure the two members of the gallery present will note and understand that. Only officers of the PAEC secretariat are to approach PAEC members. Department of Transport officers, as requested by the secretary, can approach the table. I do not think that will be necessary; however, they can approach the witnesses by leave from me as chairman. Written communication to witnesses can only be provided via officers of the PAEC secretariat.

Members of the media are also requested to observe the guidelines for filming or recording proceedings in the committee room. I just remind everybody that of course there is no webcasting.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act 2003, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is taken under oath or affirmation and is being recorded. Witnesses will be provided with proof versions of the transcript within 15 working days of this hearing, which are to be verified and returned to the committee secretariat within two working days of receipt. Unverified transcripts and PowerPoint presentations, if any, will be placed on the committee's website immediately following receipt, to be replaced by verified transcripts in due course.

Following a statement, if any, by the secretary, committee members will ask questions relating to the inquiry. Generally, the procedure followed will be that relating to questions in the Assembly.

I ask that all mobile telephones be turned off.

I now call on the secretary to give a brief statement, if desired. After that we will take questions.

Mr BETTS — Thank you, Chair. I am happy to go straight into questions. I do not have a pre-prepared statement.

The CHAIR — Thank you very much. My opening comment is just to clarify a matter regarding myki, which, just to recap in a sense some previous evidence, I just want to understand more effectively. I am referring to some of the written documentation and to the evidence that other witnesses have given in regard to this project. Just for my own benefit, and I guess for the record, we are looking at a number of projects to understand why some projects have worked well and have been delivered within an envelope of time and cost that reflects the anticipated time and cost and why others have not.

I do not want to go into the detail of the discussion, but just in regard to myki I understand the implementation of this project is now in effect more than five years behind time, which is in effect a 100 per cent blow-out in the time frame. Although it depends on where your starting point is in terms of the original material cost projection, I think under Minister Kosky the original announcement was less than half a billion dollars, or four hundred and something million in total, subsequently adjusted for the continuing obligations to maintain alternative service provision until myki is fully implemented.

In the table that was provided in the questionnaire responses, I think the amount that was mentioned was \$998.9 million as the initial approved budget, but of course that includes costs that do not directly relate to the development of myki. There has been a significant blow-out in cost of more than \$500 million from that amount to a total projected cost now of \$1.52 billion. That is a 50 per cent blow-out in the cost if you accept that that is the starting point. There is some debate about that.

The thing that has been touched on in previous evidence that I would like to clarify relates to evidence we have been taking generally about the nature of major projects. I will give the context. There tends to be an optimism bias in the way that major projects are described — in other words there is an underestimate of the net total cost,

and myki is an example of that — and that as a means of managing that cost blow-out the scope of works is amended.

In the case of myki my understanding is that Minister Kosky in her original announcement effectively talked about a footprint for Victoria — that is, that myki would become a standard platform for public sector transport ticketing for the whole of Victoria, including V/Line. As part of the change in the scope, that is no longer the case. Clearly we have a package that will cost more and take longer to implement, and it will not in fact deliver the original aspiration of the government at the time of the original announcement. Could you clarify just what the change in scope is that has, if you like, reduced the effective footprint of the myki operation?

Mr BETTS — I am happy to do that. The principal changes in scope which have arisen from the government's consideration of myki since it came into office relate not to V/Line per se, because it remains our intention that V/Line inter-urban services — that is, those commuter services to places like Geelong, Ballarat and Bendigo — will be part of the scope of myki that will be rolled out to V/Line during the first half of next year. What we have taken out of the core scope at this stage is longer distance V/Line services. Decisions will be taken on whether to roll out myki to those services later on, but at this stage they are not part of the scope of the project.

The CHAIR — Presumably that would require additional funding.

Mr BETTS — Yes.

The CHAIR — So, should the original scope of myki be eventually implemented, it will cost more than the current estimate of \$1.52 billion?

Mr BETTS — Correct.

The CHAIR — That satisfies my curiosity, because I just was not quite clear about that.

Mr PAKULA — Is that the only one? There are other scope changes as well, though, are there not, like in terms of the individual one-off tickets et cetera?

Mr BETTS — Yes.

Mr PAKULA — Just go through the rest of the scope changes.

Mr BETTS — You are interested in scope changes in the last 12 months, since the current government —

Mr PAKULA — Well, post the Deloitte review.

The CHAIR — I could summarise by referring you to the evidence in the questionnaire response which in fact talks about those scope changes, at page 14 of the response by the Department of Transport to our original questionnaire. That highlights that there were scope changes. I am just trying to assist you really.

Mr BETTS — Sure.

The CHAIR — But my interest in the scope changes relates to the changes that actually reduce the footprint. The changes that are mentioned here only refer to the scope changes that are 'due to increase in numbers of trams and buses', for example. That was part of the scope change.

Mr BETTS — It was. There are four main components to the change post the Deloitte review: as you have said, Chair, supply of additional card vending machines and readers, which is a function of the expansion of the system; operating trams without card vending machines; as I have said, removing V/Line intercity trains and long-distance coach services at least until steady state operations are achieved in metropolitan Melbourne and major regional centres; and eliminating, to the extent possible, the introduction of disposable short-term cards.

Mr PAKULA — Thanks.

The CHAIR — That was where I wanted to start. We have a matter of numbers to deal with. I am interested in working through, in some sort of process sense, clarification of issues around governance and accountability

processes, because that is particularly part of what we are referring to in these hearings. Term of reference (d) specifically relates to issues associated with transparency, accountability and public interest. It is important that we ascertain the role of the department in relation to aspects relating to the myki project and the oversight role the department played in the development and implementation of the project.

I am interested in a particular matter relating to that, which is that evidence taken from Kamco in our previous hearing suggested that the client perhaps did not have a very clear idea of their requirements and an understanding of what the business case was trying to achieve. It was suggested that greater effort and heavier investment of time in specifying clear requirements as part of the business case would have been beneficial to the project. So really the question is: did the department have any role or responsibility in relation to development and a view of the myki business case?

Mr BETTS — The department has been restructured in the course of the last six or seven years, so to a certain extent I have to distinguish between the situation as currently exists with the establishment of Public Transport Victoria in April this year as opposed to the department's previous structure, where the director of public transport and his staff were embedded within the department.

The department's role had three main elements to it. The first was as the lead agency within the transport portfolio providing advice to ministers on how the full range of different transport issues were being managed, including by portfolio agencies, and advising ministers on the appropriateness of governance structures, the composition of boards and so on. The second component to the department's role was the management of policy around fares and ticketing, and that was the principal role that the director of public transport played, along with the third component, which was that the director of public transport had very significant commercial relationships with the various public transport operators on whom myki depended for its success. A key role for me when I was director of public transport between 2004 and 2008 was to ensure that the operators were supportive of the introduction of myki, and to the extent that they had any concerns about it, those were aired and dealt with by the TTA.

The principal carriage of the development of the business case lay with the Transport Ticketing Authority, but the department's policy responsibility was to ensure that myki had scopes in its various incarnations that would deliver the policy outcomes the government wanted, including the effective delivery of the fares and ticketing that the government had set.

The CHAIR — That is a fairly good overview.

Mr O'BRIEN — I want to clarify — and maybe you need to do some of this in writing or on notice — but in terms of the scope changes, you referred to the scope changes since the Deloitte report. If I could take you to page 14, point (b) in your notes talks about scope changes in 2008, effectively when there was a revised budget of \$998.9 million to \$1.3 billion. The note says:

Variation due to scope changes (e.g., changes to the myki card specification, additional equipment required due to increases in the numbers of trams and buses); project delays (including costs of keeping Metcard system running for an additional period); and greater than estimated costs for train, tram and bus equipment installation civil works.

Are you able to take us through those scope changes particularly as they compare to the original estimates in the context that there has been evidence that there was an underestimation particularly of the time it would have taken to bring the project in?

Finally, I want to take you up on a question. In your report you again start with the budget on page 6. You talk about the approved budget being \$1.52 billion; you do not start with the original budget. We took this question to other witnesses, but the TTA report of 2005–06 talks about a contract worth \$494 million awarded to Keane, which in various statements, including one to PAEC on 9 June 2006 by Minister Batchelor, talks about a responsibility to design, build and operate the new public transport system. The government announcement states it awarded a \$494 million 12-year contract to a company called Kamco.

I just ask: when you set out the variations, why did you not start with that \$494 million 12-year contract to design and operate rather than what you did start with, which was a \$998 million line entry?

Mr BETTS — There are a few things in there, and, as I understand it, the committee has asked for or intends to ask for a template to be filled out which will set out these costs.

Mr O'BRIEN — We would like to know where all the money has gone, as best we can — I know there are lots of details — and what the original estimates were and as that changes over time.

Mr BETTS — I will do my best to answer your question here and now but, if I may, take on notice any further detail that you might require.

As I understand it, \$494 million was the amount that was contracted with Kamco when the contract was initially set in 2005, but that was not the totality of TTA's budget. TTA also made budget provision for things like banking fees, civil works and access payments to transport operators, and it made provision for increasing card volumes. It retained the budget for initial services from years 3 to 10. The contract provided that those initial services — things like cash collection, call centre and so on — would be provided by Kamco within its contract for the first two years but not thereafter. There were TTA's own operating costs and provisions for risk and for the continued operation of Metcard during the transition to myki.

Those components account for the difference between the announced \$494 million — the contracted amount — and the totality of the TTA's budget, which was a shade under \$999 million.

Mr O'BRIEN — I will just pause you there, because you have done it all in a lump sum. Are you able, either now or notice, to provide specifically those various sums you identified —

The CHAIR — Could I assist the member and the witness? We are seeking that in writing.

Mr O'BRIEN — If you cannot do it now, that is fine. I ask you, secondly: would you agree that it would have been better in your response to the committee to have started at that point rather than at the grossed-up sum of \$998 million, given that was the ministerial announcement in 2005–06?

Mr BETTS — I am always happy to be as helpful to the committee as I can be. I guess it is a legitimate starting point to take the totality of the TTA's budget — the \$999 million — since that reflected all the costs associated with managing ticketing during the transition to myki. Clearly within that are the costs of operating Metcard in parallel. I guess when you look at media reporting around the project budget, a lot of it focused initially on the \$1.35 billion number, and that was a number which was widely reported in the press. The equivalent number to that is the \$999 million — hence the presentation. But hopefully I have been able to clarify the relationship between the \$494 million and the \$999 million.

The CHAIR — That has been useful, actually.

Mr O'BRIEN — I have just one more supplementary to finish, on the reason why that 494 figure is important. Do you accept that is the figure that the minister put to the public in the 2006 and the TTA put out? In terms of the choices that were available for the public expenditure at the time, there is this question of the continuation of Metcard, which was suggested to only cost \$100 million at the time. If the comparison had have been between 1.5 and 100 million, the choices that the public might have accepted would be different to a comparison between 100 million and 400 million. Do you accept that that is part of the issue that needs to be dealt with in terms of public acceptance of government decisions in relation to infrastructure projects?

Mr BETTS — As I recall, and you might want to clarify this yourself since you have the quote in front of you and I do not, what the minister at the time was referring to was the cost of the contract which had recently been entered into with Kamco, which was always going to be a subset of the TTA's budget.

Mr O'BRIEN — It is. It is referred to as a 494 million 12-year contract to Kamco with the responsibility to design, build and operate the new public transport system. With no disrespect to your evidence, that sounds all encompassing.

Mr BETTS — All I can say is that it is a factually accurate statement that that was the value of the contract which was entered into at the time. It is not really for me to comment on whether or how a minister would present or whether he makes a factually correct statement like the one you have just read out in relation to a contract or goes on to describe the full costs of operating both Metcard and myki. That is a matter of judgement.

Mr PAKULA — I just want to wrap this up so that it is as clear as we are going to get today. So what you are saying, Jim, is that right now, if you are comparing apples and apples, there are two apples-and-apples figures: \$1 billion versus 1.35 pre-scope change and \$1 billion versus 1.5 post-scope change. Is that about right?

Mr BETTS — Yes.

Mr O'BRIEN — There are two scope changes, just to clarify.

Mr PAKULA — David, I did not interrupt you.

Mr O'BRIEN — Just to be accurate.

Mr BETTS — There was a scope change in 2008 and a scope change in 2011.

Mr PAKULA — That is right. So if you are comparing what is all encompassing, the first scope change turned \$1 billion into 1.35, and the second scope change turned 1.35 into 1.5?

Mr BETTS — Correct.

Mr PAKULA — Obviously the most valuable work the committee is likely to do with regard to this inquiry is provide advice to government, whether it be the DOT or other departments more generally, about what should happen in the future with regard to the procurement of infrastructure, the delivery of infrastructure and the oversight of infrastructure. I want to ask you a broad question about lessons learned, whether you want to talk specifically about ICT projects or about heavy construction more generally, noting that it has been said by some well-regarded people that the only kinds of IT projects are very bad and very, very bad, and whether or not that ought to play a bigger role in the thinking of government when they are procuring them.

I think it would be useful, in terms of understanding whether with this project in particular it is a case of a substandard product or it is a case of expectations at the outset being overly optimistic, for you to take us through how you see it working, how you would describe it as working now. What progress has there been in resolving some of the issues, whether it be touch-on speeds, account keeping or tracking? How would you describe it as working now, and what lesson might that provide in terms of answering the question about whether there is something inherently amiss with the project or whether it is a case of unrealistic expectations at the get-go?

Mr BETTS — I think it is very much the latter. Myki is functioning reasonably well at the moment. I am not here to tell you that there are no problems with myki; there are problems with any ticketing system. There are problems with Oyster and Octopus. Those things occur when you have large, complex ICT systems with masses of users and millions of transactions. But myki's market share is now in excess of 85 per cent. The performance of the system has improved progressively, really over the last two years. I would say that myki is tracking as well as you could reasonably hope for a public transport ticketing system at this stage in its life. The fundamental problems with myki were the time frames which were set initially — the idea that you could introduce a ticketing system more ambitious, almost, than any other in the world in less time that it had been implemented in any other jurisdiction. That was the mistake the government made, and that was the mistake that the private sector made.

The tragedy of it is that that time frame was set largely in response to the fact that the Metcard ticketing system contract was due to expire in 2007. In fact there was flexibility to run Metcard for a longer period of time; we have seen that, and Metcard is still operating today. Metcard could not have run indefinitely. So I see myki very much as an asset renewal project. It was not about technology for its own sake, and it was not about something whizzbang; it was about replacing some 1990s ticketing technology with some contemporary ticketing technology.

Had more analysis been done of the experience in other jurisdictions and had a more cautious approach been taken to the time lines, the project would still have been expensive because you had to operate two systems in parallel but perhaps the project would not have attracted the level of controversy and criticism that it did, which was largely occasioned by the fact that the time lines were unable to be met. That then obviously fed through into the cost of running two ticketing systems in parallel; plus as time passed the public transport system was expanding — new railway stations opened and new buses were provided — and that added to the headline number for the budget.

In terms of lessons learned, I think it is a good, hard think up-front about what the time lines should be. You do not want people implementing new ticketing systems to be leisurely because it burns money as time passes, but

the two-year time frame was always going to be unrealistic. That should have been apparent at the time. For future projects I would say — and occasioned by the experience we have had with myki — we will be more cautious about the time frames for implementation.

Mr SCOTT — One of the issues you touched upon was international comparisons. Evidence the committee has received has been that in other jurisdictions there are benefits to — I think the term used is — reference case forecasting and providing reference. Are there any procedures in place, or is this just anecdotal in terms of what you are thinking, to ensure there are international or relevant jurisdictional comparisons before entering into such undertakings in the future?

Mr BETTS — I cannot speak for other projects. Certainly if we were to have our time again we would have looked very carefully at the time frames for the implementation of systems in Hong Kong, in Singapore and in London as well as in other Australian states such Queensland and Western Australia. Certainly it should be part of the framework for developing ICT projects in the future that you look for experience in other jurisdictions and attempt to learn from that. To be fair to TTA, the first CEO of TTA, Viv Miners, was somebody who was brought in specifically because he did have experience in other jurisdictions. So an attempt was made there to learn from experience elsewhere. But I think to the extent that you can identify ICT projects which are genuinely comparable — and that is always a challenge because different jurisdictions have very different business rules and therefore different projects — that is well worthwhile.

Mr ANGUS — I want to return probably for the last time to table 1, 'Variations to cost budgets', on page 14 and take up one of the points that has been raised by both Mr O'Brien and Mr Pakula. The initial approved budget of \$999, as you have described it, was about \$498 for the myki project and \$500 million for the ongoing Metcard.

Mr BETTS — Sorry, that is not quite right. This 494 was the contracted amount with Kamco. Of the remainder, a proportion was for the continued operation of Metcard, but there were also other costs which were retained by the TTA, including its own running cost.

Mr ANGUS — Fine. In other words, they are ongoing costs that would have been incurred anyway.

Mr BETTS — No. Metcard would have been incurred anyway, if you like. Were myki not to have existed, we would still have had to pay for Metcard or some other system. But obviously the costs associated with resourcing TTA to deliver the myki project were myki costs; it is just that they were not enshrined in the contract with Kamco.

Mr ANGUS — In terms of the final wrap-up of that analysis, I would be interested to see, as Mr O'Brien outlined, using that \$494 original figure and then extracting from that and from the final figure of \$1518 million, what the two components were — in other words, for the new technology, for the myki technology, and then for the ongoing Metcard technology, because that then gives us apples and apples to directly compare — and the other costs that are included in that secondary figure as well.

Mr BETTS — I think it might be helpful if we provided those costs in writing.

The CHAIR — That is fine.

Mr ANGUS — Yes, that would be really helpful.

The CHAIR — For the information of the committee members, there is some correspondence in transmission — I am not sure whether it has actually arrived or where it is, but it is in transmission — following up on previous hearings where we were seeking some further evidence in writing. That is fine; that is just happening as a matter of course, as it does. I am sure the secretary will be able to incorporate his response to those questions into that written response.

I would like to come back, if I may, to the governance issues that are relevant. Clearly one of the critical issues with any project is the oversight arrangements. We have a number of issues to pursue in this matter. In relation to the Ombudsman's report, page 78 notes that despite DOT having policy responsibility for ticketing issues, there was no senior representative present on the TTA board throughout the project. Mr Betts, can you explain the department's view about the deficiency that the Ombudsman highlighted in relation to that responsibility?

Mr BETTS — It is the case that there was no member of the TTA board who was an official of the department. It is interesting that the Ombudsman notes that. I would say that you could argue it either way. On the one hand you could say that the department was such an important stakeholder in the project that it should have been represented at board level. On the other hand you could argue that the responsibility of the board of the TTA was to ensure that the TTA was transacting its business. To have a Department of Transport representative on the board might have blurred accountability. It is an interesting point, and the committee might want to discuss that. I do not think it is an entirely clear-cut issue. I think you could argue it either way.

Certainly in the early stages of the development of myki, not only was there no departmental representative on the board but the department was not invited to attend board meetings. But that did change in 2008. The department's involvement with board matters became much stronger, largely through the observer status of the board, the ability to see board papers and so on. I think that was an important step, and it was helpful to the TTA board in the sense that to the extent that issues came up that were within the department's jurisdiction to manage, having a departmental representative there meant that they could transact that business more readily.

The CHAIR — You have opened up the debate about that issue of the governance principle. It is an interesting principle. There is case law on the issue of governance, corporate boards and accountability issues, so I am not going to get into that. The purpose of this inquiry is to understand how government agencies can better deliver and implement major projects. Clearly with this particular project, which was inevitably going to face various obstacles, the structure of the participation of the key stakeholder, being the Department of Transport, seems not to have been taken into account at an early stage in terms of getting a proper process in place for that close oversight that DOT really required. I note you are opening the question. I am interested in your opinion. Were you going through this process today, would your view be that there should have been a formal link between DOT and the board?

Mr PAKULA — And is there now?

The CHAIR — Yes, just clarify those issues for us.

Mr BETTS — There were formal links. There were formal links all the way through. There was representation at board level. During the course of the project, TTA would provide — and to this day it provides — regular detailed updates to the department about how it is travelling with a project. I would meet on a regular basis as the director of public transport with the CEO of the Transport Ticketing Authority to discuss how things were going. As the director of public transport, I chaired the reference committee with the operators and representatives of TTA, so it is not as if there were no formal structures in place for engagement between the director of public transport as the client and the TTA as the deliverer of the project. I understand that those arrangements have been replicated since the creation of Public Transport Victoria, where again there is a very strong interaction between the two organisations, and ultimately TTA becoming part of PTV once myki has been implemented.

The CHAIR — The other thing that is a little link to that, because while I am referring to the Ombudsman's report, is that I ask you to comment on the note by the Ombudsman in the report that it is interesting that the secretary of DOT chose not to respond to the conclusions in the report. Was there any reason for that?

Mr BETTS — Insofar as it related to myki, I thought it was a good piece of work. I did not feel any need to comment on it. I did congratulate the Auditor-General on the role his staff played in helping with the report. I would normally comment on an Ombudsman's report or an Auditor-General's report if I disagreed with the conclusions, or if information that was germane to those conclusions had not been included. I did not have any objections.

The CHAIR — So you were satisfied with the comprehensiveness of the analysis?

Mr BETTS — Whilst a number of the conclusions that the Ombudsman reached could be argued either way, including board representation, I thought it was a very reasonable contribution to the discussion about what we could learn from the myki experience.

Mr PAKULA — I want to ask you about the process of the Deloitte review and what role the department had in the construction of that review, whether Deloitte spoke to the department and involved you in their discussions and considerations, and whether you have seen the report. We had some evidence from Kamco,

from Mr Greg Purdy, who said, as I recall, that he had not been spoken to and he had not seen it. I am interested in whether DOT has had a similar experience or not.

Mr BETTS — As you know, the Deloitte report was commissioned by the Department of Treasury and Finance, and, if you like, it is owned by DTF. My role prior to Deloitte being engaged when the government decided that it wanted to conduct the review was to seek on the government's behalf the views of various operators, including Kamco themselves. So they had an opportunity to give feedback to the government on how they thought that the project was travelling and the issues that ought to be picked up during the course of the review.

The department was an important participant through TTA and from the department itself providing evidence into Deloitte's review. I attended meetings where Deloitte was providing a heads-up about how the report was going. I saw drafts of the report, and I obviously saw the advice that went into cabinet committees following the review.

Mr PAKULA — So you have seen the final report?

Mr BETTS — I think I have seen the final report. I certainly saw advanced drafts of it.

Mr O'BRIEN — Perhaps I could follow up from the deputy's question. Have there been other reviews? For example, was there a review taken in relation to the 2008 variations, and have you seen similar types of reports in relation to those variations in the decisions that were made?

Mr BETTS — So you are asking were external consultants — —

Mr O'BRIEN — Were external consultants brought in in 2008?

Mr BETTS — External consultants have been involved in the project throughout its life.

Mr O'BRIEN — Yes, that is absolutely true, but in relation to the issues arising from the inability of the project to meet its budgetary and on-time deadlines, were external consultants brought in prior to the 2008 variations?

Mr BETTS — Not in the same way that Deloitte was brought in as an external independent reviewer working for the Department of Treasury and Finance to provide external advice to government, no.

Mr O'BRIEN — Is that something you think could have helped the decision-making back in 2008?

Mr BETTS — I think the principal purpose of the Deloitte review was to assure the government that there was no fundamental flaw in the myki system that would lead it to take an alternative course of action. Clearly during the course of any major project you do get external advice from outside. The Department of Transport and Department of Treasury and Finance provided advice to ministers on how the project was travelling at different stages. The Auditor-General undertook a review in 2007, so I cannot really express a judgement on whether it would have been good to have another review in 2008. I am not sure of the value that that would have added. The circumstances in which the current government found itself when it came into office were that it had a project on its hands that was clearly highly controversial and subject to a great deal of criticism. It wanted to take stock and get an external review undertaken so it could understand what its full range of options was.

Mr O'BRIEN — Could I just deal with one aspect also in relation to the initial requirements and the evidence of Mr Purdy from Kamco. He effectively said that there was a lot of over-optimism by the government at the time and by the contractor that they could fulfil the specifications within the two years, which is consistent with your evidence, and may have been done more effectively and quicker had time been invested, I say, in establishing the requirements. What role did the department at the time have in the development and review of those requirements and/or any myki business case? Also what role did it have in relation to the review of any tenders?

MR BETTS — In terms of the review of any tenders, it had only a very limited role in the sense that a member of the department's staff may have been seconded to the evaluation team within TTA to advise on any policy issues that arose during the course of the evaluation. Evaluation was very much the province of TTA.

The business case that TTA prepared was subject to review on a couple of occasions by the department's project review committee, but it was primarily subject to review through the gateway process, auspiced by the Department of Treasury and Finance, but with the responsible officers being the senior management of TTA.

Mr O'BRIEN — Specifically were you or your department aware of any advice in relation to that two-year time limit that was being set by the government at the time being identified as overly optimistic?

Mr BETTS — No. The department would have relied on the expertise of people in TTA who had delivered complex ticketing systems elsewhere that two years was a deliverable time frame.

Mr O'BRIEN — Just on that last one, the Ombudsman identifies that the head contractor had not delivered TTA systems and was reliant on other subcontractors, and there have been issues with the specification requirements that came up effectively after the tender process and the number of variations effectively. Is that an issue that ought to have been more properly considered at the front?

Mr BETTS — With hindsight, yes. The first two years after the award of the contract to Kamco were spent developing specification requirements, which meant that the contract itself was very much an output-based contract; it did not up-front specify in detail all the very complex business rules that would underpin the system. That work remained to be done after the contract had been awarded. Because we were describing — in order to generate the solution requirement, you needed to specify those business rules, and those were themselves evolving. We need to be a bit careful about terminology. There were variations in the sense that new issues came to light, but there were also variations in the sense that, for instance, new railway stations were opening up on the metropolitan railway network which needed ticket machines. It was a very complex process, and we would probably never have been able to absolutely nail down at a point in time what the final solution requirements were for myki because the public transport system was changing in real time as myki was being implemented.

Mr SCOTT — A quick follow-up on the issue you raised in the previous question: you have raised the issue about the variations that were made that were unforeseeable. One of the issues that has been raised with the committee is that it is obviously preferable to avoid scope change; however, you have touched upon the obvious conflict between scope change and the desire not to have it and the obviously evolving nature of public policy and how that relates to contracting. Within the department how is that issue examined, the tension between the desire to limit scope change and the evolving and in fact often fairly unpredictable nature of public policy changes and requirements?

Mr BETTS — Maybe this goes to the heart of why ICT projects are more complex than other types of projects. If you are building a major project like, say, extending rail services to South Morang, it is highly unlikely that a government policy change is going to come along and materially affect that project. It may happen, but it is highly unlikely, whereas in the course of implementing a ticketing system there will be numerous changes. You would try to minimise those to the extent that you could; nobody likes to complicate a project where it does not need to be complicated. Ticketing is so fundamental to the business of public transport that every time you open a new bus stop, every time you open a new train station, every time you tweak a product — for instance, to introduce early bird free travel for people arriving in the CBD before 7.00 a.m., that constitutes a change to the solution requirements. So you try to minimise those, but for most of the projects that we implement — construction projects — it is rare that public policy intrudes on the scope.

Mr SCOTT — Is that because the contractual arrangements have not got a long-tail nature? I presume the Department of Transport from what I understand is largely is design and construct, not entering into a large number of long-term private contracts in different forms. Is long-term contracting with the private sector by its nature intuitive — this would seem to be the case, but in your view — but it creates more difficulties in dealing with those issues of scope change and public policy change where you have got contractors. The original contract was 12 years, yet we are entering into contracts quite regularly for 30 years and in some cases plus in other departments?

Mr BETTS — I guess to the extent that you are talking about privately financed projects —

Mr SCOTT — Yes.

Mr BETTS — with long-terms concessions, then scope changes in the life of those contracts can be quite complicated. The PPPs with which I am most familiar are the franchise agreements with the train and tram operators. It is certainly the case that in the first wave of franchising any change that the government wanted to make involved quite complex negotiations with those operators. But in subsequent franchise contracts we were able to develop contract change provisions where the government could instigate a change to the contract, and the operator would be effectively held harmless for any financial impact that that change had, and those provisions have worked fairly effectively.

Mr SCOTT — There has been a learning process?

Mr BETTS — Correct. With PPPs generally it has been a learning process going back to the 1990s in the UK through to Partnerships Victoria over the last 20 years, and we continue to learn how to do things better.

Mr ANGUS — I am interested in following up on a couple of the points in relation to the learnings from the project and the whole experience. I particularly draw your attention to page 25 of 27 of your response. The last paragraph says Kamco:

signed up to the 2007 delivery time line ...

and then it goes on:

A further consequence of the time pressures was that TTA signed its contract with Kamco before Kamco contractually locked in major subcontractors responsible for providing operation software, ticketing equipment and card supply.

That then had some significant consequences. My question is: when was that known by the TTA, and what is the current approach to avoid that situation being replicated today?

Mr BETTS — I am afraid I cannot tell you when that was known by the TTA; you would have to ask the TTA that, although I would be surprised if TTA was not looking very closely at the commercial relationships between Kamco and particularly its main suppliers, G and D and ACS. One of the lessons that is important to learn is that in evaluating a proposition from the private sector you need to understand the full range of commercial relationships which underpin the head contractor, not least in order to understand the risks which the private sector proponent is facing, because those are, or can be, risks for the state as well. For instance, if we are looking now at a bid from a consortium, we will go to great lengths to understand the commercial relationships between the various consortium partners to understand how risk is distributed within the consortium, because that is a very important component of understanding the proposition that is being put on the table. I think that is an important lesson learnt. As for the specifics of what was known and what was asked about during the course of evaluation and after that, that would be a matter for TTA.

Mr ANGUS — Supplementary to that, are you saying that these days you would make those inquiries and indeed seek evidence from contractors?

Mr BETTS — Correct. A good example is the 2009 franchising process — again going back to franchise contracts, because those are among the biggest contracts that we have in place. A great deal of due diligence was done by the state in evaluating the bids to understand the relationship between head contractors and, for instance, their maintenance subcontractors so that we could understand that if something went wrong in the contract, would the maintainer have skin in the game, what was their capacity to walk away from the contracts if their subcontractor ran into difficulties, so we did the full suite of due diligence and drilled down into consortium structures to understand.

Mr PAKULA — I am interested in having a bit more of a generic discussion about the provision of infrastructure and the capacity of the Department of Transport to deliver it, whether we are talking about hard infrastructure or ICT. I cannot imagine that DOT will be involved in too many more complex ICT projects in the foreseeable future, so it will be mainly hard infrastructure. One of the things that the committee needs to give consideration to in its report moving forward — and we have taken evidence from organisations such as Infrastructure Ontario, where there is a much more centralised process than we have here in Victoria, and in other jurisdictions where there are other approaches. One of the things the committee needs to consider is whether or not in terms of skill retention, expertise and project management and informed purchaser status it is better to have infrastructure delivered by a central agency primarily, particularly for big projects, or whether the Victorian approach of by and large continuing to have line agencies deliver it is the better way forward.

What would you say about the capacity for your department to retain the sorts of skills, whether it be project management, engineering et cetera with the sort of sporadic infrastructure delivery that is required and the sort of feast-and-famine approach when it is done agency by agency versus the notion of having all big infrastructure delivered by a central agency with some sort of reporting line back to the line agencies? I would just be interested in your thoughts on that.

Mr BETTS — There are some genuine trade-offs in all of that. Clearly in terms of managing the cyclical nature of investment across different sectors, having a central capability which is capable of being deployed to build a range of different facilities is a valuable thing for a government to have, and Major Projects Victoria clearly is an important part of the mix. The thing — I am not sure whether it is unique to transport, but I can only talk about it in a transport context — is that construction skills are not entirely generic. The skills necessary to, say, upgrade a railway line — a live, operating railway — are quite different from the skills necessary to build a convention centre on a greenfield site or whatever. So there is a degree of specialism which goes with rail construction which may not exist to the same extent in other sectors.

The state can manage that; you can see the movement of skilled project managers between departments and between agencies. Simply because an individual is on one department's books delivering a project now does not mean they cannot be working in the Department of Health in two or three years time if their skills are transferable, so I would be a bit hesitant about assuming that creating a single agency is necessarily the way to go. Having skills within departments, particularly where you need unique, specialised skills, like you do for railways — there are quite strong arguments in favour of that as well.

Mr PAKULA — Sidestep to your special-purpose vehicle — a Linking Melbourne Authority-type arrangement. How do you line that up in terms of having, for instance, even within the transport infrastructure space, a special-purpose vehicle which might be expert in delivering big roads, or big roads and big rail projects? On the continuum you have your central repository of all skill, knowledge and wisdom and, on the other hand, line agencies with a sidestep to a special-purpose vehicle. How do you view that?

Mr BETTS — Special-purpose vehicles have their strengths. I think feedback from the private sector on a project like EastLink would suggest strongly that having a dedicated authority — SEITA at the time, now LMA — whose entire focus was around the delivery of that project meant that the private sector had a one-stop shop, if you like, and that the people they were dealing with were not distracted by 1001 other projects and other priorities. So it does have its strengths. It does raise the question, though, about those authorities having to be ramped up and then ramped down at the end of those projects. Linking Melbourne Authority has managed to establish a reasonable pipeline over the last few years.

I would say that the Regional Rail Link Authority is a good example of a good piece of governance, where it has a dedicated board, a chair and a CEO reporting through into the department. Again, for a project of that size — a multibillion dollar rail project — having a dedicated authority has worked well. We would need to make sure that when the regional rail link is completed we do not lose the skills which are in that organisation and that we manage the process to ensure that we retain the corporate memory and that it is capable of being deployed where the rail projects are being implemented at that time.

The CHAIR — My interest in this is similar to the deputy's. On the basis of the evidence the committee has been receiving over the last year or so there appears to be a strong case for agencies which have an ongoing work program to retain their pool of skilled people, but often projects arise which are outside the scope of those skills. I think we have come to conclude that there is a case to say that it may be desirable for there to be, if you like, a warehouse arrangement where people with specialist skills are able to be transferred within the government structure from project to project. Essentially it seems that transport is probably a little exceptional in the sense that there are long-term commitments of roads and rail infrastructure particularly, where those skills can be nurtured sufficiently.

Myki is a classic case in point. I do not particularly want to talk about myki especially but it is an example of a project that was completely beyond scope. In that sense it is not something you do on an ongoing basis; it is a one-off project. The evidence you have given basically says we had to get structure that brought skills in. The question arises, really, without being specific about myki: is it practicable in your view for government to, in the case of — and the examples we could cite would be the jurisdictions in Canada of British Columbia and Ontario, which are probably the leading edge in this sense, have centralised a specialist skill set. Do you think

there is any significant merit in Victoria looking at that sort of structure? I know it is touching again on the deputy's question, but I am trying to narrow the question down to saying, 'Yes, there is a case'. I acknowledge there is a case for transport to retain those ongoing skills because you have that work program, but what about for all of those one-off projects that every department faces from time to time?

Mr BETTS — I think the question is well worth asking, and I think it is very good that the Public Accounts and Estimates Committee is looking at that option. It is hard for me to give you a perspective on whether that would work for other portfolios. Certainly having a central warehouse of skilled project managers would probably not have had a transformative effect on myki in the sense that generic project management skills are reasonably available to us. We have them in VicRoads, as you have said. We have them in the rail sector. The critical thing we needed for myki was quite specialised skills in ICT, specifically within the sphere of public transport ticketing. It is hard to imagine a central warehouse in which somebody is sitting there with that skill set, capable of being redeployed widely across a range of different things. Maybe there is a generic ICT skill set, but we have that to a certain extent already with CenITex.

I do not have a clear answer in my mind. I think the question is well worth asking. We have the capacity to ramp up our skills in reasonably short order when a project comes along, which is what we did with TTA and with myki back in 2002 when Viv Miners was appointed. You can bring people in as contractors on fixed-term contracts or from the contracting sector, so you can be reasonably agile in that sense, but it is worth asking the question, I think, whether having those skills distributed across the various departments is the only model or the best model as a solution to the question you asked.

The CHAIR — I am inclined to segue into another issue, but I will give my colleagues a bit of a crack.

Mr O'BRIEN — To fully assist you with your segue, I go back specifically to myki and some of the evidence again from Mr Purdy just on this skills question, and I want to lead into a governance and accountability question as well. Mr Purdy makes the observation:

... this is not necessarily pointed at the TTA, it is pointed at how the customer in a government, or any customer, fulfils their role in a project. My personal view is that the government was not correctly skilled on this project as far as the system integration project and it certainly did not understand requirements and requirements management. If the government had understood requirements and requirements management, it would not have thrown open an outcomes-based contract. It would have invested in the beginning to clearly articulated specifications and then driven the program from their point of view, from the customer point of view, to ensure the contractor met the requirements.

Do you agree with that assessment, in hindsight, by Mr Purdy?

Mr BETTS — I am not sure that it reflects a deficiency in skills within government. The people in TTA at the time took the view that a contract which gave the government maximum flexibility was the appropriate way to go. With hindsight I would say that the contract was heavily one sided, in the sense that the state could pretty much specify what it wanted the contract or to do, and the contractor had to then go and do it. A better approach might have been to sit down once we had identified the successful party and really nut through in much more detail what the issues were before final prices were locked in. So with hindsight we might have done things differently, but I am not sure that that represents a deficiency in the skill; it is just that Greg takes — again, he is speaking in hindsight — a different view on how that contract might have been structured.

Mr O'BRIEN — Specifically then I put it to you that this problem was exacerbated by what was identified at paragraph 3.24 of the Ombudsman's report, that in the initial valuation of the six tenderers only the successful bidder was unable to evidence a proven solution; all others nominated sites where the solutions were in place. So if you are going to an open architecture, effectively with a head tenderer who cannot evidence a proven solution and relies on a subcontractor — we have talked about the specifications — isn't this lack of skills at the contracting end, from the government's view, exacerbated because you are effectively giving the contractor a bit of an open ticket to learn on the job at the government's expense?

Mr BETTS — In order to answer that question I would have to second-guess bid evaluations, which I was not a participant in back in 2004. The trade-offs that were made in terms of their selection of Kamco as the contractor would have been made against the whole range of evaluation criteria, so I imagine it was not regarded by the TTA as a strength on Kamco's part that they had not delivered themselves an equivalent system in another jurisdiction, but there may have been offsetting aspects of their bid which counteracted that relative

inexperience. In fact I imagine there must have been for the evaluation to come up with the answer that it did and the appointment of Kamco.

Mr O'BRIEN — Just going back to the Oyster example, that had had some teething issues in London in the UK, but essentially by the time of the tender they had been worked out, so there was a proven solution. Particularly with IT, as it is evolving, is there not a greater emphasis in tendering in relation to IT, if the government does not have the skills internally or if the architecture is evolving, on being aware of a possible relying on proven solutions?

Mr BETTS — I think there is a difference between relying on a contractor who has delivered an equivalent system — —

Mr O'BRIEN — Could I add, if they are available?

Mr BETTS — There is the question of whether in evaluation it is appropriate to look at the track record of the tendering parties to see whether they have delivered equivalent systems, and absolutely that is legitimate. But listening to your question, it sounded as though you might be saying that we should have picked the Oyster solution and attempted to apply it in Melbourne, and that would go to the question, which I think the committee may have discussed previously, about whether there is such a thing as an off-the-shelf solution in this environment, and I do not think there is. If there were, then jurisdictions would be buying off-the-shelf solutions left, right and centre, and they are not; most jurisdictions around the world have had to develop their own smartcard system more or less from scratch because the differences in the complexity of the business rules around ticketing mean that if you do try to bring in an off-the-shelf system you will spend years and billions of dollars trying to retrofit it to your own local environment.

But if your question is, 'By and large is it a good idea to appoint people who have delivered equivalent systems and have a proven track record?', yes, but that is not the only criterion, and I am not in a position to second-guess the evaluation decisions that were taken by TTA. It may be that the supplier who had delivered Oyster was on the short list but that their price was extraordinarily more expensive than the ultimately successful bidder. I just do not know the answer to that.

Mr PAKULA — On ICT, I want to pursue a little bit this issue of the skills of government to deal with the private sector when it comes to ICT. There is a perception — and I do not know whether it is fair or not, but it is certainly a perception that I think a lot of people hold — that the government, and I am not talking about the Victorian state government but government generally, when it is dealing with a complex ICT project with the private sector, may not have the skills to fully understand whether what it is being told is accurate or reasonable et cetera. I am interested in your view about that, about whether you think it is possible for a jurisdiction, and assuming it is possible, how it is best done by a jurisdiction, to ensure that they are able, when sitting across the table from an ICT provider for the delivery of a complex ICT project, to ensure that there are people on the government side of the table who know when they are being sold a pup, who know whether or not the time lines, the costs and the functionality that are being proposed are realistic, who know whether there needs to be a central repository of those skills and who know whether the government currently possesses those skills or, if not, how best they can. I would be interested in your view about that.

The CHAIR — It is the basic question we have been asking everywhere, which is: how can governments be an informed purchaser?

Mr BETTS — I would be surprised if there was anything intrinsic to government that made it a less capable procurer of IT than any other type of entity. I think the committee has heard from previous witnesses about studies which have been undertaken which show that ICT projects typically go wrong in the private sector and they go wrong in jurisdictions other than Victoria. It is an issue across the piece. And government, of course, has the capacity to buy in expertise, just as TTA did in 2002 when Viv Miners was appointed. Perhaps the differentiating factor is the level of scrutiny to which government activities are exposed and the political/media environment in which mistakes which are made by government agencies play out. Maybe it is the level of static electricity which surrounds projects in the public sector which creates the impression that things go wrong more readily in the public sector than they do elsewhere. I suspect that there are plenty of private sector companies that embark on big, expensive and failed IT projects, and they never hit the headlines. It is hard to imagine a

government agency making mistakes on that scale and then not becoming the subject, quite properly, of extensive public comment and criticism.

The CHAIR — That is good; thank you. David, did you have a specific governance question?

Mr O'BRIEN — Yes. Moving to accountability and looking at responsibility and accountability, there have been some comments in the Ombudsman's report on that. Having regard to the extensive costs and time overruns that have been canvassed, and looking at the inquiry's term of reference (d), I am interested in the perspective of DOT in relation to the spread of responsibility between itself and the TTA and the contractor for the additional cost burden to taxpayers in the major delays. Where, in your evidence, does the responsibility lie for major overruns: the TTA board and management, DOT as a portfolio department, DTF as a central agency and overseeing agency, the government from the political side or the ministerial responsibility side, contractors or subcontractors? This is in the context of where the Ombudsman has identified, in paragraph 316, that there has not been any evidence provided to him of any accountability of the board for the failure of the TTA to meet the system deliverables. I note that there have been, I think, five CEOs appointed throughout the life of the project. So talking about this governance issue, where does responsibility lie in relation to this project and what can we do generally in relation to accountability?

Mr BETTS — Okay. So the success of a project like myki would depend on a number of parties performing their roles. Clearly TTA was the principal government agency responsible for overseeing the procurement and delivery of the myki system. The Department of Transport's role I described to you at the outset, in terms of advising ministers on the performance of different portfolio agencies, specifying fares and ticketing policy and ensuring that the operators came to the table and were engaged in the project. DTF has its own responsibilities around the management of risk, particularly financial risk, of the state. So you are always going to have multiple parties involved, and it is rarely going to be the case that there is only one party that is singularly identifiable as being accountable when things go wrong. In that description so far I have not even mentioned the role of the contractor, which was clearly a significant part of the problems that myki encountered, and indeed their subcontractors. It would be nice to live in a world where, whenever anything goes wrong, there is one person that you can point at to blame. I suspect that life is a little bit more complicated than that.

In terms of the Ombudsman's comments about the board, on the one hand there is a view expressed — I think it was by the Ombudsman, although I may be wrong on that — that accountability is seen to be sheeted home when people move on, when they leave. The observation has been made that the TTA has had five CEOs, which on the face of it is not inconsistent with what the Ombudsman is saying. Similarly I think there have been four chairs of the TTA board. I do not accept that the TTA board did not accept responsibility when things went wrong. After I became secretary, I believe — perhaps shortly before — we put additional skills onto the TTA board with the appointment of John Peoples, somebody with significant ICT expertise. With hindsight we probably should have put expertise of that kind on the board earlier on. I think the board has taken its measure of accountability for the problems in the project.

Mr O'BRIEN — Just to pick up on the first part of your answer, we have had some evidence, albeit in relation to construction projects in particular, that there should be clearly delineated lines of responsibility, and particularly to project managers, and a shared governance in relation to PPPs where there is a potential benefit for all players et cetera and a desire to share knowledge.

Is it the case that part of the problem with this project is that there was not a proper consideration of the whole and then a structural delineation of lines of accountability? Specifically, in your answer you isolated the ticketing role of policy set by DOT and the government, but the contractor has identified that that is an essential part of the problems — and in giving evidence you have picked this up as well — in relation to the nature of this project, that it is a ticketing project. So has there not been a failure to identify a clear delineation of the accountability structure in this project?

Mr BETTS — Yes, I understand what you are saying. Clearly the implementation of myki as a piece of ICT depended on the capacity of the Department of Transport to fulfil its role, which was to specify what the fares and ticketing policy was at any given time, because the ICT embedded in myki was built around those business rules. Those business rules change over time. Whether that constitutes a failing on the part of the Department of Transport — I noticed that in his evidence Greg Purdy suggested that life would have been a lot easier in delivering myki if the department had taken decisions very promptly to change fares and ticketing policy, and

even at one point suggested we could have moved to a flat fare structure. Those would be big decisions for government.

The issue of public transport fares and ticketing is a highly sensitive issue on which ministers properly would want to have a say. I am not saying Greg was suggesting it, but it would be wrong to suggest that the myki tail should wag the ticketing dog — in other words, that ticketing policy should simply be flexed to make the implementation of an ICT project easier. The department has a genuine accountability to ministers to provide them with advice, and ministers are accountable to the community to ensure that fare and ticketing policy is equitable, reasonable and in line with wider government policy settings.

Mr O'BRIEN — Just to pick you up on the last statement you made where you talked about the dog's tail and who is wagging what, whether it is ticketing policy or the ICT solution, in a nutshell is it not the problem that the requirement specification of this project — I will not say a dog of a project — did not identify that essentially there was a tail to this dog, being the ticketing policy, and that therefore the scope problems are being identified and are rolling out through the course of the project rather than up-front?

Mr BETTS — No. I think it took time for the government to formulate the full fare and ticketing manual, which then drove the programming which was necessary to develop software for myki.

Mr O'BRIEN — But to pick you up there, should that not have been done first — the formulation of the ticketing policy — then an IT system built around it?

Mr BETTS — The ticketing policy already existed. It was a matter of documenting it in such a way that it could be readily understood by the software engineers. But, yes, with hindsight there may be some validity in that. It might have been easier if that work had been completed well in advance. But the simple fact is that it was not, and that Kamco knew that it had not been at the point where it entered into the contract with the government. It was an important piece of work and an important accountability for the department to produce that fare and ticketing manual, and through PTV we keep it regularly updated.

The CHAIR — I just want to go back to the issue of developing the budget and try to link that back to the skills. Essentially the simple question is this: did the department have the necessary skills within it at the time to come to a conclusion about the aggregate budget envelope that was required — I am not talking about just the Kamco contract; I am talking about what the aggregate budget requirement was — to enable it to reasonably inform the government in terms of setting the budget for the project? It is a skills question really. Or was the department effectively trying to improvise its advice to the government in terms of the budget envelope, and therefore that is one of the reasons there has been a progressive incremental cost?

Mr BETTS — I think the answer to that is no. I do not think there was any problem in terms of the department's skills in costing the project. Most of the cost problems that myki has encountered have been a function of time. It goes back to my earlier comments about the deliverability of a two-year time frame.

The CHAIR — In other words, optimism.

Mr BETTS — Yes, optimism in terms of time.

Mr PAKULA — So when you add time, you add dollars.

Mr BETTS — Correct. You have dollars for Metcard, you have dollars for mobilisation of resources in the private sector — —

The CHAIR — I am sorry to interrupt. Hence that comes back to my skills question, which is: how can we be so optimistic if we are informed? If we actually have informed people, they are not going to be that optimistic. The first rule of any major project is presumably, as one witness said to us, all major projects go wrong, in effect — I am verballing someone here. All major projects basically stuff up; that was the evidence we received from someone. What I am really asking is why there was so much optimism about the time frame, which was totally ill conceived. One could argue that the substantial problem with myki appears to be this optimism at the outset, and therefore I am suggesting the skills were not available to understand how complex this project was.

Mr BETTS — The question is whether that is a matter of skills not being available. I was very interested to note when I read the transcript of Greg Purdy's comments that he talked about the types of people you need involved in projects at various stages during their life cycle and suggested that you need — did he use the word 'cowboy'? — somebody entrepreneurial in the early stages of a project.

Mr O'BRIEN — He said 'starters' in the end.

Mr BETTS — Okay, I will go with that then. That was a very interesting perspective from somebody for whom I have a lot of respect for and who has a long track record in this area.

I think the problem was almost that the people in the early stages of TTA were too much in that starter/entrepreneurial mindset. They had worked on previous projects in other jurisdictions, and perhaps they believed the rate at which the technology in smartcards was maturing meant that it was an opportunity to do better than they had ever been done previously and to, if you like, set a world record for the implementation of a smartcard ticketing system, and that was very much their focus, as opposed to a more prudent or cautious approach which, with hindsight, might have been better. Is that a question of skills, or is it a question of culture? I will let you judge that.

The CHAIR — That is a good response. That then leads to the question of what was the role of the department in terms of advising the government on that budget envelope. I am not clear on where the decisions were made that defined what the budget would be. Is that a departmental responsibility?

Mr BETTS — Yes. Statutory agencies like TTA do not set their own budgets. They have to go through a process which is initially overseen by the Department of Transport as the lead agency within the transport portfolio, but then that obviously goes through processes overseen by the Department of Treasury and Finance and ultimately ministers in the expenditure review committee — or whatever it is called by the government of the day — to set the budget.

The Department of Transport would have closely examined the cost estimates that TTA had put together and would have had to account to the Department of Treasury and Finance to ensure that DTF was satisfied that those cost estimates were accurate. I have no doubt those cost estimates were accurate for what we knew at the time, particularly in terms of the timing of the delivery of the project, which I go back to as being the principal driver of cost increases.

The CHAIR — Okay; that is all right.

Mr PAKULA — Jim, sorry to jump off, but we are running out of time, and I am mindful that I might not get another go. We also had a conversation with MPV about the market relocation, and one of the questions I asked the secretary of DBI was whether or not the original proposal for the vacated market space, the portal plan — the port of Melbourne expansion into that site, whether it be for rail turnaround or other things — continued to be on the table. To the extent that you could talk about port of Melbourne plans, can you tell us whether it remains the intention of the department that that vacated land be used for port works, and if so, to what extent?

Mr BETTS — There are a number of reasons for that relocation project taking place. One of them, certainly an important consideration, was the capacity to free up valuable land adjacent to the port of Melbourne that might be used to increase its capacity to deliver international terminal facilities. At the moment the government is preparing a freight and logistics plan, which we are aiming to complete next year. One of the key components of that freight logistics and plan is to develop and articulate a strategy for all the commercial ports in Victoria.

As you are aware, the government has a strong interest in and commitment to the development of the port of Hastings. That is an important part of considering how we handle a container task through our ports, which is set to quadruple between now and 2035. The port of Melbourne is the largest container port in Australia, and it will continue to be a very important part of the jigsaw for many decades to come. I am afraid I am going to have to say that that question of the future of that precinct, and precisely how it will be developed, is something the government is currently considering as it develops its freight and logistics plan. No doubt that will feature in government documents and publications in the coming months and next year.

Mr PAKULA — So, to paraphrase — —

The CHAIR — You are not going to verbal him?

Mr PAKULA — No, I would not do that — not to anyone. What will soon be the former market site, ultimately, may or may not be utilised by the port of Melbourne; it is just too early to say?

Mr BETTS — It is still our policy to keep that option open.

Mr ANGUS — In terms of ongoing views and so on that we are undertaking, in your answers on pages 23 and 24 you have outlined some of the processes of reviewing the new ticketing system project. You have talked about the gateway reviews that were undertaken there, and there are four of those that you have identified, with three of them with amber lights and one with a green. Then going on in your answer to question 21 you talked about the project review committee conducting various reviews and the fact that the project review committee found that the project was ready to proceed initially and then raised a whole lot of questions that you have identified there in relation to all sorts of areas, including project costings due to implementation arrangements, and then you said the TTA could get back to them and provide information. I am just interested in your comments on that particular aspect of the review process in relation to the myki project.

Mr BETTS — In relation to the project review committee of the department of infrastructure?

Mr ANGUS — Yes.

Mr BETTS — Those meetings took place before I was the director of public transport and certainly before I was secretary — almost nine years ago. The project review committee at the time was a reasonably large group that met. It was chaired by the deputy secretary within the department, Dr Alf Smith, and it reviewed all the proposals that were coming up from different portfolio agencies, and it interrogated the project sponsors to ensure that risks had appropriately been identified. When I became secretary in 2008 I thought that while the project review committee had done a good job, it was time to build up more specialist expertise as opposed to having a committee of maybe 30 or 40 people. So we moved away from the PRC framework. Traditionally PRC would ask a whole series of questions and then the project sponsor would come back and close those out, and it would meet if the deputy secretary at the time thought that they were questions or issues that had not been appropriately dealt with by the project sponsor.

Mr ANGUS — All right. So the fact that it talks about all of those questions about such fundamental issues — —

Mr BETTS — Quite rightly so, because its role was to ensure that the fundamental issues had been satisfactorily addressed by the project sponsor. It does not suggest that those questions resulted in major concerns, because if they had, the PRC would no doubt have reconvened to ensure that it had properly addressed them.

Mr ANGUS — I suppose that is why, really, it appeared that even that process was perhaps deficient in numbers of ways because it had not raised the red flag early in the piece, perhaps.

Mr BETTS — It says that they raised those questions. It does not say, in the evidence, precisely what the answer was. I am speculating here, but I imagine that the TTA at the time was able to satisfy the committee that it had answered those questions adequately and therefore the project proceeded through the remaining stages of procurement.

Mr ANGUS — The actual answers to those questions then — who would hold those? The TTA would? Do you have access to those?

Mr BETTS — I do not know. I can take that on notice and find out what record exists of those meetings, because as I said, they were eight or nine years ago, so I would need to do some checking.

Mr SCOTT — In the evidence today you have talked about the project managers who exist within the department, and one of the issues that has been before the committee is the difficulty that the public sector may or may not have in retaining highly skilled project managers because of the nature of their work and the desirability for them as employees in both the public and the private sector. Could you describe to me the sorts of strategies that are in place within the department for retaining those sorts of skills within the department and how, in essence, you seek to keep hold of good project managers and nurture them within the department?

Mr BETTS — We do not have too much difficulty retaining good-quality project managers, nor do we have significant problems attracting good people. We always have the flexibility within capital projects to use part of the budget to engage contractors, if that is necessary, people on fixed-term contracts, and we are able to pay them reasonably competitive rates. Obviously for full-time public servants it is hard for us to compete on salary. We tend to compete on the basis of the working environment and opportunities for development. Often project managers find it very useful to be on the client side of the projects and are able to be part of big decisions that shape the future of the state. We have not had a problem historically recruiting and retaining good-quality people.

If you look at a project like the regional rail link, as I said before, this was a multibillion-dollar project. We have 120 or 130 people working on that project at the moment, and we have been able to build that team without great difficulty, and it is headed up by a guy called Corey Hannett, who is a full-time executive officer, a public servant, and they do a great job.

Mr SCOTT — Could I just touch upon one of the issues that we have had brought to our attention, which is the desirability for people with experience in this particular area. It is not like some other areas where you can just learn fairly quickly. Project experience and managing major projects over a long period of time is very desirable. What sort of skill set and what sort of experience do project managers within the department have, and what emphasis is put on that experience within the department?

Mr BETTS — There is a great deal of emphasis on it, and we have project management frameworks, which I think I described to the committee at an earlier hearing, which provide the framework within which we develop people skills and we train them up. It is very valuable to have people who have a strong track record in project delivery. Often we have project managers who have spent part of their career in the private sector who have chosen, for a variety of reasons, to come into the public sector. We encourage that movement between sectors. Does that answer your question?

Mr SCOTT — Sort of. The other issue that you touched upon, which I would be interested in exploring further, is the legacy and the nature of public sector projects, and the desirability of people often to work in an area where they can be part of such projects. Is it the scale or is it the nature of the project? I have heard two slightly different emphases put in evidence that I have heard.

Mr BETTS — I think it is a bit of both. Certainly you do get to work on multibillion-dollar projects when you have the opportunity to work on multibillion-dollar projects, and that has its attractions, but I think the ability to create civic legacy is also an important driver. I know, for instance, that the project team that worked on the South Morang rail extension took enormous pride in the job it did there: the opportunity not just to build a piece of functional infrastructure but to provide facilities that are greatly valued by the communities in that part of Melbourne to the extent that the local primary school had its carol service at Thomastown station, which is probably not something you would ever expect. It never happened previously. I am being slightly flippant there, but I think it is the ability to make a contribution and put something back into the community. It is an important part of the public service generally, and project managers within the public service are no exception to that.

The CHAIR — I am sorry, Mr O'Brien, we are now out of time. I would like to thank both of our witnesses, Mr Betts and Ms Nanscawen, for their attendance today. This concludes the hearing for the Department of Transport, and I think we will definitely be following up in writing with you. I think there is some correspondence in train in relation to particular data in regard to the financial modelling, but there will be possibly some follow-up questions as a result of this hearing as well. Thank you for your attendance. This closes the hearing.

Witnesses withdrew.