

TRANSCRIPT

STANDING COMMITTEE ON THE ECONOMY AND INFRASTRUCTURE

Inquiry into infrastructure projects

Melbourne — 20 September 2016

Members

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Mr Khalil Eideh — Deputy Chair

Mr Jeff Bourman

Mr Nazih Elasmr

Mr Bernie Finn

Ms Colleen Hartland

Mr Shaun Leane

Mr Craig Ondarchie

Participating member

Ms Samantha Dunn

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Witnesses

Mr Paul Crowe, executive director, head of origination, and

Mr Glenn Hay, chief operating officer, Plenary Group.

The CHAIR — I reopen our Standing Committee on the Economy and Infrastructure public hearing. The committee is hearing evidence today in relation to the infrastructure inquiry and today's evidence is being recorded. This hearing is to inform the third of at least six reports into infrastructure projects, and witnesses may be invited to attend future hearings as the inquiry continues. All evidence today is protected by parliamentary privilege. Therefore you are protected in relation to what you say in here today, but if you go outside and repeat those same things, those comments may not be protected by the same privilege.

Thank you, gentlemen, once again for your attendance today. I might hand over to your good selves for any introductory comments, and then we will move into some questions from the committee from there. Over to you.

Mr CROWE — No problems. We might read an opening statement, but, first of all, I am Paul Crowe, and I am the head of origination for Plenary Group, and on the VCCC I was the bid director, so I led the whole project. Glenn, you might as well introduce yourself.

Mr HAY — I am the chief operating officer for the Plenary Group, so I am responsible for construction, delivery and ongoing asset management of our asset portfolio, for which I was overseeing VCCC during the delivery phase.

Mr CROWE — Chair and fellow committee members, thanks for the opportunity to address today's hearing. Plenary Group is an independent investor, developer and manager of public infrastructure. Established in Melbourne in 2004, we have since expanded to North America and now have a portfolio of 39 PPP projects worth more than \$26 billion across Australia, Canada and the US. But most recently, this obviously includes the completion of the Victorian Comprehensive Cancer Centre.

For us, it is rare in a professional career that we are afforded the opportunity to work on a project of the scale and public importance as the VCCC. With one in two men and one in three women being diagnosed with cancer in their life, the output of the VCCC will touch many Victorians. The importance of the investment in the VCCC's work is reflected in the prominence of the site as a gateway to the Parkville precinct, which is an internationally renowned cluster of health, research and education. So it is with some understandable humility that we appear before you today to discuss our small contribution relatively to the fight against cancer.

For background, in 2011 the state government contracted the Plenary Health consortium to design, build, finance and maintain the VCCC for a 25-year concession period; however, our work on this project started well before that. We had to mobilise our team earlier than that and mobilise effectively as the scale and complexity of the project and the quality of the competing consortia represented a significant challenge. PPP proposals like the VCCC are rated against many metrics, and there is robust competition on each of these. Our highest early priority for the VCCC was to assemble the right team to deliver on the state's ambitions for a facility that created a centre of excellence for cancer treatment, translational research, education and care. A hallmark of Plenary's approach was to respond to a tight budget while still delivering quality architecture, and our team reflected this. We worked with a strong architectural team of Silver Thomas Hanley, DesignInc and McBride Charles Ryan — all proudly Melbourne-based design firms — to ensure that the building's architecture was symbolic and representative of the coming together of the VCCC alliance.

The consortium Plenary led also comprised a joint venture of Grocon and PCL for construction, and Honeywell for facilities management. The Grocon-PCL joint venture was chosen for its mix of local construction capability and health delivery experience in a PPP or similar process. Honeywell was chosen as the long-term facility manager due to their experience in servicing and maintaining complex and sensitive facilities, such as laboratories, hospitals and stations. The prospect of making a real difference to the lives of tens of thousands of people was a compelling incentive to our consortium members, as was the professional challenge of working on such a unique project. All consortium members brought their best people to the bid for an opportunity to deliver a true legacy project for Melbourne and Victoria.

Plenary's approach is different to others, where the parties that pull the bid proposal together often remove themselves after the transaction is complete. In Plenary we remain involved in the projects through the design, construction and then into the operations phase. In other words, we adopt a holistic approach to delivering the projects that embrace finance, design, construction, complementary commercial development and long-term asset management and operations. In this approach, continuity of personnel is critical from both the private and public sectors.

The VCCC project was set up from day one to benefit from the continuity of both public and private sector parties from the project's inception through to its completion. We congratulate the state and the departmental teams for their consistency in personnel over the period of construction as it contributed significantly to the delivery of the facility. It was important for the project to deliver on what it promised, including its architectural integrity, the building performance, the high-quality service delivery and the maintainability. We needed to ensure the VCCC was built to schedule but also that its quality was protected during construction to maximise its ability to achieve the state's prescribed standards over the operating term. Our combined responsibility towards both construction and operation of the VCCC represents a strong continuum as we are responsible for the assets for many years to come.

Successful public-private partnerships like the VCCC require an active hands-on partner who is accessible, accountable and ultimately responsible to the state. Plenary has delivered on the promise of a comprehensive cancer centre capable of being one of the top 10 facilities of its kind in the world, as per the state's original brief. We look forward to continuing our successful partnership with the state and to managing the VCCC to enable cancer patients and their families, staff and researchers to benefit from a facility that was designed with their needs top of mind. With more than 1.1 million Australians living today with a cancer diagnosis, including 256 000 Victorians, a facility like this has never been more important. Plenary is proud that after four and a half years of construction the VCCC opened to staff and patients on time and on budget in June this year. We hope this was useful in providing a high-level overview of the VCCC project, and of course we are here to welcome any questions you may have.

The CHAIR — Thank you very much, Mr Crowe, and thank you, Mr Hay. We have certainly heard from a number of witnesses today, and I think what is happening at the VCCC is very exciting. It is something that I think we as Victorians and the people of Victoria should be very proud of, because it is a great leading edge. Obviously your work has been exemplary as well. I am certainly keen just to get a bit of an idea. You spoke earlier about the fact that you are involved in builds not only in Victoria and Australia but also around the world. I am just wondering what are the specific challenges that are present in building infrastructure here in Victoria?

Mr CROWE — In Victoria specifically? I might throw to Glenn on that. He might draw on some of the experiences we had.

Mr HAY — I think if you look at it, probably we split it into, say, procurement and delivery. Obviously if we look at procurement, internationally we have seen — and I think, Paul, add anything here from the procurement perspective — there is quite a clear pipeline of projects that are coming to the market in a procurement sense. Having that clear pipeline obviously enables resources to be better coordinated and costs can be managed because there is that clarity around the future of projects. Obviously in Victoria we have had quite a strong pipeline of projects, and we look forward to continuing that. I think from a procurement point of view that is very important. You see in some other states and jurisdictions that when that pipeline is not as clear, quite often it can be quite challenging to get the resources you need for a complex project when you are competing against other sectors and projects.

From a delivery perspective, I think, and from a broad, generalist experience, the importance of the state having a very clear and clearly specified project brief is very important. When they come to market with a brief, having that clarity and the clarity of the operator — and obviously Peter Mac was very clear in its requirements, which were reflected in the brief — means from day one, when you are responding to the bid or to the brief, knowing that clarity is there is very important for the project's success. You then respond to the brief and you then start the construction phase having the certainty of the scope and specification and the objectives that the government is looking to. I think one of probably the stand-out features in Victoria is that there has always been a very strong clarity of brief requirements, whereas in some other jurisdictions, both nationally and internationally, there has probably been a lack of clarity, which has meant that during construction when there is a greater level of ambiguity and you are trying to build at the same time as trying to meet the requirements, it can put pressures on the program and outcome. I think that has been a key success factor.

The CHAIR — So that is a success. Any specific challenges that relate to Victoria? Obviously that is positive to hear that the brief remains consistent. Are there any challenges in either of those phases that you spoke about that are specific to Victoria or more prevalent here in Victoria?

Mr HAY — Did you want to touch on it from a procurement perspective?

Mr CROWE — Yes, I think it is always a relative assessment. Victorian procurement is regarded very strongly as an international standard. I think we have a very strong discipline but also depth in personnel. Obviously in any procurement we need to be conscious of how stretched that depth of the talent pool is both on the private and on public sector sides. At times the volume of procurement, if there is not pre-planning and pre-warning within both the resourcing and government teams and flagging to the market that projects are coming, that challenges can be felt, but that is probably where we have seen most challenges — in resourcing. You cannot just build something very large in a couple of days time and announce it to the market.

The CHAIR — Are there any additional risks that you need to factor in when doing projects here in Victoria?

Mr CROWE — The only risks that get discussed around projects in Victoria relate to industrial relations, but that is something that the market is aware of, the environment, and those risks get factored in. That is often discussed by contractors that we partner with.

The CHAIR — Were there challenges with industrial relations on the VCCC build?

Mr CROWE — No, I think — and Glenn can add to this — for the VCCC, being, as we have just talked about, a project of significance with outcomes that affect a lot of Victorians, it is not a project that we saw any industrial relations challenges with.

Mr HAY — They were effectively very well managed and certainly were not detrimental to the project in any way.

The CHAIR — Very good. We have had some discussions today with previous witnesses about the 13th floor of the VCCC, and we are just hoping that you might be able to walk us through the history of that 13th floor. How was it that we ended up with the extra floor and what was proposed to be done with it and then what happened with the change when the state government rented it and where to now? I am just hoping that you might be able to give us a walking history of what has happened.

Mr CROWE — No problems. This is a challenge, not only of the VCCC, but we probably particularly focused on this because it is a constrained site. Quite often with these facilities there is a growth in demand for their services over time and it is not necessarily adequately forecast in the original business case because it is very hard to forecast these things. We saw an opportunity because of the constrained site. There was really only one opportunity to build it, which was to build it now, so we, as part of our offer and part of our risk, put in additional space. We put it in in three locations: level 1, level 9 and level 13. That was largely around level 1 being in our minds then a health expansion, level 9 being some general expansion space and level 13 more naturally fitting a research expansion. It was quite spread across the building so that we could flex any of the uses within the building or the client could flex those uses in the future.

That was what we offered to government. Within that offer we offered government incentives to take over the space during construction, because otherwise we would need certainty to be able to lease that space over commercial terms. The state, the department of health, took over that space during construction and were at that time debating the use of that; hence the debate around a private ward and the use of level 13 as a private ward. But ultimately that debate was able to be had because we created flexible space in the first place and —

Ms HARTLAND — Can I just stop you there?

Mr CROWE — Yes.

Ms HARTLAND — Was that the current government or the previous government?

Mr CROWE — The debate around utilisation of the space was held during the previous government, in the previous term. I am just trying to think of the exact dates.

Ms HARTLAND — No. That is fine.

Mr CROWE — It was an ongoing discussion.

Ms HARTLAND — Yes.

Mr CROWE — It is something that we — —

The CHAIR — Glenn, did you want to add something?

Mr HAY — Yes. I just want to say the important thing is ultimately in responding to the state's brief it was our initiative to include some additional expansion space that the state obviously assessed as part of our bid against others. We felt, from our experience, there would be a demand for those spaces and it was just through the initiative that we put forward that those spaces then were available for the state to take up during the process and to do with it what it ultimately decided to do.

Mr CROWE — Yes. I think that wraps it up. Ultimately we facilitated the state taking over that space and then investigated a number of different options around how they may utilise the space, which was both research and the private ward.

The CHAIR — What happened from there? The previous government made the decision surrounding Peter Mac Private and then the current government decided not to proceed with that. What happened along those lines from your view?

Mr CROWE — For us, we had very little visibility to that. The state is our client, irrespective of the timing of that, and we were just responding to the state's desired usage for the space because then we were looking at some of the challenges that the building faces around those uses. We responded to those and waited for the decision-making, which did not involve us.

The CHAIR — There has been some discussion around the suitability of the lift going to the 13th floor with regard to its capacity to fulfil the function of a private hospital in effect. Is that a genuine concern? Was that a concern the whole way through, or was it a concern as a result of a change to the project? Where has this concern arisen from?

Mr CROWE — The lifting for level 13 would have required an operational strategy from Peter Mac, so it was not a concern of the building asset owner. The lifting capacity was there; it is just about how you operate the lifts because of where level 13 is located relative to other health users in the facility. That was more an operational concern.

Mr HAY — Because essentially from the basement to level 6 is where more of the clinical spaces are. Obviously the design reflects that, with 7 being the transitional floor with common areas and meeting rooms. But then 8 to 13 was more of a research grid, so obviously it was designed with that capacity. So there would have been some operational work around what was required.

The CHAIR — For the 13th floor, how much rent will you receive from the state government this year?

Mr CROWE — I would have to take that on notice. I do not know that off the top of my head.

The CHAIR — That will be fine; thank you. I am just wondering if the state government does not give you the value for rent of that whole floor, is their design expansion in terms of the other 50 per cent? That 13th floor at the moment I am assuming the government is renting from you?

Mr CROWE — Correct.

The CHAIR — From there, when it is tenanted, those tenants are going to be taking over the payment of that rent, one would assume?

Mr CROWE — That is a budgeting issue for government, where government is effectively renting that space on a similar basis to the rest of the facility. Whether they use it for their own internal purposes or sublet that on to third parties is up to them. The payment terms for those are the government's or the departments.

The CHAIR — You mentioned expansion capacity on level 1 and level 9 as well. At this point in time are those spaces being utilised or are they vacant? What is the status of those spaces?

Mr CROWE — The government has taken back all of the spaces for flexibility in functional planning within the design process. Glenn, you are closer to where they are up to.

Mr HAY — So level 1, in addition to the country patient accommodation that was leased with Peter Mac to provide on-site units for country patients — Peter Mac, the state, just before commercial acceptance or completion, took up the space but they fitted out the Sony You Can Centre, providing support services to youth. So there is still I think a small area left on level 1, but that has mainly been taken up. Level 9 was largely taken up by research functions, which is being used as part of what was decanted from level 13, to make that level 13 a fully available level for, obviously, the recently announced tenants who will be going up there. So that space is effectively being utilised.

The CHAIR — I am just wondering in terms of the completion of the project was there any sort of a make-good payment to get commercial completion of the project, either to Peter Mac or the state government?

Mr HAY — There was a number of outstanding items that we worked through and had effectively resolved prior to commercial acceptance. There was a part of the commercial wrap-up under the agreement. The agreement provided that compensation could be paid for any services that may have been impacted by any delays through commissioning, and during a three-month window we encountered some delays in terms of accreditation and spaces, which had an impact on Peter Mac being able to get those spaces accredited. So there was a commercial outcome under the framework of the agreement worked through with respect to that. But all services are fully operational, and all accreditation has been concluded.

The CHAIR — Could you make those figures available to the committee?

Mr HAY — Yes, again off the top of my head — —

The CHAIR — No; absolutely taken on notice would be great, if you could. Just one final one from me. Obviously you have the ongoing maintenance of the building for the next 25 years.

Mr CROWE — Yes.

The CHAIR — I am just wondering if you might be able to provide us with — obviously you may need to take this on notice — how much approximately per annum it will cost to maintain the building?

Mr CROWE — Yes, I think that we will take it on notice as well.

The CHAIR — That would be fabulous.

Mr HAY — I think there are probably two elements to that which I think it is important to note. One is the day-to-day maintenance, which encompasses the maintenance of physical infrastructure but also security, cleaning and some other services, but also life-cycle upgrades. So factored into that number is also the upgrade of the systems, the infrastructure, for the 25 years — so carpet replacement, system replacement is all factored into that. Just to make the committee aware that ‘maintenance’ encompasses really a whole-of-life requirement that we have to hand the facility back to the state in a certain condition at the end of the 25-year term. So that is what drives those numbers.

The CHAIR — Okay, that would be great. I appreciate that; thank you.

Mr LEANE — Thanks for helping our committee today. Congratulations on an absolutely amazing project.

Mr CROWE — Thank you.

Mr LEANE — It is a billion-dollar project?

Mr CROWE — It is \$1 billion in capital expenditure.

Mr LEANE — Yes, and you have referred to four and a half years of actually being on site?
Mr CROWE — That is right.

Mr LEANE — Wow. So what sort of workforce? I know it is a hard question because it peaks and then it troughs. What sort of workforce do you need to build a — —

Mr HAY — It does peak and trough, but at its peak it was probably in the order of 1100 to 1200 workers on site, in that order, and it really depends upon the number of shifts. We were doing double shifts for a while

because obviously the completion date was very important to us. That is kind of the peak workforce that that would entail, and that is more just from a builder perspective; then obviously there are the consultants and all the other management teams that are supporting that effort.

Mr LEANE — Yes, and the procurement.

Mr HAY — Yes.

Mr LEANE — So there would have been jobs delivered off site —

Mr HAY — Yes.

Mr CROWE — Correct.

Mr LEANE — with support of the project. You mentioned Grocon and another company as a joint venture to build it. The other company?

Mr HAY — PCL.

Mr LEANE — Have they got an expertise in sort of medical installations?

Mr HAY — They are a North American builder who partner with us on many of our health PPP projects in North America. So they had a lot of, can I say, design and commissioning expertise in the health sector that were able to support, obviously, Grocon's local construction knowledge and experience. So that marriage worked very well for the construction.

Mr LEANE — Yes. I will declare to you that I used to be an electrician. I do not want to be one again, but there is that potential. I would imagine in the specialised nature of fitting out research laboratories I think I would struggle. Is it fair to say it is a specialised field as far as the trades that you have to bring in?

Mr HAY — Yes, very specialised.

Mr CROWE — Yes.

Mr HAY — We had I think in the order of just over 260 subcontractors, with various elements or areas of expertise. And obviously with Honeywell, as a facilities manager, their building control system is a proprietary system that was used to bring all that together — the hydraulics, electrical, mechanical — into an integrated solution that then controls all elements of the facility. So it does require very specialist service providers but also those who also have the ability to commission to very high standards that are required.

Mr LEANE — Was it hard to source those skills, the amount of skills that you needed for such a huge project?

Mr HAY — Look, I think in Victoria there are quite a number of providers who have that expertise, so there were quite good levels of, I think, contestability and competitiveness when the builder was sourcing those subcontractors. They had a number of key subcontractors on board as part of the bid, so even prior to submitting our bid the builder had already exclusively engaged with certain subcontractors for the project. But the market was fairly healthy in terms of that expertise.

Mr LEANE — Yes. I suppose it is not your concern at the moment, but just going forward there is a fair bit of health infrastructure in a short period of time, and it sort of is an issue for us to be mindful about. We had DHHS in this morning as witnesses and we had a short discussion with them around the environmental aspects that are built into new hospitals. With the VCCC can you expand on what aspects are there?

Mr HAY — Obviously the design drove a large focus on natural light and obviously trying to reduce energy consumption with the use of LEDs and some of the leading technologies, the building automation system that Honeywell use — the way that that is configured and calibrated to ensure that the building operates at the optimum from an efficiency point of view. Fittings, finishes, a lot of the mechanical equipment, with obviously high ratings from an energy perspective. So it has got quite a layered approach to energy-saving solutions and sustainability. That was a key part of the state's brief, and it is one that we had to strictly comply with.

Mr LEANE — Congratulations once again. It is just wonderful, fantastic.

Ms HARTLAND — Following on from Mr Leane's questions, in terms of obviously a very highly skilled workforce, is there enough training going on of young people to replace that skilled workforce in 5, 10, 15 years time?

Mr HAY — From my observation — obviously we are contracting the builder and the builder is kind of driving that and their subcontractors — we are seeing that the builders are having very high numbers of apprenticeships and training programs. I think there is an awareness of that, and I think the industry is responding to ensuring that that knowledge capture and transition over time is being appropriately managed, giving young workers the opportunity to grow and to learn. So I think for the tier 1 contractors that we generally deal with, they have pretty strong programs in that regard. It is not to say that more cannot be done, but certainly we do see evidence of it in what we do.

Ms HARTLAND — This may be something you cannot answer at all, but I go past there all the time, and it seems obvious in my head that Grattan Street should be closed off to make some open space between the Royal Melbourne and the cancer centre. Is that something that has ever been considered or was it ever part of your planning to just create some outdoor space that was really accessible?

Mr CROWE — It was never part of our brief. The reprogramming of Grattan Street is something that has been considered under the Melbourne Metro project around that side. There were some briefings that bidders were given during the time frame about potential changes to Grattan Street, but it seemed to be more a moving to one lane rather than closing off.

Mr HAY — What we did try to do though with our design was, because it was quite a constrained site, I think we have got 12 rooftop gardens. On level 7 we have probably got one of the largest rooftop gardens in Victoria, if not Australia. There are some secure gardens for staff and for some of the support services provided, but also for the public. So we did try to create, albeit within that constrained triangular site, that outdoor experience. The other element that we were quite strong on was in terms of bicycles. I think we can accommodate over 300 or 350 bikes within the facility. So we did try to deal with that within the constraints of the brief that we had.

Ms HARTLAND — That is impressive.

Mr CROWE — It is fair to say we were conscious of moving Peter Mac from its current location of gardens and those sorts of facilities — and coffee.

Ms HARTLAND — Yes, that is right.

Mr CROWE — We took particular attention of that.

Mr HAY — We learned from other experiences. I do not know whether you have had a chance to go to the facilities yet, but each of the cafes we have engaged directly. So we did not bring in a head tenant, and this is another issue. We are very selective about the retail offering at VCCC, which has been very well received by the community. It was not necessarily the square metre rate that was dictating the ultimate solution, which I think was something from a Plenary Health perspective we were very strong on from day one with our submission. So that is now realised and we see people interacting with that very well now, which is good.

Ms HARTLAND — So not a McDonald's outlet then?

Mr HAY — No, far from that.

Ms HARTLAND — Thank goodness.

Mr HAY — It was local providers, again all individual arrangements with us so we can control and manage. But we have seen a lot of staff and patients coming from across the road to visit, so hopefully we will create some competitive tension in the community there that will be good for everyone concerned.

Ms HARTLAND — Excellent; thank you. It does look very impressive, and I cannot wait to come and visit.

Mr BOURMAN — No questions. I just echo what everyone else has said about what a great project, and well done.

The CHAIR — At that point I thank you very much. I think everybody on the committee is very keen to come along and have a bit of a look and particularly to sample the coffees and the rooftop gardens. So thank you both very much again for your attendance here today, and I remind you that you will receive a transcript of evidence in the coming few weeks for proofreading and that transcript will ultimately be made public on the committee's website. Once again thank you for your contribution today.

Mr HAY — Thank you.

Mr CROWE — Thank you.

Committee adjourned.