

TRANSCRIPT

STANDING COMMITTEE ON THE ECONOMY AND INFRASTRUCTURE

Subcommittee

Inquiry into infrastructure projects

Melbourne — 19 October 2016

Members

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Ms Colleen Hartland

Mr Shaun Leane

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Ms Samantha Dunn

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Secretary: Lilian Topic

Witnesses

Mr David Martine, secretary,

Mr David Webster, deputy secretary, commercial division,

Mr Jason Loos, director, Partnerships Victoria, and

Mr Joe Monforte, director, infrastructure policy and assurance, Department of Treasury and Finance.

The CHAIR — I declare open the Standing Committee on the Economy and Infrastructure public hearing. Thank you to our witnesses for your presence here this morning. Today the committee is hearing evidence in relation to the infrastructure inquiry, and the evidence today is being recorded. This hearing is to inform the third of at least six reports into infrastructure projects, and witnesses present may well be invited to attend future hearings as the inquiry continues. All evidence taken today is protected by parliamentary privilege. Therefore you are protected for what you say here today, but if you go outside and repeat those same things, those comments may not be protected by this same privilege. Once again, thank you for your attendance here this morning. I might ask you to go through and just state your names and your titles and then, Mr Martine, you might move into some introductory comments after that. So over to you.

Mr MARTINE — Thank you, Chair. David Martine, secretary of the Department of Treasury and Finance.

Mr WEBSTER — David Webster, deputy secretary, commercial division.

Mr LOOS — Jason Loos, director of Partnerships Victoria.

Mr MONFORTE — Joe Monforte, director, infrastructure policy and assurance.

The CHAIR — Any introductory comments, Mr Martine?

Mr MARTINE — Actually, given I have only got 45 minutes, I was not planning to make a lengthy opening statement. As you and the committee is aware, my department is involved in different aspects of a number of the government's larger infrastructure projects, so we are more than happy to go straight to any questions the committee might have in relation to that work.

The CHAIR — Fabulous, very good. The first question that I was going to ask is that the state government has created a new body, Projects Victoria, which I believe was gazetted on 1 July this year. I am just wondering: which projects has this body been involved in monitoring to this point?

Mr MARTINE — I might ask Mr Webster to run through, perhaps to start with, just in general terms, the role of the Office of Projects Victoria and perhaps where we are up to in terms of establishment.

Mr WEBSTER — Projects Victoria is really looking at supplementing the government assurance functions over infrastructure projects. Treasury and Finance's more natural home in assurance is on the financial, commercial, economic case. What the government was keen to see was bringing in some more muddy-boot, hard-hat experience to government oversight and assurance of projects. I think you will have probably seen the board announcements, with Ken Mathers as chair of OPV. What that brings to it is significant experience in actual infrastructure delivery, so when we are collectively looking at how projects are performing, we have got people who have been there, done that, got the T-shirt in terms of managing projects. Where we are at is we are currently interviewing for potential chief executive officers of the administrative office. The board is in place. It is planning its first board meeting. I think it is fair to say yes, it has been gazetted from 1 July, but it is still very early days in its formation.

The CHAIR — Any idea when that first board meeting might occur?

Mr WEBSTER — I would need to defer to the chair on that. I have been travelling, but I know he was in the process of coordinating diaries to get that set up.

The CHAIR — If you could take that on notice and provide that to the committee, it would be appreciated.

Mr WEBSTER — I will do that.

The CHAIR — To get a broad overview of what Projects Victoria is actually going to do, let us choose one of the authorities that the government has set up, say the LXRA. What sort of interaction would Projects Victoria have with the LXRA?

Mr WEBSTER — In terms of the project life cycle, one of the immediate tasks Projects Victoria will take over is responsibility for the quarterly asset investment report. This goes to a cabinet subcommittee. It reviews all of the major projects and how they are performing against time and budget and also makes any recommendations for remedial action. That is currently a joint effort in pulling that together between DPC and

DTF. What we would see is Projects Victoria taking over the collation of that report with input from DTF and DPC. I would imagine where projects are starting to look as though they are going off track, and if it is an LXRA one, then I would see Projects Victoria going out there, talking to project directors, talking to the authority around the reasons for why the project is where it is, and if there is a requirement for remedial action, actually making that recommendation in that quarterly report. I would also see, as LXRA comes up with new proposals for future level crossing removals, that Projects Victoria supplements the DTF high-value, high-risk assurance in terms of looking at the form of contract, looking at potentially doing assurance around budget and time estimates for those projects. So they have really got a role through the whole life cycle of projects from early inception through to assisting DTF in the high-value, high-risk through to assurance when the project is actually underway.

The CHAIR — So they almost have a role as a fixer, in a way, if a project was to be going off track, as you might say — if there was a project that was over budget or not in the appropriate time frames, there could be a greater role for Projects Victoria to step in and try to monitor it and try to put the project back on track?

Mr WEBSTER — To be clear, Projects Victoria does not have an explicit step-in role. Projects Victoria's role would be to work beside the existing governance arrangements, and one of the things they might do is recommend remedial action for government to consider.

The CHAIR — And is there a list of projects that Projects Victoria is going to be associated with to this point? Is there a definitive list or is it something that is going to be added to as we go along?

Mr WEBSTER — I would expect Projects Victoria, through the quarterly asset investment report, to have an oversight and assurance role on all of the major projects of the state, particularly those HVHR ones, so over \$100 million. Joe, do you want to touch on the quarterly report and the collation of that?

Mr MONFORTE — Yes. As David indicated, I think an important part of Projects Victoria's role will be on monitoring the performance of projects, working closely with agencies like LXRA but also others in terms of monitoring performance. The quarterly reporting process for assets that goes to a cabinet subcommittee covers all projects. I would expect that the board of the Office of Projects Victoria and the CEO will make decisions in terms of which projects it becomes a bit more active in in monitoring as things progress.

The other thing which I think is critical is their role is not just a remedial role; they are also very much involved with DTF at the front end of a project — project design, business case, project scoping. As David said, traditionally Treasury's expertise is around commercial, financial and economic. They will bring a more technical focus. So we would expect them to work with agencies to provide assurance at the front end around the technical deliverability — whether the most effective design has been chosen, whether the relevant agencies have actually tested design options.

The CHAIR — On a slightly different tack now, DTF have established guidelines for departments to follow to ensure public expenditure on infrastructure projects is appropriate. I am wondering: does DTF involve itself in any ongoing monitoring of project implementation?

Mr MARTINE — Probably the main bit of work that we currently do, as Mr Webster and Mr Monforte outlined, is the quarterly report into the relevant cabinet committees on progress and implementation of major infrastructure projects. So we are certainly involved in that which, as the witnesses have indicated, we will move across to the Office of Projects Victoria who will then take that particular function on. So that is certainly what we do at the moment.

Mr WEBSTER — Yes. And there is also a detailed government structure for major infrastructure projects, which includes steering committees, evaluation committees et cetera. For a vast majority of the complex projects, DTF is represented particularly on the steering committees, which will have an oversight role all the way through construction up to completion. It varies, but I think for most complex projects DTF is represented on the steering committees.

Mr MARTINE — It is probably worth perhaps just outlining the High Value High Risk Framework as well, because we are quite involved in that, and that is quite a useful aspect of oversight as well.

Mr MONFORTE — The High Value High Risk project assurance stream was introduced in late 2010/early 2011 and is still in operation. It provides an active role to Treasury and the Treasurer throughout the life cycle of the project — business case, preparation stage. It also has a role for the Treasurer advising the Treasurer for approving major procurement stages — the release of procurement documentation, contract award. That gives Treasury and the Treasurer an active role in an assurance sense. It is not just at the up-front funding stage, but throughout the delivery of the project. As David said, we also as part of that process for more complex projects are invariably involved in project control board steering committees. We may also be involved in tender evaluation processes.

The CHAIR — Very good. In Victoria I understand there is a gateway process for infrastructure projects. I am just wondering which projects have been through all the gateway reviews?

Mr MONFORTE — I might need to take that on notice. You have got to keep in mind that gate 5 is readiness for service and gate 6 is benefits realisation. Typically gate 6, which is the final gate, might not occur until two or three years after the project is completed. Given that there is a long lead time just to get to in construction, you would not necessarily expect, for example, of the projects that have commenced over the last two to three years, many of them at all to have got through all gates, because simply they have not; they will not have got to completion. It is also focused on the larger, more complex projects, which by definition take a longer time just to complete construction.

The CHAIR — Of course. If you could provide to the committee which projects have gone through which gateway, that would be very much appreciated.

Mr MONFORTE — Certainly. We can do that. Yes.

The CHAIR — That would be great. Fabulous. Thank you.

Mr LEANE — Thanks for helping our committee today. I am just wondering if in DTF, would you have the figures around the amount of infrastructure spend, capital works spend in any given financial year? Could we have that for the last, say, six years, how much capital spending there has been up until now?

Mr MARTINE — Yes. We can certainly dig that out. I am just trying to recall in the budget papers whether there is a chart that goes back for six years.

Mr WEBSTER — A GII chart.

Mr LEANE — It is probably me being slack and not looking at the budget papers.

Mr MARTINE — They are a very good read, the budget papers.

Mr LEANE — Or not looking at all of them, anyway.

Mr MARTINE — The term we use in the budget papers is government infrastructure investment, but we can certainly take that on notice and provide that material.

Mr LEANE — That would be great. And with that, is it correlated? I know there is some correlation towards an individual project that may be projected to create so many construction jobs. So with that whole spend, is there a correlation where you forecast or it has produced so many jobs in the construction industry, so there is this amount of money and there is this many jobs created? Is that an easy figure to — —

Mr MARTINE — With a number of the very large projects that governments announce, such as the current government — it happened under the former government as well — sometimes there is material provided on the number of jobs that are created at the peak of construction for that particular project, so it is not all projects. We certainly do not have a jobs number on the aggregate infrastructure spend, but in some of the announcements — you have heard it in the announcement — you would read, ‘At the peak of construction there will be X number of jobs’.

Just coming back to your question about the infrastructure spend, it is outlined in budget paper 2, page 54, chart 4.1, which has got a chart going back to 2005–06, all the way through to 2019–20.

Mr LEANE — Okay. I think that would be good for our report.

Mr MARTINE — That will give you a bit of the time series on government infrastructure spending.

Mr WEBSTER — Picking up on the jobs point as well, the number of jobs also depends on the nature of the infrastructure. Roads will create a different number of jobs to rail, for example, as will a hospital, so you just cannot take the aggregate; you will need to disaggregate on a project budget basis.

Mr LEANE — And then when you take into account those jobs, which I would say is estimated or calculated to be on site, and then when you take the procurement as in, you know, with some of the rail projects, the yards that are building the concrete slabs off site, that is not really taken into account. Is that something that you do any forecasting on?

Mr MARTINE — In the budget papers and every paper we release we always do an updated set of economic forecasts, which includes employment growth and unemployment. In that context, we take into account a whole range of factors, one of which includes the level of government spending, because that generates economic activity as well. We take it into account in that sense when we come up with our aggregate forecasts, but apart from on a few of the very large projects identifying jobs at peak of construction, we do not go and disaggregate at that level, because they are not easy forecasts to develop.

Mr LEANE — I can imagine, too, and I know it is not a pure science because it could be more, it could be less. But it is usually very close, I think, when you do. I know there have been forecasts around some of the level crossings, and then when I have actually gone out there and spoken to the contractors at the peak time, it usually is pretty close to what has been announced, and sometimes if not more, when you look at the amount of people they had on the occupation of the level crossing removals in Bentleigh.

Mr MARTINE — Certainly in terms of the employment impact. We sort of see this a little bit nationally, where we are observing a drop-off in investment in the mining industry, which has been going on for a number of years, but some of that reduction has been offset by government spending in infrastructure spending nationally as well. So it is kind of then a transition of jobs from mining investment to construction in New South Wales, Victoria, Queensland et cetera.

Mr LEANE — Yes, and some of those workforces are a bit transient, too. They go where the work is. I know there has been an influx of construction workers into Victoria and other states as well, and I would imagine that there will continue to be so considering that a lot of the infrastructure program has only just started as far as from the last few years of planning, I would imagine.

Mr MARTINE — Well, certainly up the east coast — Victoria and New South Wales in particular, the two states — there is a lot of infrastructure projects either commencing or in the pipeline.

Mr LEANE — Yes. Thanks very much.

Ms HARTLAND — I have a couple of questions around unsolicited projects, such as the western distributor. The Auditor-General last year recommended:

That the Department of Treasury and Finance:

improves the level and depth of scrutiny applied to verifying benefits of all unsolicited proposals that proceed to full development.

Now, considering that in Senate estimates yesterday, Infrastructure Australia in terms of the western distributor said that it did not feel there was actually the economic benefit, can you talk to me about how Treasury dealt with the western distributor, but also has there been any change in your processes since the Auditor-General's report?

Mr MARTINE — Perhaps if you do not mind, if we start with the second bit first, which is just more the framework, so Mr Loos.

Mr LOOS — Yes. So following on, the market-led proposal framework was updated in November last year, and when we did that update we did include requirements through the different stages that picked up the Auditor-General's comments. The market-led proposal process is a five-stage process, and the amount of

information that we get through the process builds up as you go through the process. Stage 1 is more about the information and ensuring that the information is off a robust amount for us to actually work out whether it has the potential to move to the following stage. Stage 2 gets a bit more detailed in terms of the benefits, the risks, the value for money, the uniqueness. Following stage 2 we look at whether the concept of exclusive negotiations, through the stages 3 and 4, is something that warrants further consideration. So we essentially build up.

While we are doing that assessment we are also obviously building up on the government side the analysis of the proposed proposal, given that for a market-led proposal the whole point is that it is coming from the private sector. It is the private sector's ideas and proposals that we are trying to assess whether it is value for the taxpayer ultimately and can be done exclusively, because government fall back is tender. Tender is the way we actually get value for money. We need to be absolutely sure that dealing exclusively provides ultimate value for money. That is essentially a summary of what we are trying to achieve through the five stages of the process.

Ms HARTLAND — So if you had had that process previously for the western distributor, how differently would that project have been dealt with?

Mr MARTINE — We have had the market-led proposal process in place pre-western distributor. I might just ask Mr Loos to run through it.

Mr LOOS — The update in 2015 was more a tweak to the guideline that was in place. The assessment of the western distributor still went through quite a robust lot of scrutiny in stage 1, stage 2 and also stage 3 before we actually moved into the exclusive negotiations stage, stage 4, which we are currently at with Transurban. We have done a robust business case on the western distributor, we have done market-led proposal assessments at each of the stages, we have tested the uniqueness of the Transurban proposal, and ultimately we are in stage 4 and we have still got a way to go. We are not done with the market-led proposal until we actually get to the final stage 5 process.

Ms HARTLAND — The claim is that it will take 5000 trucks off inner western areas. Now this is obviously the area I live in, so I know a fair bit about this. I am also in VCAT because the government has refused me a number of documents on how that assessment was come to. I am a little bit confused because the government is saying that this is a super-duper project and it is going to get 5000 trucks off the road each day but it is not prepared to share those documents. This may not be a question that you can answer — you are public servants, rather than the minister — but I am a little bit confused because if we have this very robust process, that it is not available to people who actually live in the community and need to know whether 5000 trucks will come off the road each day.

Mr MARTINE — Thanks for the question. It is probably best I take that on notice because my department is not responsible for the community engagement process.

Ms HARTLAND — I am not talking about community engagement; I am talking about the government refusing me documents under FOI. I have been in VCAT. The documents I am looking for are to tell me how it is that the government or Transurban decided that 5000 trucks would come off the road each day with this project. It is not about the consultation; it is about proving that your process is such that it has value and that it is going to actually achieve what it says it is going to achieve. Without those documents, how can the community have any assurance that this project is value for money?

Mr MARTINE — I am happy to take that on notice.

Ms HARTLAND — That would be good.

The CHAIR — Gentlemen, thank you very much for your time today. You will receive the transcript of today's evidence for proofreading, and that will ultimately make its way onto the committee's website. Once again, thank you for your evidence today.

Witnesses withdrew.