

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2010–11

Melbourne — 11 May 2010

Members

Mr R. Dalla-Riva

Ms J. Graley

Ms J. Huppert

Mr W. Noonan

Ms S. Pennicuik

Mr G. Rich-Phillips

Mr R. Scott

Mr B. Stensholt

Dr W. Sykes

Mr K. Wells

Chair: Mr B. Stensholt

Deputy Chair: Mr K. Wells

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr T. Pallas, Minister for Major Projects,

Mr H. Ronaldson, Secretary,

Dr A. Smith, Deputy Secretary; and

Mr S. Sweeney, Executive Director, and

Ms B. O'Connor, Senior Advisor, Communications, Major Projects Victoria, Department of Innovation, Industry and Regional Development.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the 2010–11 budget estimates for the portfolios of major projects and later, roads and ports. On behalf of the committee I welcome departmental officers, members of the public and the media. In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in the committee’s proceedings. Only officers of the PAEC secretariat are to approach PAEC members.

Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room. All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege.

There is no need for evidence to be sworn. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days. In accordance with past practice, the transcripts, PowerPoint presentations and anything else circulated will then be placed on the committee’s web site.

Following a presentation by the minister, committee members will ask questions relating to the budget estimates. Generally the procedure followed will be that relating to questions in the Legislative Assembly. I ask that all mobile telephones be turned off.

I now call on the minister to give a brief presentation of no more than 5 minutes on the more complex financial and performance information that relates to the budget estimates for the portfolio of major projects.

Mr PALLAS — Good afternoon. It is a great pleasure to appear before this committee to talk about the major projects portfolio. The last 10 years have been a golden age for major projects delivery in Victoria. The 2010–11 budget has again announced a record investment in infrastructure. The Brumby government’s major projects strategy aims to drive Victoria forward by maximising our assets and also creating new opportunities. Beyond these individual uses these projects create jobs. They create stimulus for the economy and make Victorians proud of the state they live in.

One of the things I enjoy most about the portfolio is the pride that the people at Major Projects Victoria take in the quality of the work they produce and the impact these changes have upon the value of the state. Today I hope to briefly outline the impact and share some of that pride that Major Projects Victoria feels towards our work.

Last year the Brumby government brought down a budget that invests heavily in services that underpin family life in Victoria while building for the future. High levels of infrastructure investment are continued with \$9.5 billion allocated during the next financial year to fast track job creation projects across the state delivering up to 30 000 additional jobs. This is on top of the 99 000 new jobs created in Victoria during the last 12 months.

The Brumby government is delivering the largest major projects program in our state’s history. Since 2000 the Victorian government has invested more than \$30 billion in infrastructure in Victoria. In the 2010–11 budget the Brumby government has committed to an average net infrastructure investment of \$7.7 billion over the coming three years.

To give you a comparison, the average infrastructure spend per year under the previous government was around \$1 billion compared to the \$3.5 billion a year under the current government, and we are spending three-and-a-half times as much as the previous government on infrastructure.

Mr WELLS — Net present value?

Mr PALLAS — We will have a discussion about net present value shortly, Kim.

The CHAIR — Ignore interjections, please, Minister.

Mr PALLAS — As you may know, Major Projects Victoria is the government’s in-house project delivery agency. Major Projects Victoria largely works for other client departments as part of a well developed, proven and successful governance arrangement. New projects for MPV are allocated by the Premier under his powers under the PDCMAct.

The budget announced funding for the following new projects allocated to MPV: \$363 million to the Melbourne Park redevelopment to secure the future of the Australian Open in Melbourne until 2036 — the largest state-funded sports infrastructure project in the state's history; \$128.5 million for the refurbishment of Hamer Hall as part of the Southbank cultural precinct redevelopment.

When including projects announced in this budget, the value of combined projects currently in the feasibility, planning and construction stages in the major projects portfolio is around \$3.7 billion of both public and private sector capital investment. This represents about \$10.7 billion in terms of economic benefits for Victorians.

Since 2000 Major Projects Victoria has created about 11 400 construction jobs. The 2009–10 budget was an exceptional year of major projects delivery in Victoria. Work started on the bioscience research centre, the Melbourne market relocation, the Melbourne Park redevelopment and state sports facilities. There continues to be strong national and international interest and support for the new Melbourne Convention Centre which has more than 400 conventions and other events booked to date. These events will bring almost 400 000 delegates to Melbourne, and it will also inject millions of dollars into the Victorian community.

AAMI Park, Melbourne's new rectangular stadium, hosted its first game last Friday, 7 May — it cost \$267.5 million. The stadium has an iconic bioframe roof. It is Melbourne's first ever purpose-built venue for rugby and soccer. The 30 000-plus capacity stadium fills the missing link in Melbourne's renowned sporting facilities. It is attracting a huge amount of attention locally and abroad. There is not a bad seat in the house. The sides of the seating bowl will put fans right on top of the action. To give you an idea of just how close they are, seats at the highest level in the back row are actually closer to the centre of the pitch than the goalie is to the centre line in a soccer match.

Major Projects Victoria has not just been delivering these projects. It has been doing so to the highest standards. In fact since 2008, MPV projects have won 39 awards and honours at state, national and international levels. They include 14 honours for the Melbourne Convention Centre and the Melbourne Recital Centre. The MTC theatre project has received 17 honours; it has been named the world's most beautiful building by China's *People's Daily* newspaper.

In terms of Melbourne Park redevelopment, as the 2010–11 budget papers show MPV is currently working on a diverse portfolio of projects including the Melbourne Park redevelopment which will transform Melbourne's world-class sporting precinct and ensure that it remains the home of the Australian Open until 2036. The \$363 million first stage includes a major upgrade to fully enclose Margaret Court Arena with a retractable roof and provide additional seating to achieve the capacity of 7500; a new eastern plaza incorporating indoor and outdoor courts; the refurbishment of Rod Laver Arena and Hisense Arena, and additional parking and footbridge linking Melbourne Park to AAMI Park.

The 2010–11 budget papers also note \$230 million for the biosciences research centre project that will deliver a world-class agricultural research facility to boost productivity and fight disease, and it will also make Victoria's \$11.8 billion agricultural sector even more sustainable. As a joint initiative of the Victorian government through DPI and La Trobe University the project will be delivered as a public-private partnership project. Design of the construction commenced in May 2009, and the project will be operational in 2012.

The \$300 million Melbourne markets major project: we will relocate our wholesale fruit and vegetable market to a new site in Epping, and redevelop it in a modern, innovative and efficient fresh produce trading and distribution precinct. The new market will meet current and future needs for warehousing space and cater for modern logistics and safety requirements. Relocating the markets is also expected to provide substantial economic benefits to the state through an efficient market precinct and by freeing up the existing Footscray Road site for future road and rail.

The government has committed \$50 million to the state sports facility project to deliver new and improved facilities at Lakeside Oval and Albert Park for sporting clubs and also for the wider community. Lakeside Oval will provide an international standard athletics track and a new home to athletics in Victoria. The 1926 heritage grandstand will be restored, and the project will support the South Melbourne football club through improvements to the soccer competition and administration facilities. The project will also improve training and competition fields for touch football and other users in Albert Park. Work commenced in late 2008, and the facilities will be operational in 2011.

Another interesting upcoming project highlighted in the 2010–11 budget is the \$128.5 million Southbank cultural precinct redevelopment which begins with the refurbishment of Hamer Hall at the Arts Centre in July. The project is a clever rethink of the 30-year-old building that will increase access to the riverside and St Kilda Road while still maintaining heritage features. The design reflects how far Melbourne has come over the last 30 years, as we are starting to increase our attention on and re-engage with the Yarra River.

Projects in planning and development: there are quite a number of other projects that are quite imaginative and interesting. For example, the E-Gate redevelopment, the Geelong future cities project, and the subsequent stages of the Southbank cultural precinct redevelopment. In all, major projects has more than 16 projects in planning, development or construction, representing billions of dollars in investment and thousands of jobs. So they are emblematic of the government's continuing commitment to build strategic infrastructure for the benefit of the whole state.

In conclusion, after a busy and successful year, we are also following on with an even more exciting set of objectives — projects that will help transform Victoria and provide the infrastructure necessary to continue the state's growth and livability. We are also delivering projects that will continue to make Victoria the best place to live, work and raise a family.

Mr WELLS — But there is more to be done.

Mr PALLAS — Of course.

The CHAIR — Thank you, Minister. May I just remind members that interjections are unparliamentary, and unless they are responded to, they are ignored by Hansard. I ask the minister to ignore any interjections and concentrate on answering the questions as posed by members.

Minister, the budget aims to allocate funds for 2011, and subsequent out years for state government priorities and outcomes to be achieved. Could you please advise the committee of the medium and long-term strategy or strategies upon which the budget for your portfolio is based, and whether this has changed from last year?

Mr PALLAS — I suppose the key point to make here is Major Projects Victoria is the government specialist in-house delivery agency, a project management agency. We play a key role in terms of the delivery of infrastructure that changes the lives of Victorians culturally, environmentally, socially and of course economically. MPV also works very closely with other government agencies as client departments in the development of medium and long-term government strategies and policies. MPV provides advice on a range of government planning and land-use issues in the development of government strategies and policies.

To give you an example of the sort of objectives and outputs that MPV is in line with in terms of wider government priorities, we only need to look at the government's Growing Victoria Together policy. A key pillar of GVT is a commitment to a thriving economy. Projects that have been delivered by MPV include the rectangular stadium, which created 1200 jobs through the construction phase — the impact of construction and associated industries is anticipated at \$775.75 million.

Projects that MPV will deliver in the medium term include the biosciences research centre, Melbourne Park redevelopment, Melbourne markets relocation, Southbank cultural precinct, and the state sports facilities projects. These projects are estimated to create about 3000 jobs, and they are also likely to boost the Victorian economy by almost \$4 billion. As I mentioned in my presentation to you, the value of the combined projects currently in the feasibility and construction phase in the major projects portfolio is about \$3.7 billion — both public and private sector investment.

That represents more than \$10.7 billion in terms of economic benefit for Victorians. Since 2000 Major Projects Victoria projects have created around 11 400 construction jobs, so that is essentially creating economic opportunities right across the state. As the 2010–11 budget announced, the investments by the Brumby government will continue in the medium and the long term, and MPV will of course continue to have a key role in terms of project delivery in that respect.

Projects such as Kew Residential Services redevelopment and Parkville Gardens have fulfilled the goals that the government enshrined in A Fairer Victoria policies. That is about providing social housing to the community. In the medium to long term, the Corio-Norlane urban renewal once again aims to improve social housing and

improve community and transport links in areas of social and economic disadvantage. MPV projects have been ensuring that policies and goals such as Melbourne 2030 and Melbourne @ 5 Million become a reality. Those projects such as Parkville Gardens and Corio-Norlane basically aim to achieve housing affordability in line with commitments of the government's policies.

The biosciences research centre will be operational in 2012. It will contribute to our policies around building our industries for the future. It will provide infrastructure that will ultimately provide the critical mass of researchers and scientists who will assist and support innovative primary sector industries and contribute to Victoria's attractiveness as an increasing part of investment for our private sector partnership and for funding. Into the medium term, MPV will continue to deliver infrastructure projects that achieve those goals set out in our policies and strategies.

The CHAIR — Thank you, Minister.

Mr WELLS — Minister, I would like to ask you a question about the Peninsula Link project, but before I do could you just refresh our memory — the actual definition of a 'major project' under your portfolio is what?

Mr PALLAS — Major Projects Victoria essentially performs those projects — —

Mr WELLS — No, what is the definition of a 'major project'?

Mr PALLAS — It is a project that is determined by the Premier as being a project that is managed by Major Projects Victoria, or alternatively — —

Mr WELLS — Yes, and what criteria does he use to — —

Mr PALLAS — It is entirely at his discretion. It is contained within the PDCM act and he effectively makes a determination. In the context of any determination that I as Minister for Major Projects manage the project, it is a project for management under Major Projects Victoria. I think it would be, however, not fair to say that that is the exclusive area of delivery of major projects in Victoria because, of course, large capital projects are delivered by other departments that have a capacity to deliver them. So Major Projects Victoria effectively delivers projects where the Premier believes it is better because they have the expertise to deliver them. They tend to be one-off projects where there are specialist skills required. More importantly, they tend to be areas also where a longstanding relationship of client and deliverer exists with the client department, and effectively we have the expertise in terms of project delivery that perhaps those smaller departments may not have.

Mr WELLS — So it is not necessarily the amount of money or cost?

Mr PALLAS — No.

Mr WELLS — I refer you to BIP 1 at page 73 — that is, the Peninsula Link. This project is to be constructed under a PPP using an availability model. Can the minister confirm that the public sector comparator showed that there was only a 1 per cent benefit from using a PPP model as compared to a straight public sector-delivered project? And can the minister explain to the committee why a PPP with the Southern Way consortium as chosen tenderer was accepted to deliver the Peninsula Link when there was only that 1 per cent margin in favour of a PPP? And is a positive 1 per cent PSC margin in favour of a PPP sufficient to ensure the public interest benefits are met?

Mr PALLAS — Thanks. Importantly, Peninsula Link will be a great project for Victoria. It is going to slash travel times by up to 40 minutes and provide a 27-kilometre freeway between Mount Martha and Carrum Downs.

Ms PENNICUIK — No, it is not. You are just asserting that, Minister. There is no proof of that.

Mr PALLAS — Nothing other than traffic monitoring, and I suppose that is all we can do.

Ms PENNICUIK — It is smoke and mirrors, Minister.

The CHAIR — Without interjection. Ignore them, please, Minister.

Mr PALLAS — It will take something like 40 minutes off travel time and bring it down to about 17 minutes. The project costs essentially are divided into a variety of figures. I would like to take you through what they are: \$759 million is the funding required to design and build the project in nominal dollar terms, but it does not include the long-term maintenance of the project — it is effectively the capital cost for design and deliver; \$858 million is the estimated cost of designing, building, operating and maintaining the project, so it is the net present cost over the long term if delivered by the government; \$849 million is the actual cost of designing, building, operating and maintaining the project, or the net present cost over the long term of Southern Way, and it represents the actual cost to the government over the life of the project; and \$844 million appears in the budget papers. This figure represents the value of Peninsula Link as an asset when it is completed rather than expressing the cost of the project.

So the issue that you have raised is essentially the disparity between the delivery of a D and C build, as opposed to the delivery cost in the budget. We see that the delivery costs are indeed justified. Indeed, we think that there are benefits that go beyond just the pure analysis of the public sector delivery as opposed to a private sector involvement in the availability charging. I do want to make the point that on top of the 4000 direct jobs that delivery of this project in the construction phase will have, it will provide, I think, an outstanding facility for the community.

Importantly this was one of the early projects, together with the biosciences research centre, that we have been able to reach agreement with the private sector for delivery during the course of the global financial crisis. It is a sign of the confidence that the private sector does in fact have in Victoria. The question that you have asked is: is the 1 per cent differential between those costs sufficient? The public sector comparator is there for a very clear purpose — that is, for the government to ascertain whether you get adequate value for the taxpayer by going down one particular model as against another.

The fact is the taxpayer saves money under these arrangements according to the public sector comparator that has been publicly released. Our view of course in those circumstances is we should do all we can effectively to encourage an engagement with the private sector in terms of the provision of the construction of projects within this state. We value our engagement with the private sector. We have used an innovative approach in terms of the availability charging methodology here. We see it as being ultimately in the interests of the community that we keep an engagement with the private sector. I am pleased to say of course we have been able to meet our commitment that this will be a toll-free road.

Mr WELLS — Just to clarify the last point, the positive 1 per cent is a reason to go down the PPP path, but are you also suggesting that the operating costs under the PPP would be of significant benefit to the taxpayer as well? Are those costs going to be capitalised?

Mr PALLAS — The operating costs?

Mr WELLS — Yes, operating the road?

Mr PALLAS — Going back, the project summary shows that the PPP delivery model selected by the government provides value for money. By delivering the project as a PPP we know that the government is getting a \$9 million saving over the life of the project and that includes effectively the operating costs. The project summary has been independently assessed to ensure that it has got robust estimates. We have not essentially done anything other than ensure that we get better value not just a cheaper product. We do know that when you engage the private sector in these things you also get projects delivered quicker, they include a higher quality design and they have better maintenance over the long term.

Ms GRALEY — Minister, I would like to refer you to budget paper 3, page 134, ‘Major projects’. My question is around quality and timeliness. I note the government is continuing to invest in key infrastructure projects, and there were some fantastic ones in your presentation. I must compliment the person who did the presentation, too. It was excellent.

Mr PALLAS — It was all my work.

Ms GRALEY — You are a wiz with the computer! I know that MPV plays a key role in delivering the state’s infrastructure. As I said, I refer you to those pages and notes on MPV’s performance measures. Can you update the committee on MPV’s record and future plans in delivering major projects on time and on budget?

Mr PALLAS — Our history in delivering major infrastructure projects on time and on budget I think is quite clear, and I think it is one we can be justifiably satisfied in the performance, but recognising that of course there is still more to do.

MPV has again achieved its key performance indicators to deliver its projects on time and on budget. The KPI states that MPV must deliver 80 per cent of its projects within plus or minus 10 per cent of time and budget, so Major Projects Victoria's performance in terms of time and budget compares well both with local and international benchmarks, so it does have a pretty good story to tell. I think I have got a graph to distribute. I am not sure what processes of distribution are applied here, but the processes are under way. While they are under way I will keep talking.

It shows that of the 15 projects initiated since 2000 and completed by the end of 2009, what we have had is something like 93 per cent delivered within the KPI — that is, as set at the contract signing — and 80 per cent were delivered within time lines. In aggregate terms these 15 projects were completed at an overall cost of 1 per cent under their combined aggregate budget. That magic 1 per cent, Kim, is I think important in terms of showing the rigour by which we continue to drive the performance of our project delivery.

The story is actually even better if you look at projects over \$100 million. The excellent record of delivering projects on time and on budget can also be seen in this area specifically. Projects with a value of over \$100 million specifically make up 85 per cent of the total value of projects delivered by MPV. If we only need to look at these larger projects, of which six have been initiated since 2000 and completed by 2009, all these projects were delivered on or under the project budget and all these larger projects were delivered on or ahead of the announced dates.

As I mentioned, MPV compares pretty well with international standards. To give you some evidence of that, I would like to draw your attention to a couple of international studies. The 2002 Mott McDonald study reviewed the outcome of public procurement projects delivered by traditional public methods in the UK over the last 20 years. Fifty projects included were office, hospitals, roads, IT projects. What they found on average is the actual costs exceeded estimate by 47 per cent of the capital expenditure, actual costs exceeded estimate by 41 per cent of operating expenditure, and time overruns exceeded estimate durations by about 17 per cent.

A Danish study in 2002 by Flyvbjerg looked at 257 large transport projects from 20 countries, most of which used public procurement. Basically what it found was that the costs were underestimated in 90 per cent of cases. For all rail projects actual costs were on average 45 per cent higher than estimated, and that for road projects the actual cost averaged 20 per cent higher than estimated. Returning to Australia and the Australian infrastructure story, Blake Dawson Waldron did a study in 2006 of projects worth more than \$20 million. They found that only 56 per cent of projects were completed on time, and of those that run late 58 per cent were more than three months late and 36 per cent of projects were over budget. I think these findings really do reinforce yet again the excellent record that Major Projects Victoria has both nationally and internationally by comparison in terms of the delivery of projects.

The CHAIR — Minister, it would be useful if you could give the secretariat a copy of those studies as well as a list of the projects.

Mr RICH-PHILLIPS — Minister, I would like to take you back to the Peninsula Link issue that Mr Wells raised. Firstly, I ask about the \$354 million that was committed in last year's budget over the four-year period forward estimates period and how that now reconciles with the current delivery model of Peninsula Link and the \$844 million that you are bringing to book as the value of the finance list.

The second element relates to progress. On 17 February this year the Premier had the sod turning on site where he said:

Today we get down to the serious end of the project with the construction work under way.

Can you confirm that there has been no works on site since the Premier did that sod-turning three months ago?

Mr PALLAS — Sure. To part 1, I think the project to build Peninsula Link for the people of Victoria is, as we have previously stated, the cost for delivery and construction is \$759 million. It is the cost of design and construction as well as our land and project procurement and project management during the life of the project

delivery. The Southern Way figure is naturally higher, because it includes long-term maintenance and management costs over the entire 25 years of the operating phase of the project. These are long-term costs, and they are not part of the project delivery, and they would not generally be expressed in terms of delivery cost for any government project.

An allocation of some \$354 million was included in last year's budget, as we effectively lobbied the federal government for funding. If federal government funding had been forthcoming, the government would have incurred cost to deliver the project. As the project summary tabled in Parliament shows, this is what the \$759 million cost actually represents. So this project is being delivered toll-free; it is being delivered on budget; and it will be opened by early 2013. In terms of the delivery of the project, can I say that preconstruction work started on Lathams Road overpass some time ago, indeed before the Premier and I did the initial sod-turning.

Mr RICH-PHILLIPS — Before, yes, but there has been nothing since the sod-turning?

Mr PALLAS — In fact the land acquisition process has started amongst other things — fencing off of the properties that are the subject of the work, preliminary landscaping and also dirt shifting have commenced. So effectively, before the contractor starts the main works, we would anticipate that it needs to get all the necessary approvals for the purposes of delivery of the project, and critically importantly it needs to make sure it has got all of the design works finalised.

It is important that the project is delivered. The other thing, Gordon, that we do need to bear in mind is that the way that the contractual arrangements are structured with the concessionaire in terms of the delivery of the project is that it is in its interests that the project is delivered as quickly as possible. Essentially that is when it can start drawing down on availability payments. The longer it goes, the shorter is the time frame available to them. So we have built an incentive in there.

If they are taking time making sure they have everything they need to get it right, I think we can rest assured that the taxpayer of Victoria is in a good position to assure themselves they are going to get a good return as a consequence of them thinking about how it goes about the overall delivery of the main project. But works are under way, and the preconstruction works at Lathams Road overpass started last year.

Mr RICH-PHILLIPS — Can I get some clarity on the \$354 million that was allocated last year? Am I to understand from your answer that that will not be drawn down now as a consequence of entering into the PPP model? Are those funds being used for any VicRoads preconstruction works that are outside the scope of the PPP?

Mr PALLAS — Effectively the allocation was incorporated on the basis that we expected it would be delivered essentially by state and federal sources.

Mr RICH-PHILLIPS — But because it is not?

Mr PALLAS — Because it is not, and if federal funding had been forthcoming the state would have incurred cost to deliver the project. Effectively the project summary tabled in Parliament shows that that is what the \$759 million cost represents. Once the project has been completed the government will provide the quarterly service payment for the project's successful deliverer, Southern Way. Those payments will be based on Southern Way's ability to meet key performance indicators, around land availability and whatever other KPIs are incorporated within the contract. So the net present cost of the payment over the entire life of the project is \$849 million.

Mr RICH-PHILLIPS — But that does not clarify whether the money that was allocated last year is still sitting there allocated or whether the allocation — —

Mr PALLAS — It is an allocated fund that will ultimately be drawn on for the purposes of meeting the availability payments.

The CHAIR — Perhaps that could be clarified with a follow-up, please, Minister.

Mr PALLAS — I just did.

Ms HUPPERT — Minister, in your presentation you referred to the Southbank cultural precinct redevelopment. I note there is a substantial allocation for this project listed on page 6 of budget information paper 1. I wonder if you could outline to the committee the progress of this project at the moment and why it is such an important project for Victoria?

Mr PALLAS — The Southbank project is a critical one in terms of the delivery of what I think is a key part of our major projects strategy, both in terms of how we go about connecting with the cultural community and recognising how important it is that our cultural projects do play a very important part in a sense of place that is in fact Melbourne and Victoria.

Melbourne's reputation as a cultural capital is secure, I believe, in no small part due to the investment we are making — the \$128.5 million overhaul of the Arts Centre at Hamer Hall. The redevelopment of Hamer Hall is the first stage in a Southbank cultural precinct redevelopment project, and I have a handout which gives you an artist's impression, which you can look at at your leisure — so do not get too worked up if it takes a while getting round! — of what the development of the project will deliver. The arts and cultural facilities in and around Southbank attract more than 3.5 million patrons each year, and they contribute enormously in terms of Melbourne's identity and its livability.

Over its 25-year history this important arts facility has had no significant upgrade, so we are of the view that it is in need of a significant upgrade. It will ensure that the Arts Centre will continue to be a leader in the performing arts for future generations. Redeveloping Hamer Hall — Melbourne's biggest purpose-built concert venue — will modernise and further strengthen Melbourne's vibrant arts and culture centre. The redevelopment will also refurbish both the interior and the external areas of Hamer Hall, and it will provide auditorium improvements to patron comfort and acoustics. It will provide foyer improvements for circulation and amenities, and back of house improvements both for loading and for technical performance issues.

I think the project is important to Victoria, because it will attract more people to Victoria and tourists to the arts precinct. It will enhance the visibility, connectivity and the amenity of the projects. It will help to grow what is a vital arts industry in this state, and it will further boost Victoria's profile and reputation. The project will also create more than 400 jobs during construction. It will inject something like \$373 million into the Victorian economy. Boulderstone has been awarded the contract for the delivery of the project. Hamer Hall will close for the start of construction on 5 July 2010 and is scheduled to reopen in 2012.

The CHAIR — Thank you very much for that. Mr Dalla-Riva?

Mr DALLA-RIVA — I refer you, Minister, to budget paper 3, page 134. This relates to the major outputs and deliverables performance measures. I am somewhat concerned — in the context of your earlier presentation about a range of major projects, following on from Mr Wells' comments about what are defined as major projects — that in the list of performance measures and outcomes, including timeliness and quality, the one thing that you have got in there is the one project that you have not mentioned, which is Princes Pier.

I am also concerned that there is a whole raft of other major projects that you have outlined of which there are no performance measures, timelines or expectations. Can you explain to the committee why is it that you do not have those? Is it an expectation that there will be a blow-out of these projects and you do not expect a blow-out on the Princes Pier project, even though you did not mention it in any of your presentation?

Mr PALLAS — Whilst we have adopted a pretty broad approach to the questions that can come to me in terms of major projects, provided they fall within my broader brief — and we have dealt with roads projects and Peninsula Link as part of that — I think the key point here is that in the context of major projects, I go back to the earlier proposition that I put to you — that Major Projects Victoria and the performance of MPV in the area that you have just shown me is restricted to MPV projects that are specifically allocated to MPV, as opposed to projects that have not been under the PDCM act. They are actually identified and allocated to me as Minister for Major Projects. For example, Peninsula Link is not a PDCM act allocated project to me as Minister for Major Projects.

On that point, we have identified the 15 projects that have been initiated since 2000. The key point to that is that the performance targets are plus or minus 10 per cent as set at the date of contract signing. That is a key point. In terms of Princes Pier, I think it is important that we do recognise that Princes Pier is a project that has had a

reasonably colourful history in terms of the challenges that it has presented. From our perspective it is a critically important and historically, and culturally significant structure for Melbourne.

We have a handout which we will circulate. What this handout shows is that before the government took action in this area, we had a major structural and integrity issue around the pier. It is not a tip truck that we are circulating, it is a truck that is tipped into the pier. The deck was dangerous, and it was a substantial risk to public safety.

Princes Pier served as a departure point for Australian troops during both the First World War and the Second World War. It was the first place of contact for thousands of postwar immigrants. The redevelopment completes the waterfront revitalisation of Beacon Cove. The restored pier is expected to attract about 200 000 visitors per year. The \$34 million restoration of the pier returns an important piece of our history to the community. It also provides additional open space on the waterfront.

Importantly, the restoration reduces the current safety risk associated with the derelict deck structure. MPV is working with local councils and the community to determine a suitable end use for the deck; it could be used for passive recreational uses. The project has secured and created something like 100 jobs on site, and the demolition works have achieved practical completion. The construction of the new deck has commenced, and the restoration of the pier is on track to be completed in 2011.

Mr DALLA-RIVA — So where are the timelines and the outcomes for Princes Pier that you have shown us? Where are the timelines and the outcomes for the Southbank cultural precinct redevelopment that you also showed us? Why are they not in the performance measures? That was the issue. It seems that we had all the photos and everything there, which is fine, but there is nothing in the forward estimates about commencement, completion and accountability.

Mr PALLAS — I suppose the important thing here is, Richard, if you want to ascertain what the measurements for the performance of Major Projects Victoria are, you have to look at those projects that we have completed. We measure completed projects. We hold ourselves to account for every project that we deliver through that completion process. For example, how can you look up and say, ‘Have you met your target of on-time and on-budget delivery?’ until the project is complete? You cannot work out whether or not you have met your stated goal.

What the budget papers incorporate are completed projects. The projects that you have referred us to are projects on which work is under way. The government has publicly stated our timelines in terms of the completion of these projects, and they all incorporate performance measures for delivery at the point of contract signing.

Mr DALLA-RIVA — Maybe you should look at discontinued.

Mr SCOTT — Minister, I refer you to page 449 of budget paper 3 where it refers to the completion of Melbourne’s new rectangular stadium. How will the success of this project in the Melbourne Olympic Park precinct be built upon over the estimates period — for example, the use of local suppliers or products in its construction?

Mr PALLAS — The stadium is a demonstration of the government continuing to invest in key infrastructure projects to secure and create jobs for the Victorian economy and also to stimulate continued investment and confidence of the community in what a great place Victoria is to live.

As the AAMI Park handout, which I think is going around, shows, AAMI Park is the latest addition to our first-class suite of sporting infrastructure that is the envy not only of any city in the world but I think of many countries that specialise in the rectangular sports. AAMI Park will also ensure that we continue to attract the major sporting events Melbourne is renowned for. We can firmly stamp AAMI Park as made in Victoria, too, and I think that is a key part. Industry Capability Network Victoria certified that Grocon’s VIPP statement sought to maximise involvement by local industries. Local companies involved in the successful delivery of the project include Grocon of course, Australia’s leading privately owned development and construction group. Grocon has grown from a small family business established in the 1950s to delivering this world-leading stadium. More than 1200 construction jobs were involved in the project both on and off-site as Grocon delivered the project.

Starlock from Pakenham, which I think is a fantastic story, actually delivered and supplied turf which has been installed into the stadium. The turf is where all the action happens. It is also why we have chosen this high technology natural turf. The turf system known as Starlock is a Melbourne invention. It uses polypropylene fibres to create a network structure that binds the turf to the root system and to the sand underneath that actually prevents divotting. The result is a turf that cushions impacts. It is stable and of course it restricts divotting. It is used in the US super bowl. It has also been identified for use in the FIFA world cup in South Africa. So it really is a great testament to Victorian innovation that we have developed this technology and we are actually applying it at AAMI Park.

The seating was supplied by Victorian company, Camitech, which is based in Wantirna South. Camitech also supplied the stadium seating at the Atlanta Olympic games. It is the largest manufacturer of theatre and stadium seats in Australia. It is an amazing achievement. It is an amazing facility and it is one that I am sure will become an icon of not only this city but one that will justifiably stamp Melbourne and Victoria's image as a sporting capital on the entire world, and it is one of which we can be justifiably proud.

Ms PENNICUIK — I must say, Minister, that I was equally as puzzled as Mr Dalla-Riva appeared to be on looking at page 134 of budget paper 3 in that it only mentions Princes Pier restoration as a major project that is under way. You may realise that in New South Wales all major projects \$10 million and over and those categorised as high risk are listed in the budget papers and have a separate line item, including for probity audit. Given the Auditor-General's comments in his recent report, *Performance Reporting by Departments*, where he talks about clear deficiencies in departmental reporting practices, it is concerning that all current projects are not listed with current budget allocations to them and their times by which they are going to be completed.

So my question is: is Major Projects Victoria going to lift its game in terms of reporting in the budget papers? My other question is: of the, I think, 12 current projects and the past projects that you mentioned you robustly make sure they have been done properly, how many of those were capable of being fully audited by the Auditor-General — that is, how many had standard access clauses in their contracts or how many had commercial-in-confidence exemptions that precluded the Auditor-General from fully auditing them?

The CHAIR — I am not sure that the minister can consider that one, but maybe on notice.

Ms PENNICUIK — He has been talking about how good he has been doing with past projects.

The CHAIR — Excuse me; just in terms of how it relates to the estimates is my concern. I will allow him to consider it.

Ms PENNICUIK — It totally relates to the estimates because there is only one project in there.

Mr DALLA-RIVA — That is right.

Ms PENNICUIK — He has been talking about all these other projects that are not listed in the papers.

Mr DALLA-RIVA — Yes, for which we have no idea of time lines in the forward estimates. We do not know when they are going to be completed.

Ms PENNICUIK — Or how much they cost.

Mr DALLA-RIVA — We have no idea, and he sits there and smiles about it.

Ms PENNICUIK — It is taxpayers money, into how many years — —

Mr PALLAS — No, I am smiling about your inability to allow me to answer the question.

Mr DALLA-RIVA — You do not want to answer it.

Mr PALLAS — I do want to answer it.

The CHAIR — As I said before, the question has been asked and I, as Chair, have provided my advice to the minister and asked him to respond in the context of the estimates. I am aware that there are other inquiries

which we undertake and other people undertake, and I ask the minister to answer in terms of how it relates to the estimates. I ask him to ignore any interjections because they are unparliamentary.

Mr PALLAS — There are two parts. To answer the first part of the question, in terms of being able to identify the projects you will find throughout the budget papers that there are examples of all the projects that Major Projects Victoria manages. Some are contained within the client projects for client departments. So they are effectively audited and they are reported upon in their projects — for example, DPCD incorporates within its budget papers oversight of the completion of the pavilion fields and the continuation of Lakeside Oval work at the state sports facility project in Albert Park. So it is all contained within the budget papers. Your frustration that perhaps they are not all contained in the one point is essentially an issue of reporting.

The second point goes back to the first point that I made to Richard in terms of the issues of how you report. Essentially you can only report on performance for those projects that are actually delivered. There is no point in saying, ‘Have you met your time line?’ when you do not know whether or not you have met your time line or your budget capacity until the project is complete and all liabilities and all project time line issues have been taken into account. But essentially those issues are there.

The second part of your question was about Auditor-General access. The Auditor-General can audit all major projects, and my advice is that there is no restriction in terms of access to MPV projects.

Ms PENNICUIK — Just a clarification: what the Auditor-General is saying in his report about performance reporting by departments and with respect to what you said, Minister, is that major projects are projects managed by Major Projects Victoria, deemed to be major projects by the Premier and that Major Projects Victoria is managing them. They have budget allocations in an ongoing way now and into the forward estimates, but they are not reported under this departmental reporting structure. That is the problem.

It is no good telling everyone they have to go hither and thither to find things when you are saying this department is totally responsible for them and they are not reported under this department’s page on the budget. That is the problem the Auditor-General is pointing out. My question is: are you going to remedy that in future budget papers?

Mr PALLAS — So the issue of concern is not about the capacity for somebody to scrutinise this, but that it is just not conveniently incorporated within a single point? Is that your point?

Ms PENNICUIK — It is that. It is also the performance against objectives that I have mentioned — probably when you were not here, Minister, but you would have read the Auditor-General’s report, I am sure — and the deficiencies of all departments in terms of reporting against objectives.

Mr PALLAS — The point that we make is that these are all incorporated in budget paper 1.

The CHAIR — The budget information paper.

Mr PALLAS — Budget information paper 1. They are effectively available for scrutiny. I see the point you are making as being relatively esoteric in that context. The figures are there, the performance is there, and essentially the capacity to scrutinise is there.

The CHAIR — Thank you, Minister. We will consider that when we examine this.

Minister, I just want to ask you about another project relating to investment in disability services, and this one is the Kew Residential Services redevelopment in the eastern suburbs. Budget paper 2, page 11 outlines the commitment to Victorians with a disability. I understand you are the minister responsible for delivering the Kew Residential Services redevelopment in all its many parts. Can you tell us how this is going in terms of supporting people with disabilities?

Mr PALLAS — Yes. The redevelopment of Kew Cottages is one of the largest projects for people with a disability in Victoria and Victoria’s history. In fact it is giving all residents a better quality of life in an integrated community, and the government supports the strategies underpinning it.

I showed the committee last year images of Kew Cottages and what it was like in the 1900s and even as recently as in 1996. There is another handout here that has a picture of the new living environment that the

project has delivered. As you can see, the material and the amenity circumstances of the residents have quantifiably improved.

Ms PENNICUIK — Remaining residents.

Mr PALLAS — The project is about creating a high quality of life. Integrated housing for former Kew Cottages residents and the relocation of 100 former KRS residents into their new home has been a great success.

Research in Australia and overseas shows that people in smaller community accommodation settings have improved care compared to those who remain in larger congregate facilities, and I can give the committee an example of that evidence. I have provided you with a handout which incorporates summarised findings of an article published in the *Journal of Intellectual Disability Research* in February 2010. Essentially what that paper found was:

The gradual abandonment of large residential institutions and their replacement by small-scale services to enable people to live well in the community has probably been the most significant policy development in intellectual disability in the post-war period.

It goes on to say:

Over and over again, studies have shown that community-based services are superior to institutions.

That effectively underpins the methodology and thinking that has prompted the government to take the action we have. Importantly, all state profits from the projects will be put towards delivering more disability services in Victoria. The project has been delivered in stages, with the final stage expected to be complete in 2014.

The CHAIR — Thank you, Minister. My apologies, Dr Sykes; I overlooked you before.

Dr SYKES — Minister, in relation to the Melbourne Wholesale Fish Market. My understanding is that it was due for closure way back in December 2006. It has had extensions but will definitely be closed by the end of this calendar year. As you are the minister responsible for major projects, is there any reason why the Melbourne Wholesale Fish Market is not mentioned in the budget?

Mr PALLAS — Yes. It is effectively a Melbourne City Council issue. However, because it is essentially an arrangement that the council manages in terms of leaseholding, the government previously made an offer to the fish markets to move to Epping with the wholesale fruit and vegetable markets. That offer was rejected in 2007.

The Minister for Agriculture negotiated with Melbourne City Council to extend the lease, giving the users until the end of the year to find a location, as I understand it. The site was acquired for the extension of the port of Melbourne in 2006 and operators have known that they must leave the site in Footscray Road for some time. The markets are a private business, not a government body. We have essentially sought to accommodate them in terms of our overall market relocation strategies for the fruit and vegetable relocation, but they have chosen not to take up that offer. Essentially from a government perspective, it is not a matter that falls within the responsibility of the government.

Dr SYKES — Moving the Melbourne Wholesale Fish Market inland is about as illogical as moving the freshwater fish research from inland to Queenscliff. Is that a reason why they object, that they would rather it be closer to the port?

Mr PALLAS — You will have to have a chat with them about that, because essentially that is a choice that they have made. Ultimately it is probably a conversation, in terms of where they may be relocated, for the market users currently to determine. Melbourne City Council is effectively their landlord. Ultimately all the state sought to do in this respect is provide some options for them. How they choose to avail themselves of those options is ultimately a business decision for them to make.

Dr SYKES — But if the option is not a particularly attractive one, then it may have been not a particularly good offer to have put on the table.

Mr PALLAS — I did not think it was the role of the government to decide what was in people's business interests. Ultimately they will make a choice. They have made a choice, and they have gratefully declined the offer that the state of Victoria has made to them. But essentially it is a matter that really is of their own choosing about where they locate to.

The CHAIR — We might leave it at that. It is not an issue in the budget but an important issue nevertheless. I thank Mr Ronaldson, Mr Smith, Mr Sweeney and Ms O'Connor for their attendance.

Witnesses withdrew.