

VERIFIED TRANSCRIPTS

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Audit review on

Funding and Delivery of Two Freeway Upgrade Projects

Melbourne — 29 April 2009

Members

Mr R. Dalla-Riva

Ms J. Huppert

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Witnesses

Mr J. Betts, Secretary, Department of Transport; and

Mr G. Liddle, Chief Executive Officer,

Mr J. Rogan, Executive Director, Commercial, and

Mr J. Cunningham, Director, M1 Projects, VicRoads.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearings on the review of the Auditor-General's audit findings and recommendations, August 2007 to February 2008, addressing the audit *Funding and Delivery of Two Freeway Upgrade Projects*. On behalf of the Committee I welcome Mr Jim Betts, Secretary, Department of Transport; Mr Gary Liddle, CEO, VicRoads; Mr John Rogan, executive director, commercial, VicRoads; and Mr John Cunningham, director, M1 Projects, VicRoads. Members of the public, parliamentarians and the media are also welcome.

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 Secretary, the Department of Transport, and the CEO of VicRoads, 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 taken today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days of this hearing. In accordance with past practice, the transcripts and PowerPoint presentation, if there is one, will then be placed on the Committee's website.

Following a presentation by the Department of Transport and VicRoads, committee members will ask questions relating to the audit findings and recommendations. Generally the procedure followed will be that relating to questions in the Legislative Assembly. That is why we do not get a whole lot of questions in a row; that is the normal process. I ask that all mobile telephones be turned off. I call on the Secretary of the Department of Transport and the CEO of VicRoads to give a presentation on the audit, please.

Mr BETTS — Thanks, Chair. I will lead off with some very brief comments and then I will hand over to Gary Liddle after that, if that is okay. The Department of Infrastructure became the Department of Transport on 30 April 2008. I was appointed secretary of the department a couple of weeks after that. The Department of Transport is responsible for the strategic planning of Victoria's transport system, for transport-related policy development, the procurement of public transport services, the regulation of taxis, with VicRoads, the planning and regulation of the freight and logistics sector, and the funding and delivery of infrastructure investment, particularly in relation to rail freight and public transport.

Clearly with that span of responsibilities the department's relationship with VicRoads is critical to its mission. The two organisations exist within the same ministerial portfolio, and VicRoads is the infrastructure provider, not just for private cars but also for road haulage for 90 per cent of public transport services and for bikes, pedestrians and others. The department has a clear policy interest in all of those. Increasingly, in the last 12 months Gary, the CEO of VicRoads, and I have tried to move away from a siloed approach towards the planning, building, management and regulation of the transport system and to recognise in our work that we have one transport system in Victoria which performs multiple tasks.

Last Friday Minister Pallas published a report by the State Services Authority on VicRoads and its role, and there were a number of conclusions emerging from that, including that henceforth VicRoads should report through the Secretary of the Department of Transport on all matters, and that the Department of Transport should strengthen its strategic integrated transport planning function. That really builds on a process which commenced some months ago — some 18 months ago, I think — building around a statement of expectations which marked out the parameters for VicRoads activity. So we are moving in the direction of ever greater union between the two organisations, the Department of Transport and VicRoads, and that is reflected in the common frameworks for project development and management, which are mentioned in my department's response to the Committee's questions.

That is the overall context. As you will be aware, the Auditor-General's report and the activities which it relates to predate the creation of the Department of Transport and my appointment as secretary, so I will hand over to Gary to talk in a little bit more detail.

Mr LIDDLE — Thanks, Chair. I just thought I would say a few words about the various procurement types that we use, to put it into the context of the alliances that we used on these two projects. I will very briefly talk

about that. I guess from VicRoads point of view we have all forms of contract, ranging from construct only right through to PPPs such as EastLink. We see all of those as being appropriate for different types of projects. We would tend to use construct only contracts when there was little room for innovation, little risk involved, and really not much point in a number of contractors doing designs, then to the design and construct-type contract, when there were opportunities for innovation and some more defined risks, I suppose, that could be taken on by the contractors, through to alliances like we used in these two instances, where we think the risks are harder to define up-front. There is a lot of scope for innovation by the contractors, which we can talk about this afternoon. I guess alliancing is just a form of contract that we look at using. It is not used in every case, but certainly in those instances where we think risks are hard to define and there is a lot of scope for innovation. We see that the alliance form of contracting has got a lot to offer for it. I might just leave it at that, Chair. I do not think I need to say much more by way of introduction, other than just that broad overview of how we apply the different procurement methods.

The CHAIR — All right. We have got quite a significant response from you, including about the checking against the probity tasks, et cetera, from the Building Commission and the Victorian Government Procurement Board, which are of some interest to this committee.

Ms PENNICUIK — Mr Liddle, taking up your point about alliances where you said you think there is an advantage in using them when there is risk and possible innovation by the partners, can you elaborate on what those risks are and what you mean by innovation?

Mr LIDDLE — Perhaps I might talk about the risks on this project and John might talk a bit about the particular innovations on this project.

Ms PENNICUIK — That would be good.

Mr LIDDLE — I think on this project, the TCI (Tullamarine-Calder Interchange) project in particular, there were a number of risks involved ranging from the fact that we needed to build the works on Essendon Airport land, land that is controlled by the commonwealth and has its own restrictions as a result of that. That was very high risk to get access to the land and in a timely fashion to enable the project to start. There was the fact that we were building it with about 170 000 vehicles a day going through the interchange and we are setting very high standards to ensure that vehicles were able to travel through the interchange as uninterrupted as they could through the whole duration of the project. There was also the fact that it was in the immediate environs of the CityLink toll road and we wanted to do the work without having undue impact on the arrangements the state has with the toll road operator. So I think they were the three principal risks that we saw favoured us moving towards an alliance contract. But perhaps John could talk a bit about the innovations on the project.

Mr CUNNINGHAM — The innovations can be categorised in a number of ways, but there were first of all design innovations and the fact that we moved from when we let the alliance agreement to the final alignment which shifted the alignment into Essendon Airport, allowing us to build the majority of works off the pavement without interfering with the existing traffic. This meant that the cutover then could be done very quickly and very smoothly.

There was a significant change to a major water main that ran through the interchange that previously we were going to have run through a realignment of close to a kilometre. Through the design capability of our alliance partners and their working very closely with Melbourne Water, they were able to reroute the water main through the interchange and save us a lot of time and money accordingly. Then there are other innovations in terms of how we dealt with the stakeholders. There was our ability to deal with Essendon Airport to lose fill within the airport that we were intending to transport off site. We were able to shorten the runway, which is something that was out of contention as far as the Civil Aviation Authority and the airport were originally concerned. But through negotiation we were able to win that and save ourselves significant time and money. There are those things.

There are the innovative techniques we introduced in terms of a sustainability tool to allow us to assess how we were performing against our overall KPIs in sustainability. That was developed in consultation with Sustainability Victoria and funded in part by them through a research grant. There was the first use of the photovoltaic cells to collect energy from the sun to generate part of the requirements for the lighting in the interchange. There were a lot of innovations that came through the process.

Ms PENNICUIK — May I follow up?

The CHAIR — A clarification is in order but not an additional question.

Ms PENNICUIK — I suppose implicit in your answer is that you feel that it was best done by an alliance rather than, say, for example by VicRoads on its own. You could not have done all those things if it was not an alliance; is that what you are saying?

Mr LIDDLE — I think what we are saying is the fact that everyone was sitting around the table and was prepared to talk about different ways to do things meant that we pushed some boundaries harder as a result of that. I think having the people who are building it, the people who are ultimately going to be responsible for operating it and the people who are designing it all talking at the same time about the same issues meant we got some different solutions to what we otherwise would have got.

Ms HUPPERT — There are a number of references in the Auditor-General's report about coordination and consultation with stakeholders in this type of project, in particular to take as an example the TCI project. Could you perhaps elaborate on what was done both prior — in the planning stage — and during the implementation stage to ensure that all stakeholders were kept informed and involved in the decision-making process?

Mr LIDDLE — John, are you happy to take that one on?

Mr CUNNINGHAM — Yes. In the process before the project started, the consultation we had was primarily with the major stakeholders — Essendon Airport, Moonee Valley City Council, Melbourne Airport, the taxi association, Skybus, those people with a major interest in how the interchange was operating. As we went through the project we would have implemented our normal means of communication with the stakeholders in the local community through works alerts, traffic alerts and radio advertising to advise how we were going to shift traffic and other things. We developed a project website. We had a subscriber email system; people who subscribed to the email through the website would automatically get an email or an SMS when we are going to do significant works. Those things were continuous. We had monthly meetings with the key stakeholders that I mentioned earlier — Moonee Valley City Council, Essendon Airport, Skybus — that had significant interest in the job.

Mr RICH-PHILLIPS — Mr Liddle, can I ask you about the assessment that was done of the risks associated with the Transurban concession notes, and I note in the Auditor-General's report there is reference to a report that was commissioned by VicRoads. The Auditor-General informed us that that was undertaken by Deloitte. That made reference to there being no significant non-compliance with the ring-fencing arrangements that were put in place to protect the value of those concession notes. Can you tell the Committee what variances were recorded in that report by Deloitte? Obviously there were some. I would not have said it was a complete clean bill of health. Can the Committee get a copy of that report?

Mr LIDDLE — I am sorry, Mr Rich-Phillips, but I would have to take that on notice because I am not aware of the specific variances that might have been identified. I would have to take that question on notice, I am sorry.

Mr RICH-PHILLIPS — And the report — the availability of the report to this committee?

Mr LIDDLE — I personally have not read the report and I would like to do that and then see what the variances are and take the question on notice.

Mr RICH-PHILLIPS — Thank you.

Mr LIDDLE — What reference is that, I am sorry?

Mr RICH-PHILLIPS — That is on page 41.

Mr LIDDLE — Page 41, thank you.

The CHAIR — We will follow it up in a letter anyway in terms of anything taken on notice in order to clarify it.

Mr SCOTT — I note on page 78 of the report there is a statement in terms of the Tullamarine-Calder Interchange project that traffic loops were installed as part of the upgrade. I note that it now states that there is an increase in travel speeds, but could you provide some information on how the upgrade has benefited motorists in terms of time savings and travel reliability?

Mr LIDDLE — One of the things we are doing on all our urban freeways is installing loops. Effectively the loops are just detectors of vehicles on the network, so about every 500 metres on our freeway network we have loops installed in the road. They give us a sense of how many vehicles are travelling on the road and how quickly it is moving. They give us a fairly good sense of what we need to do to manage the roads. It is all connected back to our control room, and it gives us the ability to manage the roads as we are moving along.

In terms of the benefits that have flowed to traffic and that we have seen to date, there has been about a 17 per cent increase in average daily traffic volumes and about 25 per cent increase in volumes moving through the interchange in the a.m. peak, so that is a very substantial increase. If you think about how that translates to the local road network, there has been about up to a 25 per cent reduction in traffic volumes on the arterial network in the vicinity of the interchange, and up to 40 per cent reduction on local roads.

In terms of making sure that we are getting traffic on the freeway, which is where the traffic should be, it has been very, very successful. If you look at the improvements in travel-time savings, it is something in the vicinity of 20 to 30 per cent improvement in travel times during the peak periods. On both of those measures it has been an incredibly successful project. As I say, the loops that have gone into the road as part of the project have enabled us to monitor that and keep an eye on how it is going, so it has been very effective. John, do you want to add to that?

Mr CUNNINGHAM — I might just add to that in terms of reliability through the interchange. One of our key performance indicators was to try to improve the reliability of Skybus from the airport to the city. Skybus always had benefits in moving through the interchange in that it was able to use the emergency stopping lane to give it benefit. So in measuring reliability Skybus is perhaps our worst indicator. The tracking that we have done, and we are able to monitor Skybus very closely, we are talking about a 52 per cent increase in improvement in reliability for Skybus trips from the airport.

The CHAIR — Thank you for that. Following up on the Tullamarine-Calder Interchange project, what were the differences between the original time lines and the original budget as finally achieved, in obviously significant milestones? I am sure you had Gantt charts for this, probably two walls long, but it is a significant project.

Mr CUNNINGHAM — Where we are at the moment, and bearing in mind that the TCI Alliance are still at foot, the forecast total estimated costs for the project is \$138 million compared to the budget of \$150 million — or it was around \$138 million. In terms of the times in which the project was delivered, the opening of the inbound carriageway was 10 months ahead of schedule. The project was completed five months ahead of the original program. There were substantial benefits delivered from the first time we opened the inbound carriageway and the increased capacity under English Street

The CHAIR — To clarify that, do you quantify those additional benefits from the basis of the early opening? Or did that come through in the evaluation process? It must be quantifiable.

Mr CUNNINGHAM — It would come through in terms of the evaluation, but in terms of how we compare with what the modelled benefits of the project are, so far we are only two years into the life of the project when the original modelling is done over a 30 year period. It will very much mirror the original modelling that was done if we do that now, but we are able to say through the saving of travel time what sort of benefit we got from those early openings, and that will be done in preparation for the Gateway 6 review.

The CHAIR — You will just multiply the expected saving in travel time over a year by the 8 months, or was it the 10 months relative the 5 months in that particular thing. It is obviously a positive result.

Mr DALLA-RIVA — I refer you to the buyback of the CityLink concession notes on page 36 in relation to the M1 upgrade budget where it states:

Through the due diligence process, VicRoads identified a number of issues requiring further investigation with Transurban.

Then subsequently on page 39 in relation to the risks relevant to the transaction it says:

A formal risk assessment process was not undertaken by the state in relation to either transaction.

I am trying to get a feel of where VicRoads was. Was it aware, as part of its internal due diligence process, of any internal financial transactions that were being carried out by Transurban that could have had an impact on the value of the concession notes, or that had a negative impact on the state's interest on the concession notes? What advice were you given as a result of the due diligence process outlined on page 36? What action did VicRoads take as a result of those due diligence processes?

Mr ROGAN — I was not at VicRoads at the time.

Mr DALLA-RIVA — I might be looking at you, but I am asking it generally.

Mr ROGAN — No, but I was going to go on. With respect to the first question — were we aware of any internal transaction? — there is nothing that I have been made aware of since I have been managing this contract for 18 months that suggests there was anything at the time that gave rise to any concerns in terms of how Transurban had internally financed. There is certainly nothing in the period in which I have been involved that relates back to that period. What did the second part of the question relate to?

Mr DALLA-RIVA — It related to any negative impacts on the state's interest in the concession notes with any particular matters with Transurban. You said there was no issue relating to the value of the concession notes.

Mr ROGAN — There was nothing that I was aware of that related to any internal financing that Transurban had undertaken.

Mr DALLA-RIVA — You were told nothing of that when you took on the role?

Mr ROGAN — There was certainly nothing and there has been no documentation that I have read that suggests it, or any issue arising at the present time.

Mr LIDDLE — I am certainly not aware of any knowledge of internal transactions that Transurban might have been taking on.

Mr DALLA-RIVA — Yes, that would have had an impact on the concession notes.

Mr LIDDLE — I am certainly not aware of any.

The CHAIR — If it is a company it is required to put it in the public domain, and it should, shouldn't it?

Mr DALLA-RIVA — It is just that on page 36 it says that VicRoads identified a number of issues requiring further investigation with Transurban, and these issues were documented in an issues register. I was just wondering in that risk issues register whether there was — —

Mr LIDDLE — That was one of them. I certainly do not have any knowledge of there being internal transactions or of them being listed on the risk register.

Ms MUNT — Page 81 of the report, under 'Key findings', the third dot point lists a benefit cost ratio of 16:1 for the M1 project. I am a user of the M1, and I wonder if any modelling has been done on any benefits to travel times, and also to anticipated increases in road safety as well as this economic modelling that has been done.

Mr CUNNINGHAM — On the first part, with regard to travel times — it is very difficult to model travel times because every trip is different. The benefit to any particular person depends on how far they want to travel, so we tend to talk about what we have done in terms of increased peak hour capacity for the road and the expectation that the peak hour capacity has increased by the addition of the extra lane, which instantly increases the capacity by 33 per cent. With the freeway management system that we are installing we expect to get an additional 20 per cent.

Ms MUNT — What is a freeway management system?

Mr CUNNINGHAM — The freeway management system we are installing along the M1 contains many components. Principally, though, where we expect to get the benefits from improved travel time is through the coordinated ramp metering system that we have trialled already through 15 kilometres of the Monash Freeway from Jacksons Road through to Warrigal Road. We trialled back in the latter part of 2007 and got very good results. I can give you the results of the trialling. In essence the increase in peak hour capacity that we are expecting to get, and through that the ability to control flows, comes through the freeway management system and the additional lane. Converting that into travel time savings depends on the trip that you want to make. We tend not to quote travel time savings because then somebody who is going from Berwick to Stud Road will have a different saving to somebody who is going from Wellington Road to Glenferrie Road.

Ms MUNT — Is there any impact on road safety expectations?

Mr CUNNINGHAM — We are forecasting a 20 per cent reduction in casualty crashes simply by improving the flow along the freeway. The majority of casualty crashes that occur along there at the moment are due to the stop-start nature of traffic — rear-end accidents predominantly. Through the improvements we are undertaking at the moment we expect there to be a 20 per cent reduction, as well as the improvements through the Port Melbourne-South Melbourne area to eliminate the weave and merge that takes place down there at the moment.

Mr WELLS — It is my understanding that the Melbourne CityLink authority has had its functions transferred to VicRoads. When did that take place?

Mr LIDDLE — I cannot remember the exact year, Mr Wells, but it would have been about 2004, something like that.

Mr WELLS — Did any of the senior staff who came across provide any advice on the encashment of the concession notes and the functions within Transurban, and what advice, if any, did they provide to VicRoads?

Mr LIDDLE — There were no senior staff who came across to VicRoads at all from Transurban, I think. Glen had been there for a very short period of time, sorry, and did come across for a period.

Mr WELLS — Who is this Glen?

Mr ROGAN — Glen Davis.

Mr LIDDLE — They were obviously involved in the arrangements. I am not aware of specific advice that they provided to VicRoads around the encashment of the notes.

Mr WELLS — Okay, so how does that work where you have — —

The CHAIR — How does that relate to the audit?

Mr WELLS — The whole focus of our questions — and we are still waiting on an answer — has been about the encashment of the concession notes, so what we are wanting to know is: were there people who worked at the Melbourne City Link Authority who came across and were able to provide expert advice to VicRoads in regard to the encashment of those concession notes?

Mr LIDDLE — The people who came across would have provided some advice, and a large part of the advice around the financial aspects of the concession notes was accessed through the Department of Treasury and Finance as well, so there was certainly expert advice being provided collectively to the process of the encashment of the notes.

Mr WELLS — But more particularly, the people who actually came across from the Melbourne City Link Authority would have provided expert advice in regards to the encashment of those concession notes.

Mr LIDDLE — I was not personally involved in the conversations. I can certainly say that they were involved in discussions about the process for the Tulla-Calder Interchange, but I cannot say anything about the content of those conversations because I was not involved in them.

Mr ROGAN — My recollection is that Mr Davis had moved on by the time the encashment issue arose with respect to the M1 project.

Mr WELLS — So is he no longer at VicRoads?

Mr ROGAN — No.

Mr WELLS — When did he leave VicRoads?

Mr ROGAN — I think it was early 2006.

Mr LIDDLE — Yes, some time in 2006.

Mr NOONAN — I just have a question in relation to the project. I might be wrong, but I think I might have read that the TCI project has won an award. You might be being a bit modest about that, and if I am wrong, please correct me. My question really goes to the TCI project. You talked about the volumes increasing travel time savings, but what I am keen to understand is similar to Ms Munt's question about road safety benefits that have resulted from the project and how they might have been measured against your expectations when developing this project. This really goes to the heart of your response, which has picked up on page 9 of the Auditor-General's report where you talk about reducing crashes as part of this project.

Mr LIDDLE — Perhaps I can start off, and then John might pick up any more detail. I guess when we started this project, probably our expected outcomes were not that dissimilar to what John has talked about for the M1 project.

We probably expected accident savings, potentially, of 20 to 25 per cent. It is very hard to be definitive in a relatively short time since the project opened. We are just really coming to the two years, but in those two years we think we have achieved accident savings of something like 65 per cent. In the 18-month period or thereabouts up until December last year, I think from memory, there were 18 casualty crashes, which is a substantial reduction on the previous rate per year associated with that interchange. So our expectations were probably around a 20 to 25 per cent reduction; we think we have achieved a 65 per cent reduction in the first period. But clearly you need a longer period of time to ensure that it is not just an aberration and that it is actually a statistically sound result. We tend to measure over a five-year period. We are still measuring the road safety benefits that flow from the project, and at the end of five years we will be in a position to give an absolute answer. But certainly the initial indications are, I think, John, that there has been about a 65 per cent benefit in the time frame we have analysed.

Mr CUNNINGHAM — That is right. In terms of the area that we analyse the accidents over, we have taken from the Western Ring Road along each of the freeways through to Bell Street. That is the area that is influenced by the performance of this interchange.

Mr NOONAN — How do you get to the first measurement of 20 per cent then? What sort of process do you use to get to 20 per cent as the initial figure?

Mr CUNNINGHAM — I would have to take that on advisement and go back and check the way they originally calculated it. The redesign of this interchange was unique in terms of trying to get rid of a bottleneck from within Melbourne's freeway networks. I would have to take it on advisement as to how they calculated the original notion of how much it would be reduced.

Mr LIDDLE — I guess what I am saying is that it is really very similar in nature to what we are talking about on M1. It is trying to get rid of those merge and diverge manoeuvres. My assessment is based on the number for M1; it would have been of that magnitude. But yes, if you would like more detail, we could certainly provide that.

The CHAIR — Okay, we would appreciate that.

Mr NOONAN — The first part of the question was about this project being an award-winning project in terms of design or alliance or something.

Mr CUNNINGHAM — Yes, it was for projects over \$100 million, I think. It won the national award from the alliancing association. I think it was last year. It won an environmental award too. I am sorry I am not prepared to sing the praises of the project in the way I would like to.

Ms PENNICUIK — I cannot see how an freeway can win an environmental award.

The CHAIR — We admire your modesty. Perhaps you can tender some of the awards details in writing; that would be useful.

Ms PENNICUIK — That really made my day, that one!

Mr Liddle, in your letter in response to the Committee you say in regard to recommendation 3.9 that as part of the agreement between the state government and CityLink there is an arrangement for the sharing of additional CityLink revenue generated from the project and that that would be based on traffic volume collected from toll points. Can you give us some more information about how that would be computed and verified and whether there will be periodic reporting of that to Parliament?

Mr ROGAN — The M1 redevelopment deed is actually tabled in Parliament because it is part of the CityLink concession documents. It actually sets out the detail of how this formula is calculated. In brief terms — —

Ms PENNICUIK — It is about the TCI.

Mr ROGAN — Sorry, I beg your pardon; I was answering on M1. Sorry, the TCI one — —

Mr CUNNINGHAM — The TCI similarly has been tabled in Parliament.

Mr ROGAN — The TCI one. What it is trying to separate out is what is the true traffic growth from the project as distinct from the traffic growth that would have happened simply by the natural development of the suburbs principally to the west and north-west of the road. There is a relatively small adjustment, though, related to this TCI project. The state was paid, my recollection is, \$11 million, and if the benefits are considered to exceed \$22 million, then there is a 50-50 sharing. If the benefits are less than the \$22 million in MPV terms, the state retains the \$11 million that it has already received. So it is relatively modest.

Mr CUNNINGHAM — And this is measured by traffic passing under toll point 1 on the Tullamarine Freeway.

Mr ROGAN — Yes, the Moreland Road toll point.

Ms HUPPERT — I have got a question about the M1 project. I gather from the Auditor-General's report that it has been divided into three geographic sections and different procurement methods were used for different sections of the project. Can you please expand on why those different procurement methods were used for carrying out the project for the three different geographic sections?

Mr CUNNINGHAM — The M1 project is broken up primarily into the West Gate section, the inner sections of the Monash Freeway and then the outer sections of the Monash Freeway. Why was it done that way? Because they are substantially different in the construction challenges that they present. Obviously the section through Port Melbourne and South Melbourne is a very difficult environment to construct in; it is very confined, and there is a lot of structural work to do the design, and anybody who has been through there can see what is going on there. The inner sections of the Monash Freeway, again, are very much a constrained environment with widening of the freeway taking place on the outside of the existing carriageway. The procurement method, which was chosen for both of those sections because of the analysis of the risks that we undertook, was led as alliance contracts. The outer section of the Monash from Warrigal Road out to the South Gippsland Freeway is a much simpler construction process, with widening into the median. We broke that section, which is about 30 kilometres long — perhaps not that long — into two parts, separated by the EastLink Interchange; at that stage EastLink was still under construction. We let those as design and construct contracts. It is a much simpler form of construction and there is far less risk as far as the contractor is concerned. They are the geographic sections, and that is why we chose to split in the way that we did.

Mr LIDDLE — Perhaps if I could just add to that, Chair. In addition to the geographic spread of the physical works there is another contract that really sits over the top of all of that to implement the freeway management system. In addition to the geographic split of the physical works, there is another contract set up to actually implement the freeway management system over the full length of the freeway from about Heatherton Road almost through to Werribee — I think about 70 kilometres long, John.

Mr CUNNINGHAM — Seventy-five kilometres from Berwick–Cranbourne Road through to Werribee.

The CHAIR — It is a big project.

Mr DALLA-RIVA — I just want to follow on from Mr Wells earlier question in relation to a gentleman who was with CityLink and then came across to VicRoads. It may be somebody working internally but they were also involved with Transurban as part of the due diligence process undertaken by VicRoads. I just want your comments in relation to recommendation 3.4 on page 12. The Auditor-General suggested that in terms of probity advice a probity auditor's role should not be confused with the role of a probity adviser in order to maintain clarity of the two distinct roles and strengthen accountabilities of the separate functions. Your reply as the CEO on page 13 is that you considered:

... it would be an inefficient use of public funds to require that the roles of probity adviser and probity auditor necessarily be separated as recommended.

Why did you assert that against the Auditor-General's recommendation?

Mr LIDDLE — I consider that a probity auditor has a role from the start of a project all the way through to doing an audit function at the end. I do not see that there is a necessity to separate the two roles. I think setting up an audit program and doing the audits at the end is well informed by those people having been involved in giving us advice at the start of the project. From my point of view, I accept that they are different roles but I do not accept that they cannot be performed by the same person. I think that is reflected in some other government documentation where it quite clearly spells out that it is acceptable to have the one person do both roles. I accept they are different roles, but I am firmly of the view that they can be performed by the one person, and in fact there are some benefits in having the person at the front end also doing the audit process at the back end.

Mr DALLA-RIVA — You reject the Auditor-General's suggestion?

Mr LIDDLE — I had a different point of view to the Auditor-General, which I put in my response. Certainly in how we have done projects since then, we have had some projects where we have had both but on some projects we choose just to have a probity auditor who also gives advice up-front.

Mr DALLA-RIVA — What makes the assessment that on some projects you do have both?

Mr LIDDLE — It is to do with the risks involved and the size of the project.

Mr DALLA-RIVA — Would you not consider, given the risks that are outlined in this report and the size of the project, that there would have been two?

Mr LIDDLE — At the time, and this is going back to the first alliance project of this size that was ever done in the state, the judgement I made was that it was appropriate to do it with a single person, or the judgement made by VicRoads. Since then we have had some projects where we have had both, but I would still say on this project that that decision was an appropriate one.

Mr BETTS — I would add that when I first joined the Victorian government in the late 1990s it was standard practice for the probity adviser and the probity auditor to be the same person on major transactions.

Mr CUNNINGHAM — If I could add to that in the context of the way it developed, at TCI we had a probity auditor engaged and there were times when we sought their advice. That is in the Auditor-General's investigation — that is how it came up.

Mr DALLA-RIVA — The earlier issue that was raised by Mr Wells in relation to this Glen Davis, who is a former director of CityLink and then he was transferred to VicRoads — —

Mr LIDDLE — We should just clarify that Melbourne CityLink Authority was the government authority responsible for administering the contract for CityLink, so it was a government person coming to another government entity. There was not a conflict with a person being involved in the private entity coming across to give advice, it was a person already in a government entity coming to a different government entity and taking on that responsibility.

Mr WELLS — Can I clarify: is it Department of Transport policy that you do not have the two people — the probity auditor and the other probity officer — and that it is just one person?

Mr BETTS — No, it is not.

Mr WELLS — It is not that policy?

Mr BETTS — No. For instance, on the refranchising process which we are running at the moment we have a probity adviser and we will have a probity auditor at the back end of that process. It is really a judgement that gets made. We would conform with the recommendations of the Auditor-General as previously made in relation to processes of that kind, but there are two schools of thought equally reasonable here and you judge it on the basis of the project or transaction in question.

The CHAIR — The Auditor-General gave evidence this morning that his view was they should be separate, so he reinforced his recommendation. This committee is also of that view.

Mr BETTS — And we would obviously take into account that strong view from this committee and from the Auditor-General.

The CHAIR — The Department of Treasury and Finance has provided evidence to us in writing that it is reconsidering this as part of the review of the Financial Management Act.

Mr SCOTT — My question is regarding the M1 upgrade project. On page 101 of the Auditor-General's report there is a discussion in the first paragraph about the need for integration and coordination between the various sections of the M1 project to minimise disruption to road users. What processes do you have in place to ensure this integration and coordination across the length of the project takes place?

Mr CUNNINGHAM — I guess right from the start, and it is covered in VicRoads' response to the questions, there was the establishment within the project management of a project directorate within VicRoads that oversaw coordination for all of those geographic areas that I spoke about before.

Within our relationship with Transurban there is a project leadership team that meets on a regular basis to coordinate and oversee the activities along the whole corridor. Underneath that project leadership team we have established what we call a traffic management working group. It meets monthly to discuss the traffic management arrangements along the corridor and what is being undertaken at any particular time. We have a program coordination group which brings together representatives of all of the contractors operating along the corridor to understand how their programs interact with each other and influence traffic. We have a communications coordination group as well to ensure that the message that we are giving to the public is coordinated right along the corridor. Those are the means we are using to ensure that the project is viewed as one project. That is not just the VicRoads parts of it, it is the upgrade of southern link which is being undertaken by Transurban as well. Outside of those formal committees the project managers responsible for each of the contract areas also meet regularly as do the communications managers.

The CHAIR — Just continuing on the M1, what are the arrangements for the West Gate Bridge in the design of the project? What did you design for that? What is intended? What is happening? How are you taking on board safety issues?

Mr LIDDLE — Perhaps I can start and John can continue. The original proposal for the upgrade of the West Gate Bridge was to run it as a contraflow arrangement, so having five lanes in the peak direction and three lanes in the counter-peak direction. That was the original intention. When we looked at that in more detail it was apparent that in a relatively short period the counter-peak direction would suffer degrees of congestion that would become a problem. When we looked at it in more detail we found that we could provide five lanes of traffic in both directions, but as part of the strengthening of the bridge there needed to be substantial work to

make that happen. The current arrangements are that we will strengthen the West Gate Bridge with five lanes in both directions with lane widths, I think, John, of 3.1 metres?

Mr CUNNINGHAM — Standardised at 3.1 metres.

Mr LIDDLE — We believe that will be a much better outcome than the contraflow arrangements which were five in one direction and three in the other. John, do you want to talk a bit more about the requirements for the bridge?

Mr CUNNINGHAM — From a traffic perspective and safety view, assuming the question relates to traffic safety rather than the structural integrity of the bridge which we can — —

The CHAIR — We are quite happy to look at safety across the board.

Mr CUNNINGHAM — As well as maintaining the speed limit at 80 kilometres an hour and standardising the lane widths at 3.1 metres by resuming the 2.5 metre emergency stopping lane that is there at the moment — and that 2.5 metres is not wide enough for an effective emergency stopping lane; we are resuming that and taking it as part of the standardised 3.1 metres and five lanes — what we are adding to the bridge is the full lane use control that we will be using through the inner parts of the M1 corridor from High Street through to the West Gate Bridge. That will be extended across the bridge so we will have full control of the lanes from the traffic management centre in Kew. There is also much greater CCTV coverage across the bridge so it can be monitored, and dedicated incident response teams to respond quickly to any incident that occurs on the bridge. All of those things are directed towards improving the road safety aspects of the bridge. The structural integrity is a much more complicated question.

The CHAIR — Say there is an accident on top of the bridge and you have five lanes each way. How will you deploy emergency vehicles in that situation?

Mr CUNNINGHAM — Through the use of the lane use management system we will create an emergency lane for them, directing traffic out of those lanes and providing access for emergency services. I should add that we are in close collaboration with all of the emergency services in developing the design and how we manage traffic along the M1. We are working with them to inform them about how we will control traffic not only in the event of an incident on the bridge but when they are just going about their normal business of, say, transporting emergencies back to hospitals on either side of the bridge. Through the use of the full lane use management system we will create an emergency lane for them to get along.

Mr RICH-PHILLIPS — I have a question for Mr Liddle and indeed for Mr Betts. At any time did VicRoads or the department become aware of any information or suggestion that Transurban was in any way attempting to either defer the redemption of the concession notes or in any other way devalue them prior to you undertaking this transaction?

Mr LIDDLE — Certainly not that I was aware. I was not aware of any attempts to defer redemption of concession notes.

Mr RICH-PHILLIPS — Or otherwise devalue them?

Mr LIDDLE — No.

Mr RICH-PHILLIPS — And VicRoads itself, as distinct from you? Are you able to answer on VicRoads' behalf?

Mr LIDDLE — On behalf of VicRoads I am not aware of any attempt to devalue the notes, so yes, I guess I am responding on behalf of VicRoads.

Mr RICH-PHILLIPS — Thank you. And the department?

Mr BETTS — Likewise.

Mr RICH-PHILLIPS — Thank you.

Ms MUNT — We have spoken a lot today about the alliance model for projects. Your department has had to work with this model to put in place the Tullamarine–Calder Interchange. From your point of view how did it work? I note the National Award for Excellence in Major Capital Alliances was awarded to you, so congratulations.

Mr CUNNINGHAM — Thank you.

Ms MUNT — That indicates that this alliance model worked very well. From your perspective what were the pluses or the minuses? How was it to work with as a department?

Mr CUNNINGHAM — I guess it was a revelation in terms of our relationships and how you go about constructing major infrastructure like this. The notion of a shared relationship with the contractors and the designers and the shared risks and the focus then on resolving those risks on a best-for-project basis rather than the adversarial arrangement that is created through a normal sort of contract.

The other benefits we found I guess through the open-book arrangement and the agreed margins that we established up-front meant that we had a much greater guarantee of what the maximum cost was going to be rather than what the minimum cost was going to be which is traditionally what we get through a more hard-dollar contract. I guess the experience of sharing the creativity of a team like that all working together was, as I said, a revelation. The downside was that it took some time for the culture to be generated within the team, but it was directed towards a best-for-project outcome. As everybody got on board, the sorts of benefits were there for everybody to see, and the cooperative and collaborative nature of joining all those forces together produces a much better outcome.

We went to places that we would not have contemplated before. I said about the solar panels on the noise walls, which is a first and only in Australia at this time. In terms of mitigating noise along Matthews Avenue, it was the first time VicRoads had employed off-site attenuation for a number of properties rather than deal with a noise wall, which would have removed their view of the airfield, which they wanted. They were not concerned about noise. They wanted to retain their view across the paddock.

The experience with the Tullamarine–Calder alliance was a very good one. I would have to say that that has flowed over into my experiences on the M1 as well. There is so much energy created through this form of delivery that the innovations are much more than we could have expected in another way, and the risks are much better managed.

Ms MUNT — So it is something that you would really consider for future projects as a great model?

Mr CUNNINGHAM — I think Gary said before it is horses for courses.

Mr LIDDLE — I think we would not suggest that it is the right contracting form for every project, but I think we will have about another two or three alliances that we are looking at at the moment. It is about picking the right project for the alliance method. Equally, we are about to go out to tender for a duplication of a rural highway where it would just be a construct-only contract, because there is no room for innovation, very little risk involved — give the contractors a design, let them price it, and then we go out and build it. I think it is very much about, as John said, horses for courses, and not just saying that alliance is the panacea for every project.

Mr DALLA-RIVA — Just following up on the M1, how are the suicide prevention barriers in terms of the West Gate going? Are they proceeding well? What is the estimated time line to get those done?

Mr CUNNINGHAM — The temporary barriers have been installed across the concrete sections of the bridge. The installation across the steel section of the bridge is made up of three sections. There is the concrete on each approach and then the main span is steel. Before we could put the temporary barriers on the steel section, we had to undertake substantial modelling and analysis of the bridge to see that it would cope with that additional load and that we would not establish wind patterns that would create some problems for the bridge. We have done that. I expect that the temporary barriers will be across the steel section tomorrow night. There have been other difficulties down there that have delayed them for a couple of days, but I expect tomorrow night they will be installed across the whole of the bridge.

Mr LIDDLE — The permanent barriers, John?

Mr CUNNINGHAM — The permanent barriers are in the process of being designed with the strengthening at the moment. We expect that the public will start to see them being erected mid to late next year, behind the temporary barriers. The program at the moment is that they will start to go up mid-next year, with completion in early 2011.

Mr LIDDLE — The permanent barriers are very much dependent on the strengthening works before they can actually be installed. The team has looked at every opportunity to try to bring the permanent barriers forward, but it is showing up in all the analysis that they are very dependent on getting the strengthening done before they can be installed.

Mr DALLA-RIVA — Is that because of the wind?

Mr CUNNINGHAM — It is in part because of the difficulties of those barriers; we are working over the edge of the bridge in order to strengthen it. We will be creating access from underneath and inside. But essentially it is about the fact that we have got to put props on the outside of the bridge. If we put the barriers up we would have to take them down again.

Mr NOONAN — I just want to come back to the TCI project and just go back to the issue of risk again. It has been talked about, but it seems to be a big factor in determining whether a project should be undertaken as an alliance projects. I refer you to page 75, which halfway down talks about the management of project risks. I must admit some of these terms are probably a little unfamiliar to people on the Committee. I just wonder whether you can just talk about the way in which the risks were identified and then mitigated through this project, and specifically try to bring to life the register, the assessment workshop and then the process of a monthly review of this as you step forward.

Mr LIDDLE — Do you want to take them through the risk and opportunity approach, John, and onto the alliances?

Mr CUNNINGHAM — I do not know that there is anything mysterious about the risk and opportunity process as far as an alliance is concerned or in terms of delivery of any other form. What we do in a risk management workshop is try to identify what the significant risks are, the consequences of that risk and the likelihood that that risk will happen, and put in place a mitigation strategy to address both of those things.

In terms of each of the alliances, and I would imagine even the design of any other form of contract, the contractor will have a risk management strategy that identifies these things and makes sure they are mitigated. What we did out there was, through the alliance leadership team, consider the risk register each month, what was happening in regard to the significant risks, whether we were still managing them appropriately and what we could do to further mitigate the likelihood that those risks would manifest themselves. I do not think there is anything mysterious in it; it is just that what we have is the three parties coming together to ensure that the risks are mitigated properly.

Mr LIDDLE — Just to add to that, I think in the alliances it is very much about working together to ensure that the risks are identified and that collectively we are taking the right actions to manage them. Whereas really in a more traditional form of contract, we would assess the risk, we would set up a contract framework and really say, 'These are yours and these are ours', under this contract it was actually joint assessment and identification of the risks. Then once that was done, as John said, really putting in place mitigation actions that everyone agreed with and then monitoring that on a regular basis. The monitoring on a regular basis would happen with a traditional contract as well. But it is about the two parties doing it together and seeing what opportunities to perhaps manage them differently than you otherwise would.

Mr NOONAN — In the TCI project, was there a practical situation that came up where you were able to apply this process which might give us a more practical understanding of how this process actually works in an alliance sense, where you are dealing with partners?

Mr LIDDLE — I think John touched on a couple of them even in his things about innovations. In the very early days of the project we identified the water main relocation as a substantial risk. My recollection is that it supplies a large part of Melbourne and if we did not get it relocated by a certain date, Melbourne Water would not let us relocate it until after the summer because the demand on water supply was very great. So very early on in the project that was identified as a fundamental risk that could delay the completion of the project. The

alliance partners sat down, as John said, maybe even before we had the formal alliance in place, and discussed how we might actually get that done sooner, to make sure that the water main was relocated before the summer period, when Melbourne Water said, 'You can't actually shift it then'. We made sure that that risk was dealt with even before all the construction activity got on site. That is one example.

Another example would be the Essendon Airport land where, as John said, another risk that the project identified early on was a lot of interruptions to traffic. The alliance partners identified very early that if they shifted a bit further into the Essendon Airport land, they could minimise the amount of interruptions to traffic. Clearly that introduced another risk in itself that had to be managed, about dealing with Essendon Airport Corporation. I think they are probably two or three examples of risks that were identified and then actions taken to sort of avoid those risks or make the most of the opportunities they presented in those cases.

Ms PENNICUIK — Mr Liddle, in your letter you mentioned a document called 'Key lessons learnt' that was not complete. Can you advise on the status of that and when it is finished could a copy of that go to the Committee?

Mr LIDDLE — Yes. I am sure there is no problem providing it to the Committee. 'Key lessons learnt' — to be honest, I am not sure exactly where that is at this point in time. If I could just say that this is sort of a process that we go through as a matter of course on every project, that we see it is important to review — both in the process we have followed and the outcomes we are looking for at the end — whether we have actually done it as we said we would and got the outcomes we looked for. We are very committed to doing reviews of projects at the end of every project, like an idea of continuous improvement. I am not sure exactly where this one is at at this point in time, but when it is completed — if it is not already, John?

Mr CUNNINGHAM — If we are talking about the Tulla–Calder project, there is a 'lessons learnt' document; there is also a value-for-money report to be completed, which will incorporate much of that as well. That is at a very late draft stage at the moment.

Mr LIDDLE — So we are happy to share.

The CHAIR — It was also related to the M1, which you want to feed into the M80.

Ms PENNICUIK — This is a question for Mr Betts. In your answer to our question 2 you talk about the changes in DOT's strategic role. VicRoads has been incorporated into DOT, as was part of DOI. My question is: is there a comparable agency to VicRoads in the department with responsibility for and an advocacy role for public transport?

Mr BETTS — Yes, there is. The creation of the Department of Transport did not involve the subsuming of VicRoads within the entity. There is a public transport division within DOT, which is headed up by the statutory office of the director of public transport. I was formerly the director of public transport, before becoming secretary. There are obviously policy divisions. There is an infrastructure projects division within the department, which focuses most of its activity around the construction of new rail projects. So, yes, there is an equivalent body.

Ms PENNICUIK — What new rail projects?

Mr BETTS — We have limited time, so I am unable to talk you through all the rail projects that we have on the go at the moment.

The CHAIR — That concludes the consideration of the Funding and Delivery of Two Freeway Upgrade Projects. I thank Mr Betts, Mr Liddle, Mr Rogan and Mr Cunningham for their attendance today. Where questions were taken on notice, and there were a number of those, the Committee will follow up with you in writing at a later date. They will, of course, be in the Hansard transcript. We would like responses within 30 days, to help us to finish off our reports. Thank you very much. We appreciate it.

Committee adjourned.