

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

Melbourne — 21 August 2012

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chairman: Mr P. Davis

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr H. Ronaldson, Secretary (affirmed),

Mr P. Noble, Acting Deputy Secretary of Investment and Major Projects (affirmed),

Mr T. Bamford, Executive Director, Major Projects Victoria (affirmed), and

Ms J. Niall, Client Representative, Melbourne Market Relocation Project, Major Projects Victoria (sworn),
Department of Business and Innovation.

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

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the inquiry into effective decision making for the successful delivery of significant infrastructure projects. On behalf of the committee I welcome from the Department of Business and Innovation: Mr Howard Ronaldson, secretary; Mr Tim Bamford, executive director, Major Projects Victoria; and Mr Peter Noble, acting deputy secretary of investment and major projects.

Members of Parliament, departmental officers, members of the public and the media are also welcome. In accordance with the guidelines for public hearings I remind the members of the public gallery that they cannot participate in any way in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. DBI officers, as requested by the secretary, can approach the table during the hearing to provide information to the secretary, by leave of myself as Chairman. Written communication to witnesses can only be provided via officers of the PAEC secretariat.

Please note that these proceedings are not being webcast.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege.

All evidence given today is taken under oath or affirmation and is being recorded. Witnesses will be provided with proof versions of the transcript within 15 working days of this hearing, which are to be verified and returned to the committee secretariat within 2 working days of receipt. Unverified transcripts and PowerPoint presentations, if any, will be placed on the committee's website immediately following receipt, to be replaced by verified transcripts within 48 hours of receipt.

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

I ask that all mobile telephones be turned off or switched to silent mode.

I call on the secretary to give a brief presentation of no more than 5 minutes, if desired.

Mr RONALDSON — I am not prepared for a presentation.

The CHAIR — You have the opportunity to give one.

Mr RONALDSON — I have the opportunity. I understand we are to talk about the markets and the convention centre today; is that right?

The CHAIR — Yes. Correct.

Mr RONALDSON — Off the top of my head, if I were to make a couple of comments about these projects I would say that the markets project has undeniably been a long and difficult project. I guess one of the takeaway messages we have learnt from the markets project is that major projects are difficult enough to do ordinarily, but the vast majority of the time you are doing them for people who actually want it to happen. I think it is fair to say that the extra complexity with the markets is that not all the time not all the clients have wanted significant aspects of this project to occur. That is a problem because their livelihoods are bound up in the existing site. It is also a problem that obviously no-one can compel anyone to move their place of business, so it has been a very interesting but difficult project from that point of view, where the interface between the government and a range of clients in an ongoing way has been a bit different, essentially because of that dynamic.

The second thing I might add about the markets is that it is a bit unusual for us, at least as we are sitting here — it has not always been the case; it has changed around a bit — that we are both sides of the business. Within the portfolio we are both the client dealing with the stakeholders and on the other side we are also the deliverer. Usually in major projects, and we are here in our capacity of major projects, the vast majority of our business is just delivering against a contract. We are the people who try to keep the parties to a PPP honest, and the vast majority of the time the client is in another department.

The convention centre is, as you may agree from the paperwork, a fairly complex PPP. From our point of view I think it went fairly well. The pleasing thing from all sides is that whilst the cap. ex. was around about \$350 million or of that order — the contribution of the state was about \$350 million — it is fair to say that it did engender over a billion dollars of extra investment by the private sector in and around the new facility, with a hotel and retail facilities, which is a good bit of leverage for the state to enjoy. As a project it ran pretty well, but there is that, if you like, large externality that was attached to the project that was very pleasing. I might leave it there, Chair.

The CHAIR — Thank you. That is a good overview of the issues that we wish to canvass this afternoon. Clearly the purpose of these hearings is essentially to deal with lessons learnt from major project delivery, and in particular to drill into issues such as accountability, transparency, capacities and relevant skills. Hopefully that is where the questions and the discussion will go — more a discussion than a question time.

I thought I would try to summarise what is evident, but it needs to be set out in the frame. The Melbourne Markets redevelopment and the Melbourne convention centre development are two diametrically opposed projects in terms of the outcomes. Essentially you have the successful delivery of the Melbourne convention centre development, which has won design and construction awards and has been touted as the benchmark for Partnerships Victoria projects, contrasting with the Melbourne Markets relocation project, which has been fraught with difficulties over the past eight years. I understand that the project has in effect been restructured on three occasions. Obviously there are lessons to be learnt from the good and the bad, as it were, and that is what we are here to adduce.

As a starting point I want to, rather than drill into each project separately, immediately seize on where the projects come together. Obviously at some point DBI and Major Projects Victoria are involved in the delivery of both projects, but I also want to understand the role of DTF. Has DTF played an active role in relation to both projects, and if so, to what extent? What value does DTF bring to that process, and what expertise is residual in DTF that has been of assistance to you in oversighting the delivery of these projects, or is it that you needed more support from DTF?

Mr RONALDSON — That is a big topic. Once again I think it is fair to say that DTF were present at most if not all stages of the capital cycle. It is not unusual right at the beginning to have the client department bid for money just to get a pre-feasibility study up. Then they bid again at some subsequent time for a feasibility study. Both studies are then considered extensively by government, including by DTF, in which there is often a gateway process involved. I think it is fair to say that DTF were one of the principal architects of the gateway process, so they are present there. Often if the projects are big enough and there are oversight groups, when government comes around DTF will have a member sit on those oversight groups. Notwithstanding that, DTF quite rightly reserve the right to separately brief on progress of projects that are reported to various cabinet subcommittees.

Often if they are projects where there is a particularly large financial aspect to them, as in PPPs, DTF are involved in the architecture of the finance that is sitting behind the projects. Many of our projects are required, for instance, to carry a certain level of debt, such as the convention centre. Certainly DTF are prime advisers to the government of the day on how much debt those projects might sustain. Certainly from time to time DTF, along with the Auditor-General and others, look at performance.

The short and the long of it from my perspective I guess are that DTF is quite involved at most stages of the capital cycle. We are also required — someone correct me — I think annually, to put together almost a capital plan as well. There are certainly discussions with DTF about prioritisations within that plan, so they are involved in many if not most aspects of capital projects.

Ms HENNESSY — To take that issue up, it fair to say, Mr Ronaldson, is it not, that there was a dispute or a difference of point of view between MPV and DTF in respect of the costings methodology on the relocation project. I was wondering if you could tell us how that dispute or difference of point of view was resolved and what the issues were?

Mr RONALDSON — I can speak generally. I can refer to Mr Noble if it is just on the markets.

Ms HENNESSY — Yes.

Mr RONALDSON — But yes, there are lots of discussions with DTF on costings. Often the most lively discussions are around things like how your price factor is at risk. Something that is often dear to our hearts is how much contingency or otherwise — that is, pure contingency — is built into projects and what is reflected in budget lines. But you would expect, generally, a robust discussion between departments and Treasury on basic costings, and reporting against those costings through the progress of the project.

The CHAIR — Mr Noble was to comment, I think.

Mr NOBLE — In relation to the markets and the ultimate arrangement of the new government and the budget, the arrangements are around the establishment of a financial model which deals with particular elements of the project. In all projects, and with the markets, there is a range of cost and revenue issues, so ultimately we agree those, deal with the contingency issues and risk issues as part of that model development. Then we brief and go to cabinet with those arrangements and brief accordingly, and the government made a decision on which scope and project it was going to fund.

The CHAIR — Can I clarify in relation to the two projects that we are talking to you about this afternoon: can you define the difference in the relationship with DTF — that is, specifically summarise the different role that DTF had in each project?

Mr NOBLE — In relation to PPPs — and I have been involved in them since the middle 1990s — the DTF role is fairly well prescribed in terms of policy, procedures and structures, both through steering committee, Treasurer approval, other arrangements in relation to the commercial principles that have been established and signing off of contractual documents. Treasury officers effectively embed them in the project and have them involved and informed as to how the documents are structured and what the negotiations are, and then ultimately they go and seek the Treasurer's approval on particular elements of that. Then during the development of the project in the construction phase there are similarly working groups and steering committees as required based on the issues that arise. Having been a Treasury officer, I would say their role is relatively effective and focused in relation to project matters.

In relation to more broad projects, such as the markets, there is a less defined role, so it does become ambiguous as to what role Treasury does have in those projects and to what effect in terms of some of the steering committee terms of reference.

Mr PAKULA — I suppose I have a general question that I will bring back to the specific. We have met with Treasury departments, and we have met with line agency delivery agency departments not just in Victoria but around Australia and at the commonwealth level. It seems that one of the themes that has emerged in a general sense is that some delivery agency departments and others would suggest that one of the problems in regard to better delivery of infrastructure is about the skills within government — you know, whether there are enough engineers and whether there are enough people with practical know-how. It seems that the constant theme from treasuries that we meet with, whether it be at the national level, in Western Australia or I think you can also see the theme running through the Treasury submission here, is that the panacea for all ills is more involvement by Treasury. So long as you have Treasury involved at more steps along the way, problems will go away.

I suppose I draw that against the comment made — and I am not asking you to commit any kind of occupational suicide, Secretary — that if you look at your submission at point 16, where you say:

PPPs are largely about achieving functional outcomes for a public asset ...

et cetera. Then you go on to say:

This requires a level of practical know-how and business exposure from a delivery and operating perspective that may not necessarily be available at DTF.

I suppose what I am asking is for you to put that comment in your submission in the context of the attitude that we seem to be getting from treasuries, that more treasury is the answer, and whether that corresponds with your practical experience on the ground?

Mr RONALDSON — Thanks for that question, Mr Pakula.

Mr PAKULA — Remember you are under oath.

Mr RONALDSON — What did I do? I did something. I affirmed; that is right. I think the point we are making more generally — and I am not trying to slide out of this — is that broadly speaking there is often a difference between — and I use these terms really broadly — the architecture you might put in place to bring a project about, like good costings, good scope and a particular scope et cetera, as opposed to the commercial process you might then have to go through, of which negotiation is the key metric, to get your results. Once again, quite rightly, I would say, generally speaking, the architecture, of which DTF has got a large part, likes things to be as precise as possible, whereas from time to time line agencies seek a little bit more flexibility when going into the marketplaces and actually trying to make this thing happen. I think that is what we are trying to talk about, and the two are sometimes at odds with each other, because no-one has got a perfect crystal ball. With all the architecture you might do up-front, you can never really predict what will happen necessarily with great accuracy when you get out there and try to do it.

Believe you me, eight years if we had known some of the depth and passion of some of the discussions on behalf of some of the stakeholders and some of the positions taken by stakeholders, you might well have had a different approach — you might. Mind you, I would still argue that there is a site down there that is old and worn out, full of asbestos and problematic, and something would have to be done anyway from my perspective, but you might well think through your strategies in a different perspective. I think it illustrates a particular view that all would have been agreed before we went to do something, and then you would go out and hit reality, which involves a lot of negotiations. Quite often it is a different world.

The things we all hate — we all agree with — are things like alliance contracts. By agreement all parties say, ‘We will just agree with the architecture with respect to a bundle of initial risks, and then we will all hold hands with truly big entities out in the market who do a lot of this. Then we will go along to a certain stage of the project, and we will mutually discover what the next bunch of risks are. Then we will do another negotiation, often in the middle of a project where it is very hard to back out, and then we will reprice them and go along.

We do not like them, and Treasury does not like them. For instance, the redevelopment of Hamer Hall was an alliance project, where essentially the market looked at it, the market was unhappy and we were unhappy about pricing arrangement risks in relation to Hamer Hall — initially the foundations, the structure of the building, the technical environment around the hall. The degree to which this was documented was not what we would want, so I think for only the second time in Australia we agreed to have an alliance project, which is this process that I have described. So I think in that way treasuries deal with architectures — as certain as they can get to it — budget certainty, budget outcomes, but there is always this tension hitting the real world a bit.

The CHAIR — Thank you. I am just taking a pause to ask if one of my colleagues would like to ask a question. But while they are thinking about that, it is always dangerous to ask a question when you do not know the answer, but I am going to be brave: in the process around the Melbourne market did anybody at any time ask the obvious question in the process and say: why the need for a central market? Was that ever a matter that was canvassed?

Mr RONALDSON — I admit that at the moment all the market comes to me, both on the client side and on the delivery side. That has not always been the case. The client side and the delivery side for a time went to DPI, so this thing has moved around quite a bit. But just to illustrate the point, if you asked this of me as a deliverer, I would say I do not know. All I have to do is deliver a project. I have to build the damn warehouse and I have to build extra facilities and that is all I care about. And that is what major projects in the large does — it is a project deliverer. It goes out into the marketplace, it deals with constructors and it delivers the project.

If the thing is not what you want, that falls back to the client who wants a certain reality to occur out of building something, and it is on their shoulders. This is where often you get tension around scope. You might get through a project and then the client decides they want something different. It happens on IT projects quite a bit. But we do have someone with a long history in here today. We have someone on the client’s side. Maybe we know it anyway, because it does come together with me at the moment, but that is a question — that major projects will look back to you and say, ‘Well, you’d better ask the person who wants this; we just deliver the physical side of the project’. Can I suggest that someone call Jane? Is that appropriate?

The CHAIR — Yes.

Ms Niall, the question was: can you inform the committee, at any stage of the process was the fundamental question put: why a central market? Why the need for a central market? Was there ever a stop-and-consider point, or was it always a given that this was always about the fact that there is a central market and the central market will be relocated?

Ms NIALL — I think in reading the original business case from 2004, which is a DPI document, there were two sets of considerations. One related to relocating the market and the expansion to the port, and the other related to the need for a central market. There was some consideration of it in terms of public good associated with retaining the smaller retailers and having a place where prices for fresh produce could be fixed.

Mr PAKULA — Just following on from that, and this might be more a matter for DOT or the port of Melbourne, but to the extent that one of the original rationales for the move was to free that space up, and I remember there was the port and the study that was going on — —

The CHAIR — That was the catalyst, yes.

Mr PAKULA — To the extent that that was part of the original rationale, does the port of Melbourne still have designs on the site for those purposes or not, or for something else? Can anyone here answer that, or do we have to wait for Jim Betts in October?

Mr RONALDSON — I honestly do not know.

The CHAIR — We might hold the question. Thank you very much.

Mr MORRIS — Not on a related issue, but going back to the convention centre and the negotiation phase with the two teams, I just want to flesh out a couple of points there. I note you say in the response that they were two very different projects. Is it right to infer from that, then, that it is not normal practice to have a couple of teams or more assessing projects? It is not a process that would normally be followed for these sorts of things?

Mr NOBLE — In relation to the convention centre project there were two different proposals that came up, and with the way in which they tendered and bid them and the evaluation, they were both capable of being developed further because neither one nor the other met the PSC requirements wholly, so we went through a dual structured negotiation within the probity framework and ended up with two projects that were both capable of being accepted by government within the PSC and the PPP guidelines.

So as a consequence of that we sought some advice from the government of the day in relation to the level of development that it was comfortable with, given the risk profile, and on the basis of that advice the steering committee made a recommendation back to government for the development we have.

Mr MORRIS — Okay. Was this process basically a one-off, given the diversity of the bids, or is it something that you have done on other projects in the past?

Mr NOBLE — It happens on other projects, but quite often you do not end up with two bids that are actually capable of being accepted in their form as contract.

Mr MORRIS — But in the earlier part when you get down to a couple of bids, it is not unusual?

Mr NOBLE — It is not unusual to have two bids to the point of being able to then accept one contractor.

Mr MORRIS — In terms of the teams that were put in place, were they people sourced from outside or were they internal?

Mr NOBLE — In terms of the evaluation side from government?

Mr MORRIS — Yes.

Mr NOBLE — There were both government and departmental MPV people, together with advisers, separate. So there were two negotiating teams coming together.

Mr MORRIS — Yes, but in terms of where the people came from?

Mr NOBLE — They were both people within MPV, direct employees and contractors, and then advisers, legal and commercial and technical. It is a full project team-type approach.

Mr MORRIS — Thank you. And the final point on that: further on in the submission, page 25, point 12, under the heading of experts and technical skills, in the second paragraph there is comment that the losing bidder was provided with a degree of compensation.

Mr NOBLE — Yes.

Mr MORRIS — Which is certainly a practice we have heard of in other jurisdictions. I am just wondering in this case why you decided to do this and what sort of basis there was for the compensation and indeed whether it is standard practice.

Mr NOBLE — I would not necessarily call it standard practice, but it is not uncommon. It was justified on the basis that we took both tenderers through a more detailed and documented negotiation that was not referred to in or part of the RFP, so on the basis of that we compensated the losing bidder to that effect.

Mr MORRIS — So it required fairly serious commitment of resources?

Mr NOBLE — Yes. They had to virtually document the deal, which goes through a range of negotiations and time and fees for lawyers in terms of getting the documents to an executable point.

Mr MORRIS — My final point: is there enough experience to indicate whether going to that sort of depth prior to making a decision on who gets the nod gets a better outcome generally?

Mr NOBLE — The only other project I recall going through a similar process — and I am not familiar with EastLink — was CityLink. It was certainly done on CityLink in terms of executing documentation, getting both parties to that point and then choosing and executing one document.

Mr MORRIS — Thank you.

Mr SCOTT — I am just following up in terms of stakeholders and the sorts of issues Mr Ronaldson outlined. I understand that undertakings were given in July last year, and I think the phrase used was that they had been working ‘hand in glove’ with the market community on the project. Obviously this has been a complex and difficult issue, and I will be diplomatic about it. Do you consider the current state of affairs indicates whether that sort of management of those relationships has worked well, and, if not, what is the reason for it not to be?

Mr RONALDSON — I will refer that to Ms Niall again.

The CHAIR — Mr Scott, would you like to rephrase the question?

Mr SCOTT — I understand that undertakings were given in July last year, and I think the term used was ‘working hand-in-glove’ with the market community on the project. Do you consider the current state of affairs to indicate these relationships have been managed well — I am trying to be diplomatic about it — and, if not, and I am presuming an answer there, what are the reasons why it has not been successfully managed?

Ms NIALL — That is quite a complex question. I think I would have to say we have gone through a number of different phases with the market community. There have been times when we have been working very closely with them and other times when I suppose you could declare it to be a Mexican stand-off.

If I can move to the present, at the moment we have a very active consultation process happening. The market community had four key areas they wanted information from us on, being the allocation of space in the new market, their rents, their fit-outs and their leases. So far we have papers out to them on the allocation process. We have a rents options paper that is being discussed, and a warehouse paper went out just the other day. That is through a process of four different advisory committees representing the wholesalers, the growers, the retailers and the flower market. Then there is an overarching committee which consists of the chairs of all of those committees. It is quite a formal structure.

Once the committees have been informed with these papers, they go out to the broader market community using every single way of communicating that we can find. They still manage to avoid us, so you will still find people on the floor who have not received the documents or who do not know they are out. I think at the moment we are on top of the communication with the market community. Earlier on it was a bit difficult; we did not have anything to tell them for quite a while. It is very hard to manage the consultation process when they are keen to hear the information that is going to affect their businesses in the future and you cannot tell them.

Ms HENNESSY — Did that arise from the review? Was it the review process that made things reasonably difficult, and is that one of the reasons why it has taken so long to provide advice to market users on the issue of stall allocation and rental costs?

Ms NIALL — The review took us out of the market for six months. There was some uncertainty there while the future of the project was determined. Then, really, it was a matter of getting the momentum going again and starting to get all the information. You do not want to go out with wrong information, so we had to redo the model and get the financial information up to date and as accurate as we could get it — and similarly with the other material.

Mr SCOTT — I think you made reference to the fact that there are still people who say, ‘I haven’t received information.’ Are there particular difficulties in communicating with the market community in relation to formalised communication? What reason would you give for that sort of feeling?

Ms NIALL — There are a large number of small businesses, and some of them are not in the market all the time. If you think about the retailers, they come in and out when they need to. Some of the smaller businesses on the market floor are very busy running their businesses. It is very difficult down there at the moment. They are finding it very tough economically, and I think they are focusing very hard on their work and their income and letting the rest of the world happen around them to some extent.

The CHAIR — As somebody who has been a regular visitor to the market, even though I know it is very well organised by the stakeholders — stallholders — it sometimes has the appearance of organised chaos. I can imagine it would be very difficult to pick everyone up —

Mr PAKULA — Try unionising it!

The CHAIR — and deal with everybody at the same level. But of course there are key players who tend to lead the discussions, and I think they would be who you would be dealing with. I note that the secretary made the point in his opening general remarks about major projects that you usually work with people who want it to happen, but in relation to the Melbourne Markets not everyone wants this project to occur — or that has been the history.

The issue is obviously fraught with that layer of complexity. I understand that, but I am particularly interested to lead back, if we can, to this issue of momentum. I take it that from the perspective of the stakeholders — which is just leading on from the earlier questions — there is now a cooperative approach to getting the best outcome for the relocation as opposed to, if you like, running a campaign for a different outcome. It is really now about getting the best outcome. Would you see that that is occurring — that is, that there is a genuine attempt to get that level of engagement by the stakeholders?

Ms NIALL — Yes, speaking generally, there are still some who are hanging onto their views that they would rather not move, but I think there is a general acceptance that the market is going to move. A large number of them have now visited the Epping site, so they can see there is rather a large physical structure out there. I think the reality of it is becoming clearer.

Mr ANGUS — My question follows on from that, really. Essentially it relates back to the business case, which I understand was made originally in 2004, and then in December 2009 there was a revised business case for the Melbourne Markets project. My question is about the fact that we are still talking about the tenants possibly not coming. Was that not addressed in the original business plan or indeed in the revised business plan — perhaps I could get a comment on that — and, if not, why not?

Mr RONALDSON — Once again, I might just refer to Jane Niall. I am not trying to slide out of this, but it was done elsewhere. When it was originally conceived we were originally to be the deliverer. I think we were. It was certainly a DPI — —

The CHAIR — It was a DPI project.

Mr RONALDSON — It was a DPI project, and there is a separate authority out there. I can say that presumably X, Y and Z happened, but we were not the authors; we were not the originators. Do you want to comment?

Ms NIALL — I have difficulty speaking for DPI, but when you read through the documentation I know that they also worked closely with the tenants and also with the representatives of the tenants. Initially there did not seem to be a presumption that the tenants would not want to come. Subsequently they did have difficulty communicating with the tenants, and that was why the PPP broke down.

Mr ANGUS — Right. So when it came into your domain, though, was that not a matter to be revisited then as a possible risk or a possible issue?

Mr RONALDSON — I should not do this, but I will chance my hand and go back to Ms Niall, who knows it much better than I do. It came into our domain and then we lost it again. From memory I think it went back to DPI both as client and deliverer. It stayed there for a while, new structures were built, and then some time after that it came back to us on both sides. It has gone back and forth a bit.

The CHAIR — It has been an orphan, has it?

Mr RONALDSON — Yes. I do not think anyone would say it has been a remarkably consistent approach in terms of governance across the years. I do not think you could put that up. But we have seen it at various stages under various conditions. I can remember some aspects of the last time we got it back. There were a range of structures there that we deconstructed. From memory, there were a range of costs there to be rediscovered. There were a range of understandings that were current with the stakeholders that we had to re-engage with. It was not quite starting at ground zero, but it was certainly a different set of circumstances than when the thing was conceived.

The CHAIR — Sorry to interrupt, Mr Angus, but surely one of the clear things then that is coming out of your evidence is that lessons have been learnt. That is what we are here for. This is a classic case of a project that did not really, in a sense, have a champion, a sponsor, in government. It was passed around like a hot potato, in effect, because there were some challenges with it. So rather than there being a lead agency with ongoing responsibility and accountability — that did not occur. That is really part of the process.

Mr PAKULA — That sounds like your take on it.

The CHAIR — I am just trying to draw this out because clearly that is the tone of the evidence that is being led here, and I think it is a reasonable proposition to put to the secretary to say: would it not be better, if it is clear, that as part of the lessons that we learn and reflect on in our recommendations, those difficulties are not repeated?

Mr RONALDSON — I know you will chop me off at the legs if you do not think this is relevant, but it is a really good point. To get any major project up you need a strong line of champions, because they are going to take hits on the way through. When they manage to do it they are going to come under various microscopes anyway. I think they are good reviews. The Auditor-General came to look at the markets and has done a review — before they are finished — and the Auditor-General looked at the convention centre. But there will be a range of people who come to look at it. But they are hard things to do, like I said in my previous evidence. You need an absolute, bloody-minded view that you are actually going to do this, from the political executive right through to the people, often, who are the clients who are going to benefit. If that chain is broken anywhere, you can bet you are going to ask for trouble.

The markets might have had good champions from time to time, and undoubtedly did, but then there is the question that even if you are a champion, if that chain is broken, how do you exert leverage on people who have to agree? You need a champion: you need a champion minister, you need a champion bureaucracy and the

client really needs to want this and that people are going to benefit from this. They really need to want it. You need that, if you like, unbroken chain to do anything on one of these really big projects, because they are difficult enough as they are — particularly when things go wrong, and that was part of my previous evidence. The hallmark of good management — I will say it again — is that when things go wrong, you have the technical and commercial expertise and a champion behind you driving through to find solutions when inevitably things do vary from the script.

Ultimately you need the leverage; leverage is really important. You need all things, and then it should go more easily than in other circumstances. The market is a classic case where that chain was broken through time. You did not have continuity of management, you did not necessarily have continuity in the political executive, you had a range of views from the beneficiaries — I use that term loosely — that changed through time also. Certainly it was a circumstance where the government could not — and even if it wanted to, it probably would not — turn around and exert every bit of leverage it could.

Mr ANGUS — So you could argue that that makes things even worse, given that there would have been more sets of eyes looking at this project. There were more departments, more people involved at all the different levels, and yet no-one addressed that fundamental issue of the tenancy. Do you have a comment on that?

Mr RONALDSON — Once again I might flick to Ms Niall, but it just seems to me that — I will answer it more generally, but you can pull me up — there is another dichotomy you can put through major projects. There are those that you build that people will use — what is the word? — incidentally. So you upgrade a concert hall and everyone enjoys it incidentally. That is one side of the fence, if you like.

Then there is another range of projects where it is absolutely central to a lot of people's livelihoods. That is different. If it is absolutely central to their livelihoods, it is not just about building a physical structure; they are going to fight for every aspect of their livelihood, and it is a negotiation stallholder by stallholder by retailer. It is to some degree a circumstance where you cannot please everyone. The whole idea behind it is sort of broadly a premise that no-one will be worse off than they were beforehand. That is a hard thing to meet, although that is the objective. There have been other projects like this: for the royal agricultural society we did the reworking of the showgrounds. We got part way through that project and there was a client — DPI again — and it became obvious that the royal agricultural society, their very being, their finances, their whole *raison d'être*, was bound up with the physical process of redeveloping the showgrounds. Those sorts of projects take on a different hue and tenor. Of course they are present all the time in PPP in a way, but you take these D and C projects, and essentially peoples' livelihoods are bound up in them, and so you are certainly in for long and usually protracted negotiations that you just cannot do overnight, and particularly when the livelihoods of people are fractured many ways. Many stakeholders and many layers enjoy the one facility, so it will never be a quick process anyway.

Ms NIALL — I would really like to endorse what Mr Ronaldson has said in terms of the passion that comes behind somebody, particularly a small business holder, who is really up against it anyhow. A lot of the people at the market are 55-plus, so they are being asked to move, upheave their whole business, make a significant investment in a new facility, and some of them will be spending up around \$1 million — and certainly even the smaller ones a couple of hundred thousand — at a time in their life when they are really thinking about their retirement.

Mr ANGUS — Yes. That really reinforces my very point.

Ms NIALL — I was just about to go to your point. We do, in our risk register, have serious recognition of the tenants as being a red risk — very high — and we have subsequently developed an engagement strategy which is why we are now, I think, starting to get across the top of the tenant engagement issue and we have worked out a number of ways that we can get information to them. I think it is starting to work a whole lot better than it did. So we were aware of it, but it is quite challenging to deal with.

Mr ANGUS — So that risk register that you just mentioned, how recently was that put in place and identified?

Ms NIALL — Two years I think the tenants have been a red risk at a departmental level.

Mr ANGUS — So that again reinforces my point, the fact that at the outset it was not seen as a risk, even though if you look at it now perhaps it is easy with hindsight — we all know that — but even objectively at the time you would have to say that that would surely be one of the key risks?

Ms NIALL — I think as long as I have been with the project, which is just about all the time that DBI has had the project, the tenants have been in there as a red risk.

The CHAIR — I would have said that we have always known the tenants have a view — that would be one way of putting it — whether or not they were risk rated.

Mr PAKULA — Just on the difficulty of managing the relationship with the tenants, can you give us some insights into how much more difficult it was, if at all, or what new challenges were created by a situation where there was a change of government and the expectation of the tenants or the expectation that had been created in the minds of the tenants as a consequence of that was that they would not have to move? That was the understanding that they were under, and to then hear rumours that the project was not going ahead and then ultimately to discover that in fact it was going ahead and they would have to move, did that mean that you had to basically start from scratch with some of them?

Ms NIALL — That is quite a challenging question. I do not think we went back to scratch. I think there probably was some disappointment among the tenants. They were hanging onto an earlier statement by the current Premier that he was not going to move them. However, I think they did recognise — the more politically astute among them — that in fact he had not made that statement in the election campaign coming up to the election.

Mr PAKULA — Because he had made it in the one prior.

Ms NIALL — Well, whatever.

Mr PAKULA — I am not asking you — —

Ms HENNESSY — I was going to say he in fact did, but that is an unfair question to put to a public servant.

Ms NIALL — In terms of their attitude, I think they were more concerned about the fact that we did go into review and then I think they were still hoping that the review would lead to no move, so when the numbers came out that showed the costs of staying and the difficulties of staying it took a little while to work through that with them.

Mr ANGUS — It is not the last few years that is the issue to me — —

Mr PAKULA — Of course it is not.

Mr ANGUS — It was the original business case all those years ago, and the fact that that was not identified — or if it was, it was not addressed.

Mr RONALDSON — Once again, and I am not trying to slide past it, we did not do the original business case.

Mr ANGUS — Okay, so when it came to you guys then, obviously no-one picked it up or looked at it.

Mr RONALDSON — Once again, it is not sophistry; it is the point I made before. You can conceive of these things and you can have good architecture, and then you get down to doing it. If you want me to say, ‘Did we underestimate the degree of difficulty in dealing with all the stakeholders in this?’, undoubtedly from time to time we did; there is no question about it.

Mr PAKULA — It does not mean you did not turn your mind to it, though, does it?

Mr RONALDSON — No, I am not saying that at all, but certainly it has been longer, more protracted, more difficult and in difficult economic times. I look at this thing, and yet again we are in another round of negotiations in circumstances with particular stallholders and those threats of legal action. There were people breaking off and saying they would go down to Dandenong, I think it was, or to some place like that. These

were reasonably determined subgroups that would rise from time to time. We got the best people we could around this project who had backgrounds that would suggest they could talk to stallholders. The former head of Major Projects Victoria grew up on an orchard and knew the markets very well. Ms Niall has a background that way. We put people on these projects that understand the industry and the dynamics and the family histories of these people going back. It is a very personal family business.

Notwithstanding, you can say that certainly in my case from time to time I wondered about whether we would ever reach a satisfactory situation with respect to all of the stakeholders in this project in what was certainly one of the most difficult, protracted and passionate set of circumstances I have seen around a major project.

Mr PAKULA — I am happy to move on to the convention centre, but I just have one more. In a practical sense I am just trying to understand the five extensions of time due to water damage at the site. I am just trying to picture it in a practical sense. This is between March 2012 and May 2013 — the five revisions of practical completion date. Is that all as a result of rain, or is it a result of other kinds of water damage?

Mr BAMFORD — It is damage as a result of rain. When the risks are allocated under the design and construct contract the contractor is entitled to time relief if the works that he has already completed under the contract are damaged by a rainstorm event.

Mr PAKULA — This is rain that has fallen.

Mr BAMFORD — This is rain that has fallen. These were rainstorms on the site and the impact on areas; there is a considerable amount of earthworks and essentially work in the ground involved in the project. That is still the case; there is still a lot more to do. We are at a point in time in the process of construction where the works which have been partially completed are vulnerable to damage with the clay if we get rain.

Just as an illustration, there was about 400 000 cubic metres of earthworks included in the contract, and they have had to do about half of that twice in the course of the project because of damage.

Mr PAKULA — Which goes back to the secretary's point about not always being able to predict everything that might happen.

Mr BAMFORD — Yes.

Mr O'BRIEN — I thank Mr Ronaldson and others for their evidence. Just in relation to this fundamental question of the development of the business case in relation to the position of the traders, you opened with the words that it is difficult enough to do it when you have people who want things — and you have given a lot of evidence — let alone when you have got opposition. In a sense the opposition was always there, and I am happy for Ms Niall to come back to clarify it if she needs to, because I am conscious of the other answers she has given. In a sense the opposition was always known, and part of this relates to the structure, because it was a DPI project and there is some involvement of Major Projects Victoria. But in terms of the extent to which it becomes a building project the business case was, in a sense, premised on a fundamental underestimation of the opposition to the project, which distinguishes it from, say, a supermarket development or another type of private sector development, where you would have an anchor tenant in place often driving the project as opposed to having it imposed upon them.

No matter what happens now in the resolution of it you have a fundamental flaw in your business case in a sense, which was there but which was underestimated at the time. Is that the heart of the problem as you see it?

Mr RONALDSON — I will concede just from my point of view that there is no doubt that from time to time I have thought we would be further along the road of meeting more of the demands thrown up by all the various stakeholders in this project; that is true. If you want to call it an underestimation, that is true.

Mr O'BRIEN — In relation to the Auditor-General's report and the relocation, again we have an announcement in 2004 that the market would be relocated to the new site. There was still opposition to that announcement at that time. In a sense if we are to look at the lessons learnt for the future, it would be to have a greater respect or appreciation that if there is genuine opposition, you are not necessarily going to convince them. They might entrench their views or you might have this red flag — —

Mr PAKULA — Are you going to apply that to the east–west tunnel? An overlay? If there is genuine opposition, you do not go ahead?

Mr O'BRIEN — Mr Pakula, you have had your time in government; I am asking Mr Ronaldson.

Mr ANGUS — These are tenants; people paying the rent.

Mr PAKULA — It is just an interesting mindset in terms of significant infrastructure — you only build because everyone agrees with it.

The CHAIR — Thank you!

Mr O'BRIEN — Just to finish my question — I have had some interjections — there are times when government will proceed to a project where there is opposition, and freeway projects are a classic example. You will have compulsory acquisitions taken in relation to landowners' rights. To pick up your on evidence and put it in context, this was a project where the primary client or the primary beneficiaries were those opposing the project. I see you nodding now in response to Mr Pakula's hilarity.

Mr PAKULA — So you are not just verballing witnesses, you are now verballing their gestures.

Mr O'BRIEN — If you had stopped being so verbal and started listening, you might have learnt something in government. I am trying to get something for the benefit — —

Mr SCOTT — Please!

The CHAIR — Mr O'Brien and Mr Pakula, can we please focus on the question? The witness should focus on the question and ignore the interjections. Thank you.

Mr O'BRIEN — It would be helpful if there is a nod that it be verbalised and elaborated on, and I would ask you to do that. I refer to the basis of the project being built on a business case where those benefiting, being the market holders, are opposed to the project. It was announced in 2004 that effectively it was going to happen. What lessons can be learned in terms of that style of doing a major project for the benefit of the Victorian taxpayers moving forward?

Mr RONALDSON — I do not want to be repetitive, but I think I said in evidence that in lots of major projects you will have, let us say, people who oppose. With freeways you have to compulsorily acquire. In fact it is unusual to not have a major project where you find someone who does not like it. I think there is a particular dynamic to projects where a considerable number of the beneficiaries will not necessarily oppose — there are more sophisticated ways — but they will dig in almost endlessly to negotiate if they think that ultimately they will get a better deal.

The second point is that they do not only have leverage at a particular point in time, they have ongoing leverage. After all, if they do not bring their business, you do not have a market. It is not a case of someone in government just deciding and descending even if they want to. You want them in goodwill. As Ms Niall has said, it will cost them in some cases and you want them to bring their business; you want all of that. They have been in situ for generations and enjoying a particular business environment. I think we all recognise that; conceptually you do recognise that. It is another thing to go out there to try to make this occur.

It might be unique, in my experience, that you had at least this sort of feeling so splintered across so many groups, trying to bring them together. There have been other projects I have done where the livelihood of the people is embedded in what you are doing. Generally speaking, though, they have been more receptive to the idea and often they have been the instigator of it. This could be unique. I am not trying to excuse it because it is unique, but it could be unique in the sense that they have genuine leverage and they are prepared to negotiate over long periods of time to get what they want and really with no downside for them digging in and negotiating as hard as they can. My view from that point of view is: good on them. You are in business to turn a quid, and if you can dig in and negotiate better and better, then that is what you will do.

The CHAIR — Is there anything else on the Melbourne Markets?

Mr MORRIS — Just a quick one and then a slightly more involved one, if I may. If this was answered after the previous question about the adjustments to the time budget, I am sorry I missed it, but is there any cost to the state as a result of all those works needing to be redone, or is that borne by the contractor?

Mr BAMFORD — The additional costs are borne by the contractor. The contractor is entitled to time relief for water damage as a result of storm events but not to costs, so there has been no increase in the contract value as a result of those events.

Mr MORRIS — The other question I had was on the outcomes of the Auditor-General's review. You talk in your response about having conducted a review and put in place changed arrangements in terms of this particular project, but is there any other process or practice in place where the lessons from this particular project are fed into or form the basis of best practice, if you like, for ongoing arrangements?

Mr RONALDSON — As a quick quip, the lesson is: do not do a markets project again.

Mr MORRIS — I think we would probably all agree with that.

Mr RONALDSON — This is just off the top of my head, but I think you might try to bring about the circumstances where at least you have prima facie negotiations before the political executive is locked in, if that is possible. That brings with it dangers, too. There are expectations it might be built and all that sort of stuff. But if you could do it and it makes sense commercially, perhaps deeper soundings before you actually formulate a business case I suspect would have helped, if you could have envisaged that.

The CHAIR — We could spend a lot more time talking about that issue, but I think Ms Niall will be pleased to know that we have finished talking about the Melbourne Markets. So thank you very much. We will turn now to the other project, which is the Melbourne convention centre development, as it is called. I will invite the deputy to open the batting.

Mr PAKULA — I suppose just a couple of general questions first, Secretary. In a general sense I suppose we would all be interested to know whether there were any particular elements of the procurement method and the design of it or the relationship with the contractor that made the convention centre project as successful as it was. In particular, in regard to your submission where you talk about the two different Partnerships Victoria options, 1 and 2, and the ultimate choice of PVO 1, can you just take us through the thinking behind that and whether that choice helped deliver the project in the way that it did?

Mr NOBLE — Can you just — —

The CHAIR — I think Mr Noble needs some clarification. Could you just summarise the question?

Mr PAKULA — What is it you want repeated?

Mr NOBLE — Where does it talk about the 1 and 2 you are referring to?

Mr PAKULA — Under 'procurement method'.

Mr NOBLE — Just the page reference.

Mr PAKULA — Page 4 of this. You talk about 'Partnerships Victoria option 1: PV/MCET operator' and 'Partnerships Victoria option 2'.

Mr NOBLE — This was the issue of whether we would put a private operator in under a PPP model and do a full service delivery or retain MCET as a state delivery. The decision and structure of the day was to retain, obviously, MCET as the operator, because in relation to where the state risk was about economic development and being able to continue to win and attract international and national events it was best served with MCET as a continuing state body, with the background and success of that. There were a range of potential commercial conflict issues with private operators and other locations, so that was essentially the decision that was made.

Mr PAKULA — What was the extent to which that decision contributed to the success overall of the project?

Mr NOBLE — Compared to the markets project, the convention centre project was a dream project with an operator who was informed, had had project experience and was rolling up his sleeves to develop and complete the project so that they got the full functionality and structure of what they wanted from the project to support the business. That was arms to the ready and quite a high level and degree of negotiation internally about, firstly, the reference design and the functionality, then through the evaluation of the different designs that came up and then ultimately the detailed design within the contract, and the execution of that was what was put on the ground. That is where a strong client or operator within the project team actually delivers your good outcome, if you can manage them.

Mr PAKULA — We have people from Plenary Group coming in later in the week, so we will obviously be able to ask them, but in terms of the relationship between government and them as the contractor, were there any particular sort of standout aspects of that relationship which you see as having been major contributing factors to the success of the project?

Mr NOBLE — Plenary has built a number of PPPs in Victoria and around the states, so they are fairly experienced in that process and ultimately, as part of tendering, in presenting what government wants out of a project and then generally delivering that. Again, the relationship, negotiations and discussions can be fairly robust, but one needs to be sure of where and what it is one wants and why one is fighting for it. At the end of the day it is a 25-year relationship on a PPP. You need to continue to deliver the services, as does MCET for its ongoing exhibition and convention business. You can ask Plenary, but I think even they were a bit surprised when they got involved in this PPP about how exacting the convention and exhibition market actually is on the services, because it is as exacting in quality and time and control as a hotel, or better. You can ask them that question and see, because it did change their view a little bit as they got into the project.

The CHAIR — I am interested in the calculations on page 17, which go in part to economic benefit. In fact there is a reference in particular to:

... incremental additional employment ... of an average of 2596 per year over the 25-year operating period.

I am just wondering who can advise the committee on how the calculations relating to the value of employment throughout Victoria and in Melbourne were actually made.

Mr NOBLE — I could get you the details on how they are actually calculated through the economic model, but there is a general economic model that Treasury and MCET use in evaluating those benefits.

The CHAIR — So it is a DTF one?

Mr NOBLE — Yes, it is a DTF one. There is, as is usual in economic models, some debate about particular multipliers and those sorts of things in terms of the detail.

The CHAIR — That is fine. We can take that on notice. Now, a sort of related question. We have the economic benefit, we do it all to a plan and we have a 25-year operating phase. The project is bedded down — the centre was completed in March 2009, with a 25-year operating phase — but already the annual report in June 2011 refers to upgrades and extensions. Given that this would reflect what I would presume to be a successful project that one could be anticipating within two years a need for expansion, the question arises: is this a good way of planning given that having completed the project we are already in discussion again about extensions? What is the nexus between success, too much success and not enough planning about the demand for the facility?

Mr NOBLE — I think there are possibly two issues in relation to the money that MCET, in terms of the additional capital, has spent since the opening. There is a handover and capital refurbishment required for the existing exhibition centre as part of the contract for when Plenary Group takes that over, and some capital works that MCET had money aside for to do those works had been spent in that period. There have been some other areas as they got into the building and started managing the business which they would rather have tweaked and operated in slightly different ways, and that involves smaller amounts of capital expenditure that MCET has provided to improve the way they do business in that facility.

Mr SCOTT — Given the proximity of the project to the Monash-West Gate development project, and the physical interaction between the two projects, I understand some complexities arose. I would be interested to

know how they were resolved and dealt with during the project — dealing with the unknown unknowns and the known unknowns.

Mr NOBLE — Soon after the convention centre contract was signed — my recollection is it was May 2006 — the M1 project was announced. The development and interface of the construction of that constrained the site in terms of access to construction materials and, as the report mentioned, also required us to change how the car park component of the project was developed over time and delivered. What we did between the two project groups — because in essence it became a construction contract negotiation with the government rounding through the relationships between that, and I think at some stages even the same minister, to the point where we facilitated it through a previous executive director of Major Projects, James Cain — was to facilitate an agreement as to how the various issues and timing of the projects could be best managed to both the contractor's and the state's benefit.

Mr SCOTT — Obviously the view was that that was done as effectively as it was foreseeable.

Mr NOBLE — Yes.

Mr O'BRIEN — Just in terms of the convention centre, in terms of the structure, the response mentions the complex legal and financial structure. Meanwhile the state has made a couple of contributions of some \$374.9 million to enable development of an integrated precinct costing over \$1.6 billion. You touched on this in your opening. Perhaps you could share, without wishing to go over too much ground, the differences in stakeholder involvement, stakeholder energisation or consultation as part of that. If you could explain to the committee in terms of ongoing obligations going forward who will own what in terms of the obligations and what obligations the state has to the commercial developer in future years. In particular, on page 24 there is a reference to service payments allowing for savings in service payments. Could you outline what those service payments and what those savings would be?

Mr NOBLE — I am just trying to find the reference.

Mr O'BRIEN — Page 24 of your response. It is the third dot point:

An (evaluated) investment of approximately \$91 million in quality enhancements above the technical brief to the core convention centre giving value for money in design, that had a whole-of-life multiplier effect in operational savings allowing for lower service of payments.

It sounds like the sort of thing that could be encouraged if it is there.

Mr NOBLE — I mentioned before that there were two different development project complexities as part of the responses. The base case, or the PSC, estimated something in the vicinity of about 20 000 square metres of gross development area, and we achieved something in the vicinity of four times that in the way in which the Plenary development took place, and as a consequence of that, the capital development fee was \$92 million or \$93 million, so that was offset against the QSP or the government's \$374 million contribution. Therefore the quarterly service payments were reduced for the actual convention centre that we received, so there was a higher capital contribution in the way in which Plenary built it but a reduced quarterly service payment offset with the development fee. Does that answer your question?

Mr O'BRIEN — Yes, thank you. That explains it.

Mr ANGUS — Just in terms of the public sector comparator and the calculations surrounding that, I note that in your response there have been some complexities that you identified there on page 17, and on page 18 there is a table. I am wondering, was that done in house or did you get some external contractors in? How does DBI handle that? Perhaps you could answer that first.

Mr NOBLE — We retained the services of financial and commercial advisers. In this case it was KPMG, and they develop the model and do the calculations. We usually have TCV check them.

Mr ANGUS — So there are a couple of different bases, as I understand it. Could you just explain that a little bit more for us, please?

Mr NOBLE — What changes in the bases do you want — —

Mr ANGUS — I understand that in the public sector comparator, there were a couple of different — —

Mr NOBLE — In terms of the public sector comparator, there is a base public sector comparator that is published without risk, and then there is a risk assessment which is added to that and kept confidential. Then people actually bid into and are assessed against the risk-weighted public sector comparator, which allows people to bid and assess risk and price accordingly, and we assess it against that.

Mr ANGUS — As part of the process, are you then using the consultants as well?

Mr NOBLE — Yes. All of the evaluation, the financial model, the risk weighting — and Treasury gets involved in all the risk assessments — all that financial evaluation is done with the assistance of commercial advisers under the direction of the project director and the commercial manager.

Mr ANGUS — And Treasury is involved as well?

Mr NOBLE — And Treasury is involved in those project teams. That is part of the PPP process in a general sense.

Mr ANGUS — As part of the standard arrangements.

Mr MORRIS — Just in terms of the ROR and the risk adjusted, I understand that the ROR is released?

Mr NOBLE — That is my recollection. We put that out with the bid. It gives people an indication of where the basic construction estimates are, based on the design.

Mr MORRIS — Given that the project is now well and truly completed for all intents and purposes, aside from the ongoing commitment, whatever that might be, why has the risk-adjusted PSC not been released?

Mr NOBLE — I will take that on advice. I do not have an answer to that question. I presume it is Treasury policy, but I do not know.

Mr MORRIS — But from your point of view there would be no reason why it should not be released at an appropriate time?

Mr NOBLE — It is part of the contract. We released the NPV of the contract, which as you know is disclosed.

The CHAIR — Can I just clarify on this point the function of DTF, because I am a little confused. In this case KPMG has been contracted to do the analysis via that advice, but is that done in collaboration with DTF, or is DTF standing above, doing oversight?

Mr NOBLE — The way MPV runs PPP projects is that DTF become part of the project team and are now a member of the commercial team. They sit in on the meetings and are involved in the discussion and briefing of KPMG and the discussion around how the financial model is managed and what is produced.

The CHAIR — So it is a collaborative outcome between DTF and KPMG.

Mr NOBLE — Yes, and the project team.

The CHAIR — So there is no separate review of that?

Mr NOBLE — No. As Howard mentioned before, how Treasury briefs ultimately the minister if there is a disagreement or a difference in view, that will come out, and they brief the minister as they will. We usually know 99 times out of 100 what that is. Sometimes they have different views.

Mr O'BRIEN — To follow up on that — and it may lead into our next evidence from DTF — DTF had a role in the steering committees of both projects, but particularly I suppose this does hark back to the other one. Just to contrast DTF's as best you can in both projects, particularly as it relates to your role: in what way has it varied between the two projects in a sense, particularly in relation to the oversight and client role I suppose you played in the markets at least?

Mr RONALDSON — You can stop me if this is not what you want, but I am not sure they played any extraordinary roles in both. On both projects they would have had oversight broadly in the way that I described. I think it is fair to say with respect to the market process they would have certainly, I presume, been advising the Treasurer of the day on the issues that the project was confronting and also have had a view about governance, because governance did change. It is not the environment where you go and you lobby because you want something. When the project came back to us we were not standing in the bureaucracy wanting it back. They would have oversighted both projects, and from time to time — quite rightly; it is not a criticism. If they think things are going off the rail, I think it is fair to say that they will try and be more interventionist — and I use the term ‘interventionist’ loosely — than they would be otherwise. I think that is a proper role.

You might form a thesis generally — I would have to think things through — that if things are going fine and they are in and out of the woodwork, which they are, we move through it, but if things start going wrong, we certainly have a licence to offer a series of opinions to the political executive that things are not going as they would like. Often part of the outworking of that is to seek different solutions, of which they might be part.

Mr O'BRIEN — Part of the thing is to bring that process forward in the lessons learnt, and maybe that is where the high value, high risk — where they are trying to do that up-front as opposed to as much as you can after the event. Is that something you support?

Mr RONALDSON — No, I think — and I said this last time too — that in the language and the way we describe it, most of the issues with major projects from where I sit are in the client side, because I honestly believe that is where projects are most risky. It goes to the point that Mr Angus was making before, that you make your biggest mistakes up-front. If someone makes a couple of big assumptions on a business case and it gets written in and the project rumbles on, everyone wakes up two years later and you have got a real problem.

In my experience if the assumptions are sound, this translates into a couple of things — a very good spreadsheet with accurate numbers reflecting risk and a good commercial strategy on which to negotiate — and they are both quite realistic. By the time you get to signing the physical civil side, if you like, of the project, problems will always arise, but quite often they are fixable by way of negotiation or they are fixable in another way. But if you make a series of assumptions up-front and they are wrong, that tends to get built into the architecture of the project subsequently, and they are much harder to undo in my experience.

The more thorough you can be up the front — I am with Treasury here; I think this is what Treasury is saying — the more testing you can be and the more evidence you look at right up-front to build a really good business is time really well spent. If this was true — and you could go back and check this; someone could do some checking — once the contract is signed and the major commercial arrangements are put in place, the government does pretty well. If you benchmark it against anyone else, then I think the performance usually holds up. Where we do have difficulties, no doubt, I think is where some assumptions, or a series of assumptions, are made at the front end and they do not necessarily hold through the life of the project. I think that is where you get most problems. The danger period is right up-front in my opinion.

The CHAIR — Thanks, Mr Ronaldson. I want to conclude on a positive note — on the convention centre in fact. It is in relation to the obvious question, which we have not really teased out and do not have the time to do it in detail. Off the bat, Mr Ronaldson, can you define probably the key factors — maybe the top five factors — that made the convention centre project a success in terms of delivery, that it achieved aspiration and was on time and within the agreed budget.

Mr RONALDSON — I would like Mr Noble's help, but I will have a run at it. We certainly did have a good business case. Key to that is you had a government body in the middle that had been running the business a long time successfully, and they really knew the business; therefore they really knew what they wanted in a competitive market. That led to a good business case, which had the aspects that I am talking about. Ultimately it had a very good cash flow explanation of how things would go and very good quantification of risk. It was a nice competitive process, where good people bid, who had done this before. There was then an intense but good negotiation coming out of that that led to a good, successful party. Because the business was so well known, I guess the parties had a confidence that arrangements put in place would, in effect, be profitable for 25 years. That is always one of the big unknowns in PPPs, that what will kill a PPP is a major variation that no-one sees, or it will give it trouble. I think all the parties were confident that this arrangement would hold over at least for the majority of their time period.

Mr NOBLE — The only thing I would add to that is everybody across all the project teams were committed to and understood a single particular outcome, both in terms of the commercial development and in terms of the PPP, and worked to deliver it.

The CHAIR — Very good. As I said, it is always good to finish on a positive note. On a positive note we will bring this hearing to a conclusion. Thank you, Mr Bamford, Mr Ronaldson and Mr Noble, for your attendance. I think we left a couple of matters on notice that we will write to you formally about and seek response. Thank you very much.

Mr RONALDSON — Thanks, Chair.

Witnesses withdrew.