

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

Melbourne — 22 August 2012

Members

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Witnesses

Mr G. Moore, General Manager, Victoria, South Australia and Tasmania, Lend Lease Project Management and Construction (sworn), and

Ms K. Sides, General Counsel, Australia (sworn), Lend Lease Project Management and Construction.

**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 Lend Lease Mr Geoff Moore, general manager, Victoria, South Australia and Tasmania, and Ms Kim Sides, general counsel.

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 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. Lend Lease staff, as requested by the general manager, can approach the table during the hearing to provide information as required. Written communication to witnesses can only be provided via officers of the PAEC secretariat.

Members of the media are also requested to observe the guidelines for filming and recording. I would like everyone to note that these proceedings are not being webcast. All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act 2003, 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 the hearing, which are to be verified and returned to the committee secretariat and will be posted on the committee's website following their return. Following a brief presentation by the general manager, committee members will ask questions related to the inquiry, and sometimes the procedure we follow relates to questions in the Legislative Assembly, but that depends on the mood of the committee on the day. I ask that all mobile phones be turned off. I now call on general manager Mr Geoff Moore to make a brief presentation.

Mr MOORE — My role is the general manager of the Lend Lease Project Management and Construction business in Victoria, the business formerly known as Bovis Lend Lease. I am joined by my colleague Kim Sides from Lend Lease Project Management and Construction, where she has the role of general counsel. The invitation to the inquiry asked me to give evidence in regard to the Melbourne Markets relocation project. The role of Lend Lease on the project, to set some context, was that it was responsible for design and construction. We are the design and construct, or D and C, contractor for the core market facility. In my capacity as the general manager of the business, I have had oversight of both the procurement phase of the project for the design and construct contract and the delivery phase of the project.

To put into context Lend Lease's involvement in the project, in 2002 a separate business unit, our consulting business unit, was engaged to provide some preliminary planning information to assist in business case needs. Some years then passed, and as we approached market soundings for the project we expressed our interest to be involved as a D and C contractor. That previous involvement was acknowledged and, formally, clearance was given in terms of the probity process from the Department of Primary Industries.

The time line of involvement for my business and influence on the project started with the expression of interest process in 2008. It was a staged process. There was a general approach to those registered for this size of project. We then prepared a detailed capability registration of interest. We were then shortlisted to one of three contractors initially where we undertook the bid phase effectively during the mid period of 2009. In late 2009, being 25 September 2009, we were announced the preferred D and C contractor for the project.

From that preferred position we then worked through a redesign, design and development process to incorporate a number of changes to the project brief. That derived an accepted, agreed guaranteed maximum price proposal in February 2010. There were some enabling works undertaken in parallel at that time, but the contract was on foot from that February 2010 stage. That sets a context to the project and our involvement.

I thought it also appropriate to make a few brief comments in regard to the inquiry and the views of Lend Lease as a contractor, having read the terms of reference.

There are four points that we would like to promote in terms of the effective procurement of large infrastructure projects. The first of those would be *Pipeline* — a well-articulated, forecast of future projects. It enables better planning from private industry, it enables our planning and resources, skilling, bidding and consortia formation, and the ability to provide valid and relevant information in market soundings as to procurement options, risk

profiles, the level of services and the scope of services. Such an approach then provides the state with an enhanced bid response, and ultimately greater value for money. It brings the best thinking, it brings the right resources, it brings better planning, it brings innovation into what we can respond with.

My second point would be *Central Procurement*. We see the benefit of central procurement agencies — and this is not just in this state but around our national perspective — where there is a maturity, there is a knowledge, there is a relationship with industry, there is an ability to interact, there is an ability to progress the industry and the thinking, there is an understanding of risk profiles, and there is an understanding of expectations. We have seen variable experiences, but we would certainly promote and support that there are central procurement agencies, such as we see for health and such as we see in Major Projects Victoria. That experience is important to effective engagement.

The third point I would make is *Project Planning. Maintenance* of project timelines, timely approvals, well-considered briefs, well-considered budgets are all matters that give rise to a surety in the bid process, an understanding of the brief and the certainty of where the process is going. It provides that greater certainty in reduced exposure to change during procurement and project execution, which could otherwise potentially cause delay and additional costs. Having disclosed clear project scopes, the short-listing process and the timetable brings a better market response from the private sector parties.

The fourth and final point I would like to make is a *Maturity of Procurement Approach*. Some readings would suggest that the only way to absolutely be sure is to get a bottom-line-price comparison — what we would call hard-dollar tendering, pure cost. We are advocates that for large, complex infrastructure projects there needs to be procurement approaches such as with alliances, managing contractor, PPP (Public Private Partnership), where the contractor is providing early input or bringing to the table a wider range of services, whether it be design, planning, procurement, authority approvals or buildability to the project. This in turn provides the state innovation, enhanced functionality in the end product, deeper whole-of-life considerations, reduced overall time frames in delivery and greater risk transfer.

I summarise those four points: pipeline, central procurement, project planning and maturity of bid process.

The CHAIR — That is good. There is plenty of meat there. Just to summarise, our interest is in state government project partners, in your case, and your views as opposed — not as opposed, but alternative views — to those of the government agencies, which we are dealing with as well, on the issues around accountability, transparency, relevant skills and capacities based on lessons learnt. You have pretty well succinctly summarised all that and we could wrap it up now, but we have specific questions. I am really interested in a number of the points you have raised, and we will deal with those and try to flesh them out. In part you have touched on what was really my first question, which was to ask you for some commentary around the issue of your relationship with government as a client and in relation to the Melbourne Markets project and your experience dealing with the client.

I think in evidence we have had to date on the Melbourne Markets it has been summarised as being an orphan of a project. It has been passed around like a hot potato from department to department and it has not really had a prime sponsor, a champion, in the government process. That is a reflection of a difficult project; nobody has really wanted to own it. That being the case, with your engagement commencing in 2009, and formally in 2010 on contract, I wonder if you might reflect on your relationship with the client. In so doing you may choose to flesh out the fourth point you raised in your summary, the maturity process and the benefits of alliances, PPPs and so on for large projects. Clearly the government would have been well informed by perhaps a different approach initially to this project had the opportunity been available.

Mr MOORE — I think the first point would be to say, ‘Who is our client?’. From Lend Lease’s point of view, our client is Major Projects Victoria, under a design and construct contract. So we see the project through the procurement process for that managing contractor. We saw a detailed expression of interest that sought of us as a respondent to explain our capability, our team, our depth and our ability to deliver this project. That was quite a thorough process; it was something we have seen before and we support. We then went through, from memory, a 16-to-18-week bid period on the project, where we were effectively taking a very preliminary design and an out-turn specification, a performance specification. We were creating a detailed design solution to the performance specification, for the core facility to execute the project. We then delivered that. Clearly I cannot talk to what our competitors did, but in our case we had a strategy of demonstrating absolute understanding and

surety in our design. We took from half a dozen to eight drawings to a couple of hundred of drawings, volumes of submissions, volumes of reports, volumes of specifications to show that we properly understood and had quantified the core facility. So it was the detailed design process.

We then got to the end of that bid period and found ourselves preferred but were then, as I mentioned earlier, issued with a revised brief. We had set a time line to commence the project, and then the revised or updated brief sought some value enhancements. That was changing the area or the volume of what we call the non-core or proximity warehousing land, the extent of road infrastructure for that proximity land, and some of the options, the value management options we identified in our submission — for example, central refrigeration — became incorporated in the base facility. So we went through that detailed design process. In terms of dealing with MPV through that process, the professional understanding, the level of design review and critique, the level of price transparency, we provided full bills of quantities and we worked through that to look at pricing options through that process. We commend MPV for the way it handled that process.

What has evolved, and it is apparent, is that the stakeholder process is not necessarily paralleled with that procurement process. We are aware that there are still questions of commitment and levels of commitment by the stakeholders. It has meant that issues such as the proximity land and warehousing areas, the procurement and the timing of that has become somewhat disjointed from the core facility. But to go back to your question of the experience of the client and the maturity of the process, the client was very clear, and the maturity procurement was very clear. Our obligations — and if we go to the recitals under our D and C contract and the objectives of the project, the project has got longevity, a very functional safe facility and one that provides flexibility and whole-of-life considerations — we have promised, we believe we have delivered and we are delivering on those requirements. But, as I say, a separate issue for us is the broader client stakeholder engagement.

The CHAIR — Which is very much at arm's length from your space in the project?

Mr MOORE — Our involvement there is to support the state and DBI with project visits, design explanation. If you consider the markets as a large retail project where there is an interface between lessor and lessee work, there has been some movement of that interface work, so we have worked through options to explain and validate so our scope has changed to suit those requirements over time, but very much, as you say, at arm's length.

Mr PAKULA — I was very interested in your opening statement, and I think it would assist the committee greatly in terms of our more macro consideration if you could give us more of an insight into your views about maturity of procurement approach, as you described, I think, your fourth pillar. Some of the matters that come to mind as a result of that — and clearly you are not alone in terms of submitters to this inquiry and have a view about the benefits of alliance contracting — I think one of the trends that we are seeing is that private partners of government, particularly in the construction sector, seem to be much more amenable to alliance contracting than Treasury, which seems to be more attracted to hard money tendering, as I think you have described it. We have heard that comment before. I am interested in your view about alliance, particularly whether you view the construction sector as being relaxed about a move towards more competitive alliancing as against the old traditional alliancing model, and why the business sector is so attracted to that as a model. Perhaps you might address some of the traditional criticisms of alliance contracting from the point of view of government in terms of what it means to cost, but also if you would like to, to pick up a point that has been made by some other submitters, which is whether or not you see the strictness of probity requirements in any way fettering the ability of the private sector to engage with government at an early enough stage and in enough detail to enable the best outcomes to be achieved in these sorts of projects. I invite your comments on those matters.

Mr MOORE — I think I would go back and say that the first point is that projects differ and in the needs of those projects the procurement approach should be considered relative to the attributes of the project. If it is a project where the client can be very certain of what it wants, it is quite a simple project in approach, is of low technology, is of shorter rather than longer time frame, it would make sense to go to a fully documented or more documented project and let the responses from the market be more on a price basis. If we get into more complex projects, it is my view that the projects would benefit where forums are established that allow industry-contractor input to those projects. Alliance procurement certainly does that, but I would also say as does managing contractor, as do PPPs. What I am referring to there is that each of those has the ability for the

contractor to bring into play design option skills, design skills from around the world, technology answers, approaches to procurement, approaches to servicing whole-of-life options, so that is the core essence piece.

Then we come back to say what is the overlay of that? You might say, on the one hand, a PPP, again where the performance outcome can be defined, and the risk can be clearly transferred and there are not external factors — for example, PPP in a brownfields site — that create some challenges. But where it can be very clear that the contracting entity has got the out-turn responsibility and has that control, then you are getting the benefit of that contractor's thinking and knowledge and the consortia's thinking, not just contractors, and knowledge coming in.

If we take an alliance, my view is alliances are better suited to where the end scope and the journey of the project is more difficult to define, to have a project where, if I talk about a hypothetical infrastructure project and there are ongoing operational requirements to dovetail, there are ground issues, there are planning issues, there are resumption issues that need to be accommodated, then alliances build up that transparency. They are bringing the contractor's input to the process and, yes, as you allude to, initial alliances were very much, if you like, a mindset of at cost with some KPIs. There has been refinement to those alliances which then puts greater motivation, if you like, or risk and reward on financial outcome as well. We support that. We support the principle of getting that benefit of involvement.

I would also touch on what I call, if you like, the middle ground of managing contractor. Managing contractor in essence, in my view, is one where contractors are involved based on a capability, a track record, a skill, a team and a fee structure, so there is a commercial framework that is established early, but getting the benefit of that contractor's input to design options, buildability options to procurement, to planning whole-of-life et cetera, so to summarise, to go to your question, formal procurement should match the needs of the project. Alliance, MC, PPP will depend on the particular requirements of the project in turn.

Mr PAKULA — And the probity element?

Mr MOORE — We have seen situations where probity stifles effective conversation. We have seen situations where probity is an enabler, and by that I mean as a competing party you want to know that your ideas, your thinking is protected, but you also want to have a situation where you can effectively engage in and test thinking through some of the interactive workshops and to be able to understand what the direction of a bid solution, particularly in the early days in your bid solution where it might be a master plan for a hospital or whatever sort of facility. The state does not want and private industry does not want a master plan solution that just goes totally the wrong track and has all of that work and effort in a solution that is ultimately not going to be acceptable. So to get that, and also I think I have observed that it helps inform the state's thinking in those workshops to challenge their existing thinking in the ideas that have been put before them. So in summary, probity is necessary. Probity protects a contractor and the IP that has been brought forward and the thinking, but it needs to be used in a way that can effectively engage contractor input.

Mr MORRIS — Just following on from that, I am just wondering if you are prepared to express a view and, picking up on your opening comments about central procurement and maturity in the bid process, what you believe are the core competencies, and I am talking about core competencies and skills that are required on the government side to successfully deliver these sorts of large projects, and perhaps whether you have observed a lack of particular skills currently.

Mr MOORE — To the first part of your question, what are those core competencies? They need to be varied and the dimensions of those competencies for me start from understanding and being able to relate to their ultimate user requirements, their client department requirements, respecting the needs of whether it be a health or a convention centre or a law facility, being able to understand the requirements of the ultimate users and stakeholders, to have experience in the various forms of contracting and know what the attributes are in terms of deciding and assessing procurement options, so there is a risk management, a legal, a contracting experience base. There is a need for design expertise across the disciplines — architecture, structure, services, whole-of-life considerations.

If we get into the public-private partnerships model, it then extends to service provisions, operational requirements as well. Programming is another part, geotechnical understandings particular to the project — so there is a wide kit bag of skills there. I do not think it is any one person, it is how you bring the right team. It is

the same as we do as a business. We look at the needs of a project and we assemble the right team to respond to that, and we draw on those skills from around our business. That is what I think the state needs to do with its procurement agencies.

As to your question as to whether there is a lack there at present, I will not answer that directly but I will say that it varies. It varies in terms of how that comes from across the table, and we see very experienced teams and we see what we believe are great project outcomes. We see other situations where there has been some misunderstanding in some generic references to risk profiles and industry terms, and that has taken some time to work through, it has taken some time to close out some contractual agreements and some of those sorts of issues. So it varies and that is where, for me, I promote the idea of central procurement agencies — plural — so that if it is an agency that does have a recurrent capital works program and it can develop those skills, it should keep that portfolio. If it is one where it is a one-off capital works project at a random sequence, then use the central agency.

Mr MORRIS — If I can follow up on your concluding remarks there, education and health to a certain extent have — and obviously justice, in terms of small projects like a police station — sufficient work there to keep them going, whereas a project like the market, hopefully, you only build once in a couple of generations and no more frequently than that. In terms of the core competencies when you have a project which is basically a one-off, obviously government does not want to have particular specialists on staff, nor would those people want to stay around if there was not a job for them, but do you believe the government can achieve a similar outcome by using consultants as it would by having experts on staff? Or do you think it is necessary, particularly for the areas where you want ongoing skills, to have those people on staff?

Mr MOORE — I think it is a mix. It is a mix whereby there is stability, there is that knowledge of the history, there is the maintenance of relationships, understanding of what individuals, what business have done in the market; but then it is calling on experts and specialists as required. It is a balance.

Mr SCOTT — I would like to touch upon the first of the four pillars, so to speak, that you outlined, which is really the pipeline project. Could you describe to us how you view the importance of that in terms of, say, keeping big teams together within the private sector, companies maintaining corporate knowledge to deliver projects? What are the real benefits in a practical sense of having that pipeline of activity?

Mr MOORE — I have outlined the time line on the markets project, and that is what I would call a reasonably straightforward procurement process. It was a design and construct project. For that project our team engaged designers, consultants, and effectively that was the dimension of our consortia. It was architects, engineers and ourselves as a contractor and a couple of specialist trade contractors. The team for that we evolved over a period of probably about 12 months before the actual start of the expression-of-interest process. I can think of PPP projects where, prior to bid phase, it is years of preplanning and team assembly trying to identify the best components because it is about bringing together the best response within all elements of the response. It is the ability to plan and assemble the right team partners.

If I then go and talk about it from our business's perspective, as a business we cannot play in every major infrastructure project that is brought to market. We seek to specialise and use our skills to best advantage. You would be aware that Lend Lease has a strong record in health work around the country. We look to track that health portfolio. We look to understand: what does the pipeline of health work look like around the country? To take that further, we leverage our skills internationally, so in health work, that is well known in the UK and how we get resource interchange through that. It is how we can best position for that, follow new technology, planning and have the right teams available at the right time, and also so there is a people element to that.

There is also a financial element: bidding projects and the cost of bidding and where is our best probability of return on that investment dollar. That is important for us, to not just gear up to be able to do a major project in a certain discipline once and then dissolve those skills. We like to leverage that and take it forward. We do, as a business, take a national perspective.

Mr ANGUS — I am interested — and you touched on one before — in any perhaps unforeseen or unplanned problems or issues that occurred that you might be able to comment on with a view to being part of our exercise here to gain learning in relation to those sort of matters. You mentioned earlier that a brief had been

revised at one stage, and obviously that is an inherent issue for a potential tenderer, but could you comment some more in relation to those matters?

Mr MOORE — Just clarify your question — in terms of surprise?

Mr ANGUS — Yes, any unforeseen or unplanned problems or issues that you have encountered on this project.

Mr MOORE — In the context of the changes to the markets brief — that was the client team developing the brief and gaining more information, plus it had the benefit of going through a bid process and seeing market responses, so we are not talking about a change of direction to the project, we are talking about some enhancements. There were percentage changes in certain elements of the project, and I mentioned the central refrigeration. Those were design development initiatives that were incorporated. On the markets the state had the benefit of, from our perspective, a contractor that had displayed its skills to understand the project, to design it thoroughly and incorporate those requirements and really robustly challenge the design outcome and how that was working through. Yes, it caused the start of the project, and ultimately the contract end date of the project, to move by some four months, but whilst that was unplanned, it was also a benefit of the procurement model that we could work through that and bring that expertise actively into the design solution that was going to be committed to.

An unplanned issue is the weather events we have had on the project. An unplanned issue is the fact that we had the flooding that we are all aware of in Victoria in early 2011; we have got a site that has got some challenging ground conditions; and we have an end date that has contractually moved to the middle of next year from what was March this year. It is a risk profile that is understood and a requirement to deliver on that that we understand and which we are doing. There is a cost responsibility for that which sits in the contractor's responsibility, in this case. It is an unplanned one but it is, under that risk allocation, one we understand, and we are delivering on that.

Mr ANGUS — From your point of view it is a relatively straightforward project and ticking on.

Mr MOORE — It is a \$300 million project — —

Mr ANGUS — Sure, but it is your bread and butter.

Mr MOORE — It is where we as a business see ourselves being able to perform best because it is a complex project, because it draws on the skills of our business, because it requires our financial backing and our design management capability. That is about differentiating us as a business, and that is what we look to do.

Mr PAKULA — Just to pick up that weather event, force majeure, or whatever, that you just referred to, we had evidence yesterday from DBI that in terms of the contract you get time relief but not dollar relief as a consequence of that — I think that is what the evidence was. In other words, you are entitled to push the date out but the cost is borne by Lend Lease rather than by government. Do you know the quantum of additional cost on you as a consequence of those extensions to this point in time? How much extra has that cost you?

Mr MOORE — The answer to that is a commercially private matter, but we are well aware of what those consequences are, and I can say to you that it as a contractor, absolutely, as you said, we have time relief for what is referred to as 'storm events and the effects of flood damage on the project'. That is clear. There have been four or five extension-of-time events on the project, so that time has been formally amended and approved to that end date. We do not get cost relief for that extension of time. On a project like that, you can understand that we have significant site overhead in the project, and that is a cost risk that we undertake.

I can say that when we go through a period of eight-odd years of drought and go into one of the wettest periods, what has occurred is beyond our budgeting in terms of wet weather delay allowance. That is part of why Lend Lease is at the table. We stand behind that delivery obligation. We are well aware of what the costs are, and we review our costs formally on a monthly basis.

Mr PAKULA — It would be nice if we could know, but I understand why you cannot tell us.

Mr MOORE — Sorry, again, I am not going to say that, but what I will say on that project is that in working through the revised design, we gave fully detailed bills of quantity — bills of quantity are a breakdown

of our costing for the project — and that gave a very measurable recipe to quantify the design changes, and that went to a number of parties to validate. Similarly, on the project where there is a managing contract, that there is actually a shared savings regime on the trade cost of the project, which the state gets to review and see. Should there be trade savings, then there is a share of that. There is a visibility of actual costs for the trade component under that contract form.

Mr O'BRIEN — We had the secretary of DBI who gave evidence yesterday, and one of the lessons learnt from the whole process relates back to this issue of the ultimate stakeholders being the lessees, and it also relates back to the effect of issues about the present Footscray site. But referring to a private sector venture, the reflection from DBI was that it is very difficult to do a major project, and it is even more so when there is opposition from the ultimate stakeholders. In the way these projects are all geared together, three factors have been identified from DBI in relation to the design changes, which are:

moving from a Partnerships Victoria ... to a memorandum of understanding;

significant trading floor design changes;

the decision to continue with the trading floor tender without tenant leases in place, when one of the three preferred suppliers withdrew.

What recommendations do you have for us in relation to this sort of project in the future — us as government — about building them up from genuine stakeholder leases or interests, I suppose? The classic shopping centre has an anchor tenant who is driving the project from a demand point of view and then the specifications can revolve around existing contractual arrangements, as opposed to perhaps this model. Are you able to give us any insight into that issue?

Mr MOORE — It has not been our focus to understand exactly where the stakeholder issue is. Clearly we see the press and we read some of those comments. An opinion would be that if you looked at a commercial project, then there would be a number of conditions precedent. There would be a number of factors you would draw into line in parallel – tenancy positions, funding positions, cost positions; and paralleling those to get to a condition precedent to commence. The observation I would make is that, yes, as has been reported, the core facility has been procured, the stakeholders are not at that same level of commitment at this time.

Mr O'BRIEN — Could you just break down and elaborate what you just said, because you have answered but I would like you to elaborate on that in terms of specifics in design and bid formulation, if you like, and tender and procurement around a real stakeholder — such as, for example, supermarket cases, because it is a parallel I have identified, but any other relevant parallel about how your bid and your design process has built up from that, as opposed to what has happened here.

Mr MOORE — For projects generally.

Mr O'BRIEN — Your general experience, as opposed to what has happened here.

Mr MOORE — There would be a commitment, an understanding of a detailed brief. There would be stakeholder commitment to that brief depending on the type of project. If it was a retail project, there would be a level of commercial precommitment from lessees to the facility. I cannot comment specifically on the markets because I do not understand — it is not our field of view — what level of engagement there was or was not with the stakeholders there through the Melbourne Market Authority and DBI, but again stepping back to commercial projects: where is the tenant demand or the purchaser demand or the stakeholder demand and how is that locked in? Where is the funding? Where is the commercial return? Where is the price certainty for the facility?

If I think about a health example, it is about a well-considered brief that has been through a process of stakeholder engagement, sign-off and engagement to that brief, and then the scheme, subject to fundamentals, then developing that in detail in advance of and parallel then with detailed design and construction. In terms of the markets, we have a very clear obligation: we are delivering on that brief and we are completing our detailed design to that brief.

Mr O'BRIEN — Just to finish that off, and thank you for that, the Victorian Auditor-General's second dot point related to significant trading floor design changes. Can you give us some of the specifics? Are you aware what that comment relates to?

Mr MOORE — Can you give me some more context of those changes?

Mr O'BRIEN — These are the changes that occurred after the procurement but before the delivery, as I understand it.

Mr MORRIS — The extra \$30 million.

Mr O'BRIEN — One of the other comments has been that effectively part of the process was intended to get the benefit of having design work up-front and then by the changes it sort of lost that benefit as well. That is on page 36 of that report.

Mr MOORE — I will ask you to clarify the second part of that question, but let me answer the first piece first.

Yes, it has been reported in other forums that there was in order of a \$30 million difference between our original submitted guaranteed maximum price and the contracted guaranteed maximum price. I have prepared notes in terms of what some of those key movements were to give you some context: 16 000 square metres of additional pavement; 95 000 square metres of additional proximity land prepared for the facility warehousing; the change in the facility from a T shape to an E shape — if you can visualise that, it creates additional space and requirements when you turn corners — in the geometry of the project; covered walkways; additional loading docks; a centralised refrigeration plant; an additional ring road around the proximity warehousing. I go back to my comments before about lessee-lessor interface. Particularly with the proximity warehousing, from our receipt of that revised briefing information there was clearly more definition to the requirements for the proximity warehousing. We were doing a lot more work in that area.

We also moved the building on the site as a consequence of that change in briefing. We are talking about a project that has an area the equivalent of 20 AFL fields. We moved that in terms of its location on the site. When you have an undulating site with rock — what is referred to as cut to fill — the geotechnical and the surveying work behind that was quite complex, so to achieve that additional land which is effectively all flat there is a lot more cut and a lot more fill. They are the key attributes in terms of what we worked through in terms of those changes.

Mr O'BRIEN — Thank you for that. That was quite specific, and I appreciate that. The other aspect of my question referred to the auditor's report in terms of how this issue perhaps did not avail the government or the procurer to the full benefits of the approach. It is the third paragraph down; I will read it to you:

By the time the procurement strategy was produced, the design had been developed to the concept design stage consisting of eight project drawings and a 37-page FTR. Given the significant amount of design work undertaken by the design consultant, the benefits from transferring the design risk to the contractor were reduced.

Then it talks about the various changes. It says at the bottom:

In addition, despite contracting with two separate organisations to design the trading floor, significant costs were incurred by the state as a result of design changes made after the successful tender was announced. This is despite a procurement strategy that was intended to transfer design risk to the design consultant and the contractor.

I suppose for the benefit of our inquiry, taking a contracting party hat off to the extent you can, for the lessons learnt have you got any further comments you could make in relation to future procurement models and approaches as a result of this project?

Mr MOORE — I think our view would be to say that eight drawings — I think you said — and X pages of report as comprehensive design for a \$300 million project is clearly not comprehensive design; it is a starting point. It is a definition of the preliminary outline requirements. In that bid phase we went through an extensive design development process to work up that solution, from pavement designs to structural steel designs, to services designs, to geometry of the site, drainage solutions et cetera. That is the extensive piece. In terms of the fundamental message I would put today, it is that it is in that process that the contract is bringing value; it is really pulling apart and being an active part of that design solution. At the end of that bid phase the state had

from our perspective a preferred contractor who had a thorough understanding and demonstrated a technical understanding of the project for which then it could work to accommodate the revisions to the brief.

Mr O'BRIEN — In hindsight, if we had had the genuine stakeholder who tendered interest in there at the start helping perhaps to bring some of these post-tender design changes you outlined to the fore earlier, if that is possible, that may have assisted the process?

Mr MOORE — Reliability, clarity in the brief process.

Mr MORRIS — Can I just follow up on that?

The CHAIR — Briefly, yes.

Mr MORRIS — We talked earlier about a skills gap but it seems to me on the face of it that for a project to get to the point where the original RFT went out and required such significant modification — and I am not doubting the benefits of the modification but that it simply required modification to an extensive degree — it seems to me that there was a fairly significant skills gap in terms of preparing the RFT in the first place. Is that simply demonstrating my lack of knowledge of the sector or is that a legitimate skills gap do you think?

Mr MOORE — I will answer this way: there was a procurement process which was, in our view, disciplined to meet and deliver on the brief that was asked for. The \$30 million that has been referred to of additional scope — I think the exercise would need to be done to understand of the \$30 million how much was scope in addition to the core facility and how much was scope transfer from the proximity warehousing sites into the core D and C contract. I mentioned the area of additional land, the additional roads, the changes to drainage. I do not have figures to break that down, but a significant amount of that additional \$30 million was, if you like, scope shifting or budget transferring scope from proximity into the core D and C to be able to simplify and provide a more functional transition demarcation point to the proximity warehousing. In terms of the state's total budget for the facility, it is not \$30 million of additional work.

Mr MORRIS — I appreciate that, but in terms of scoping of the project it does suggest the scoping was not as good as it should have been.

Mr MOORE — I am still not agreeing with you because if I think of some of the other key movements, for example, to incorporate a central refrigeration system, which was many millions of dollars, the state took a decision to say, 'It is a lessee responsibility to put a refrigeration unit on the roof individually', so there would have been a farm of these things on the roof rather than to put up a central refrigeration system that provides better whole-of-life, better energy costs, more flexibility, more redundancy. That was an option that came out of our bid in the RFT phase and was incorporated into the project. What that actually did in that four-month period was, with that option and seeing the benefits of it, our client, MPV, then went back to its client groups and validated the performance requirements for central refrigeration.

Mr MORRIS — That is useful; thank you.

Mr SCOTT — I would like to return to the four pillars you outlined at the beginning of the presentation and seek to tease out what you meant by the second of those pillars, central procurement agencies, because I, with two of my colleagues, were wondering: did you mean something like Major Projects Victoria, a delivery agency, or did you mean something more like Infrastructure Australia or Infrastructure New South Wales, which are more about planning and prioritisation? What was the actual meaning of that item you outlined?

Mr MOORE — I was referring to Major Projects Victoria, I was referring to a health department capital works branch, I was talking to VicRoads — —

Mr SCOTT — So the agencies that are actually building projects rather than planning?

Mr MOORE — Yes, but where those agencies have recurrent capital works they can build and acquire and have that skills stability.

The CHAIR — The interjection on my right was clarifying you do not mean a central whole-of-government agency.

Mr MORRIS — We had that conversation a minute ago. Not a one-off, but each occasion — health, whatever — retains their own, but where the skills are not in alignment, say with community services delivering services, then they have access to a central agency.

Mr MOORE — I think the markets is that example. You said it is a one-off project, so that is where in our view an MPV does come to the table with that procurement skill, whereas we would say or we observe DHS with its recurrent capital works has that inbuilt capital works branch experience.

The CHAIR — My question is on an issue a little bit outside of the parameters of the project specifically, but it will have an impact in terms of the success of the delivery of the project, and that is labour costs. I just want to get a general impression of your view on the capacity of the Victorian public sector particularly, but also the Victorian private sector as well, in terms of project delivery impact from increments in labour costs and what is occurring in the marketplace at the moment.

Mr MOORE — We are aware that there is an enterprise agreement negotiation process. Different companies have different enterprise agreements being negotiated. We are seeing increases there which are being handled through Fair Work Australia in terms of those formalised agreements, so that is a reality of the market and where we stand. We take the view that to have effective, productive and reliable agreements and those productivity returns is a trade-off for the increases that we are paying. The broader issue for us is skills retention in industry, having that workforce there and having an effective workforce.

The CHAIR — The related question of course is about the footloose nature of the industry projects — it could be in Victoria, it could be in New South Wales or indeed there is a lot of attraction in Western Australia at the moment. Is that skills availability becoming an increasing pressure and is it also driving your labour costs?

Mr MOORE — It has had some effect. Victoria has had the benefit of some years of reasonably stable capital works expenditure level. That has been attractive for the individual worker to be based and stable in Victoria and for contractors and employers to have that sort of stability. It goes back to the point I made earlier about the pipeline. The more we can see that pipeline, the more people will plan and set their businesses, and as individuals I expect they will set their businesses to suit the available work and the environment. Victoria has had the benefit in the last number of years of having the workload to support it. The challenge we face is continuing that workload.

Mr PAKULA — Just following up on that point, first of all you talked about what impact demand elsewhere — and I think particularly we are talking about the mining boom — has had on labour costs. I think your evidence is: a little bit but not a great deal. Cost of capital, availability of capital — I would be interested to see if it has any impact there. When you talk about the pipeline and the challenge that is attendant on that, how do you see things today?

Mr MOORE — I will take that as two questions — capital and then pipeline — today. In terms of the capital question there is no doubt that we have seen the GFC effects and the funding effect on projects that we have bid through. A good example is the PPPs. We have bid through projects. We have seen change in funding structures and the cost of funding into those projects and in terms of what that does in terms of risk profile for participants in a consortia with the ability or the need to keep a consortia whole in terms of the risk of financial repayment. We look at other sectors. If we look at the residential sector, a big part of which is high-rise residential in Melbourne, it is a big part of the construction industry. If we look at the banks' increasing thresholds of requirements in terms of the pre-sales levels, the quality of presales, the purchaser profile and the delivery warranty on the projects, it is increasingly demanding. So yes, it is a tougher environment from a financial point of view, but I have certainly seen it back off in terms of, let us say, the PPP projects, and some of the debt levels settling back in recent times.

If we go to the pipeline issue, we see uncertainty on the horizon. We see a pipeline of certain projects, but we see a commercial market sector with a moderate level of activity. If we look at retail and changes in the retail sector, there is a moderate level of new capital works. Residential is similar. There is a lot of residential construction at present, but we question for how long it will continue.

If we get into the infrastructure area of our business, I should qualify that Lend Lease project management and construction, our business unit, focuses on commercial construction and social infrastructure, so we are aware

of, to a certain extent, a social infrastructure pipeline in Victoria, but we would love to see more definition and more projects.

The CHAIR — I think we are done. On behalf of the committee I thank both Mr Moore and Ms Sides for your attendance today. I have to say it has been a most productive afternoon. You will receive a copy of the transcript in a couple of weeks. If you could make any corrections and return it to us within a couple of days, it will ultimately find its way to our website. This closes this part of the hearing.

Witnesses withdrew.