

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

Melbourne — 24 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

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

#### Staff

Executive Officer: Ms V. Cheong

#### Witnesses

Mr P. Crowe, Executive Director, Head of Origination (sworn),

Mr G. Hay, Chief Operating Officer (sworn), and

Mr C. Clifton, General Manager, Plenary Conventions (sworn), Plenary Group.

**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 Plenary Group Mr Paul Crowe, executive director, head of origination, Mr Glenn Hay, chief operating officer, and Mr Chris Clifton, general manager, plenary conventions. 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. Plenary Group staff, as requested by the executive director, can approach the table during the hearing to provide information to the witnesses, by leave of myself as Chair. 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 or recording proceedings in the Legislative Council committee room and no more than two TV cameras are allowed at any one time in the allocated spaces. May I remind TV camera operators to remain focussed only on the persons speaking and that panning of the public gallery, committee members and witnesses is strictly prohibited. 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 the hearing, which transcripts are to be verified and returned to the committee secretariat within two working days of receipt and will be placed on the committee's website.

Following a presentation, if any, by Mr Hay, committee members will ask questions relating to the inquiry. Generally the procedure followed will be that relating to questions in the Legislative Assembly, but I hope the procedure will be a lot more dignified and conversational. I ask that all mobile telephones be turned off. I now call on Mr Hay to make an opening remark of no more than 5 minutes.

**Mr HAY** — Thank you, Chair and members of the committee. On behalf of Plenary Group and my colleagues here today, I would like to thank you for the opportunity to appear before the committee with respect to the Melbourne convention centre development project. The project was delivered by the Plenary Group as the developer and overseer of the consortium with Multiplex Constructions as the builder, Brookfield Multiplex services as the services provider, NH Architecture and Woods Bagot as the joint architectural team, Lincoln Scott as the engineer and Deutsche Bank underwriting the financial arrangements for the project.

The project was delivered as a public-private partnership under the Partnerships Victoria policy framework. Plenary was contracted by the state to finance, design and construct the new convention centre; design and construct a pedestrian footbridge linking the north and south banks of the Yarra River; and deliver a suite of facilities management services for a 25-year contract term to both the new centre and the existing Melbourne Convention and Exhibition Centre. Following a comprehensive tender evaluation process, spanning nearly two years, the project reached financial close in May 2006, with practical completion achieved in December 2008. Plenary assumed service delivery responsibilities from 1 January 2009.

In formulating our broader vision for the project, we set out to achieve the following objectives: activation of a new precinct in Melbourne which became the South Wharf precinct; delivery of an innovative and sustainable design solution; establishment and maintenance of a strong working partnership between the state and the Melbourne Convention and Exhibition Trust as the operator of the convention and exhibition centre; and so deliver certainty and value for money for the state. We firmly believe the project successfully achieved all of these objectives and continues to do so today. During the construction phase Plenary enjoyed a strong working relationship with the then Department of Infrastructure, Major Projects Victoria, the Melbourne Convention and Exhibition Trust and Brookfield Multiplex constructions and their subcontractors. A strong working partnership and relationship ultimately promoted alignment of interests which we believe was a key success factor for the project.

As expected in any complex infrastructure project, the construction phase presented various challenges. Key challenges that we managed effectively include the excavation and building adjacent to the Yarra River and the

requirement to maintain the Melbourne exhibition centre in full operating mode during construction. The state's project brief also encouraged design innovation, and we certainly invested strongly over and above the state's minimum requirements. Examples include the achievement of the first 6-star green star design rating for a convention centre; installation of a retractable seating system in the plenary hall; and provision of 18-metre-high operable walls — the world's second highest at the time — to allow flexibility and divisibility between the main hall spaces. Designing and building world-first innovations can often lead to challenges in the construction phase. Each of these risks was well managed, ensuring all systems were commissioned and operating reliably prior to any events taking place.

To ensure a seamless transition between the construction and operations phases, Plenary established an operationally focused working group shortly after construction commenced. It had an equal focus on the endgame — that is, operating the facility while the design and construction activities were happening at the same time. Having the Melbourne Convention Exhibition Trust and Plenary jointly developing and integrating their transition plans, over a two-year period prior to commencement, meant that all parties were well placed to deliver a seamless transition on day 1. We recognised that a seamless transition was fundamental to establishing a very positive international and national reputation for the project from day one.

The fact that Plenary participated in various operational and financial risks during the 25-year operating term, including elements of the future capital upgrade, was a key driver behind Plenary's decision, as equity investor and owner, to significantly invest in its own resources during the construction phase to ensure a high-quality product was delivered and was able to meet the requirements over the 25-year term. Ordinarily these risks would generally be wholly transferred to a third-party facilities management subcontractor. The Plenary, and its facilities management partner Brookfield Multiplex services, were intimately involved in the approval and selection of all fittings, finishes, systems and equipment, thereby ensuring that there was a strong focus on the maintainability of the asset for the future term.

Since early 2009 Plenary has successfully overseen the delivery of services in partnership with Brookfield Multiplex services, the Melbourne Convention Exhibition Trust and the various subcontractors. Plenary has remained a very active and hands-on manager and continues to be directly represented on site by a dedicated asset management team. Plenary is the primary point of contact for the state and the Melbourne Convention Exhibition Trust, as it has been through all project phases. It is also responsible for ensuring that all contractual and service delivery responsibilities are met. Finally, I would like to acknowledge the vision of the state of Victoria and the Melbourne Convention Exhibition Trust for championing this very successful project.

**The CHAIR** — Thank you very much, Mr Hay. Firstly, I thank the Plenary Group for presenting today before the committee. As you would understand, we are examining a number of case studies in relation to major projects to tease out some of the lessons learnt, and we are looking at some projects which have not performed as well as others. Clearly the Melbourne Convention and Exhibition Centre is something that, by repute, has been a very successful project. The issues we are trying to tease out are matters around accountability, transparency and, particularly relevant to our questions to you today, relevant skills and capacity. That is not an examination of your skills and capacity. It is an examination of your perception experience in terms of your engagement with the Victorian government as to the skill sets that are requisite and in fact available to the Victorian government to manage its part of the relationship. I guess that sets the preamble to an initial question, which is: would you like to broadly set out a view about your experience with your interface with your government partners in the project?

**Mr HAY** — I think it is important to note that during the bidding phase of the project there was very good interaction with the state and its key stakeholder, being the Melbourne Convention and Exhibition Trust, that was made available to all bidders at that stage. I think that was very important. So after the financial close or contract execution there were some existing relationships that had been established, which augured well for the construction phase of the project. I think the state project team was very well balanced in terms of its technical expertise, but it also benefited from the support of having a very good client, being the Melbourne Convention and Exhibition Trust. I think one of the key factors that played quite a prominent role in the successful delivery of this project was that MCET in-house resources led the management team involvement sitting alongside major projects in this state, in that you always had input from the end operator of the facility up-front in the construction phase, which was critical.

To answer the question, I think the balance of technical skills with operational skills was a very good mix, which in terms of our interaction at both the program control group level and also the many working groups and issue specific groups that were established during the design development phase always meant there was somebody at the table that enabled decisions to be made quickly with the architects to ensure that the construction was not impacted or the program delayed in any way.

**The CHAIR** — That is good. That is a very generous commentary. I guess there must have been some issues on the way through where — —

**Mr PAKULA** — How inconvenient, Chair.

**The CHAIR** — I am not trying to kick the rocks over. I am just trying to establish what it is that we can learn and do better. There must have been some moments where that interaction was not as positive as it may have generally been. Were there any issues around particular aspects of the carriage of the project that stand out as well that might have been sharper if there had been a different set of skills at the table?

**Mr HAY** — I think it is fair to say that in terms of detailed design requirements, there is an evolution from when a project brief is documented versus when a brief is responded to, a contract is signed for nearly two years, and you then get into the design development process, so the world of technology and the world in many respects moves on. There were certainly a number of challenging issues that we dealt with in terms of making sure that IT procurement was delayed for as long as possible to make sure that MCET got the most up-to-date audio-visual and IT technologies, but that obviously creates a tension where the builder needs certainty in terms of being able to procure that equipment and to install that equipment to meet its commissioning obligations. That is an example of where there was obviously some tension around the timing for the procurement, and the identification of that equipment. I have to be candid here and say that what we did have were very strong project management processes in place to identify those at the earliest opportunity, have the discussions along the way that ensured that we all achieved the outcome within the time that we had to achieve.

Whilst we had a challenge with the freeway expansion, which obviously we became aware of after construction commenced, again Multiplex to their credit and with their proactive approach to working with the alliance to minimise the disruption, and with MCET being prepared to accommodate site offices in the basement car park and at one point the site offices accommodated nearly 1000 people, it was all about the end game, and we knew that we had to work very closely with MCET, the alliance and the state to achieve that. There were challenges. Every project has them, but it was one where I think the relationships and the frameworks were effectively in place to manage those. I am not sure if there were others.

**Mr CLIFTON** — Probably nothing further from the construction phase.

**The CHAIR** — In your opening remarks you referred to the informed client and, as I said in my introduction, we are trying to learn as we can the strengths of successful projects, and that is one of the common refrains in terms of evidence that we have received. Private partners basically say, ‘It is critical that we have an informed client’, but it is clear that is that not always the case; otherwise we would not be having this inquiry, bluntly. Does this project actually stand out in that respect, or is it typical of a number of projects that you have been involved in with government agencies. Is there something quite exceptional or different that we should learn about the informed client status?

**Mr HAY** — I would compare this project in terms of its success to the Victorian County Court PPP, where there was a similar buy-in and relationship with the judges of the County Court. It is very similar in that way. It is much easier where you have a single client, albeit with a number of stakeholders who clearly know what they want and are informed, and in the case of MCET a world leader in the provision of conventions and exhibition services as distinct from a project where you have multiple user clients with no clear governance as to how certain decisions are arrived at. I think that is what both for the County Court project and also for the Melbourne convention centre development we had a single focus client who was very good at controlling its internal relationships and user groups, so that when you were sitting at the table, as I said earlier, you got very clear direction as to what certain brief requirements meant or what its other requirements may be, so I would compare it in that context to that project. I think it was making sure that that can only happen if the environment that has been created from day one promotes and facilitates that. We sat down as a group on the convention centre development with the Melbourne Convention and Exhibition Trust with major projects, with Multiplex

Constructions and we agreed on a very clear way in which we were going to interact and interface. Communication protocols were very clear, as they were with the County Court project. The upshot of all of that was that that augured well when you do have the issues that you were talking about before for there to be effective ways to manage those.

**Mr PAKULA** — I am obviously aware that PPPs are really Plenary's specialty. I imagine you would have some advice for the committee in terms of the commercial drivers of PPPs that play the biggest role in incentivising a private partner. Obviously government would be interested in that more generally because we have not seen the last PPP, I am sure. Can you take us through your thinking in regard to that in terms of the key elements, the key commercial drivers, that would incentivise a private participation such as a Plenary, particularly in a large-scale PPP like this?

**Mr HAY** — I may defer to Paul.

**Mr CROWE** — I am happy to answer that. I think probably we can split it up into procurement and then delivery. From a procurement point of view, having pretty clearly articulated project objectives and the confidence that those project objectives are being translated into the assessment criteria that we are bidding against, that is ultimately what will drive our tender response into whether we spend more money on architecture or spend more money on other things. It is to understand what the project objectives are and understand that they are being reflected in the assessment.

When we get into the contract phase — that is, the tendering — and when we are sort of managing the risk because the contract presents risks to us, that is where there is the mix of sometimes incentives, but PPPs are often set up around abatement regimes, so if you perform well, you get 100 per cent of what you forecast, or if you perform poorly, you get less. You need to work carefully through the risk transfer amongst your consortium members, and that is where there is a balance point. Each PPP is different around how specific and how granular that KPI regime becomes versus something that is a bit broader and easily understood. You have to remember that will translate into how we design the asset and how we perform the services. Understanding the KPI regime is something we spend a lot of time on during the bid phase, and we spend a lot of time ensuring that we are protecting our risk during the delivery phase.

**Mr ANGUS** — Thank you, gentlemen, for your attendance and for your presentation. I am particularly interested in your interaction with government agencies. There were a number of them involved in this project, I am sure. I would be interested in your comments on that and on not so much their performance but the skill sets they had in terms of adequately meeting your needs as a key party in such a PPP.

**Mr CROWE** — I will just provide a brief answer, and then I might hand over to Glenn to provide some more colour. Going back to your earlier remark, one of the challenges we faced on this project was where you had different government agencies. We had a couple of interfaces; one involved the expansion of the freeway. As Glenn talked about before, we had a very good project team, both on our side and the state's side, which was able to react to a set of circumstances. But I think if we stood back, we would see that set of circumstances was probably best avoided by having better intergovernmental department communication and some better interfaces on that front. Whilst we were able to deal with that issue and deal quite proactively with that issue, we also faced another challenge with Melbourne Water, some works and how they were potentially not best coordinated. You could probably provide some more colour on that.

**Mr HAY** — With respect to government interface, it was at a number of levels. Obviously there was the interface at the time with the Department of Innovation, Industry and Regional Development, Major Projects Victoria, the Melbourne Convention and Exhibition Trust and Parks Victoria because of the connectivity to the Yarra and the water. I spent a lot of time with Bicycle Victoria because of the quite sensitive nature of the connection for bike paths that the site played. There was the Melbourne City Council in terms of the bridge and the public realm. There was also the department of planning from a broader perspective, in addition to VicRoads and others.

There were a number of government departments that we — as in Plenary Conventions as well as our builder — were required to interface with regularly. Certainly with the interface that we had we found that there was no reason for us to question skill set. There were interdepartmental issues, and the freeway expansion is a good example of that, where certain parts of an agency may not have been aware of what the other part was

strategically working on. Intergovernmental communications or interdepartmental communications was probably something that we identified as an issue within government.

But at the project level Major Projects Victoria had a good mix of people who understood the Partnerships Victoria framework and delivering PPPs. Combined with the technical expertise and the informed operator, we found that they had quite a good mix of skills. I think that gives a snapshot of the various levels that we were dealing with.

**Mr ANGUS** — What about with the Department of Treasury and Finance? Did you have much to do with them?

**Mr HAY** — At more of a procurement and strategic level, not so much in the day-to-day project management and delivery. Certainly there was ongoing communication with Treasury at various levels, but in terms of hard-core project management, not so much.

**Ms HENNESSY** — During construction there are inevitably a range of challenges that any project encounters. I was wondering if you could talk us through what challenges you encountered and how you surmounted or dealt with those challenges.

**Mr HAY** — Certainly the first challenge, which I mentioned earlier, was excavating and building directly adjacent to the river. There were some significant concerns around what we would potentially find in terms of contaminated soil and, more importantly, around trying to build a retention wall. Brookfield Multiplex's construction methodology was very sound in that regard. We tried to minimise the risk of the Yarra affecting what we were doing, Multiplex constructed a retention wall which went down to 32 metres in some areas. In effect you firm up the site before you start doing all the piling work. Undertaking that methodology meant that risk was significantly mitigated. We did find some spot areas of contamination, but it was not a major issue. We did not encounter Coode Island silt to the extent that we expected to encounter it, so that risk was effectively managed.

As I also mentioned, the continued operation of the Melbourne exhibition centre was a challenge because construction traffic was via Normanby Road, and Normanby Road is the major arterial road to access the loading dock of the exhibition centre. Particularly during bump in and bump out for the motor show, the home show or the gift fair, coordinating the works and traffic flows around an operating facility had some challenges. But we would look at the event calendar with the operator and try to coordinate works around that. Those are a couple of key examples.

Probably the third example was that in parallel with building the new convention centre we were also undertaking the works at the commercial development and the Hilton hotel as well. Having Plenary across the precinct in terms of the commercial development and the Hilton meant that we were best placed to manage the communications between multiple builders and manage those interfaces effectively, which may have been more challenging if there had been multiple investors or developers across the precinct.

**Mr O'BRIEN** — Thank you for your presentation today. I want to pick up one of the points you made earlier about your up-front work and business case. I note that the Auditor-General's audit of two major projects has a conclusion on page 19 about the business case which says:

Our conclusion is that the business case is comprehensive and evidence-based ... It transparently analyses the issues and challenges of the project, given its scale and economic importance.

I particularly want to pick up that you mentioned the importance of having the input from the end operator up-front. Particularly in terms of shoring up assumptions as to demand issues or actual physical operation issues, could you take us through how important that was, and, if you can, make it by reference to examples where it was important to have that up-front and it really paid off in the long run?

**Mr CLIFTON** — From an end user point of view, having a very informed client that knew specifically a lot of the types of equipment it was after greatly assisted in the early phases in terms of our role in managing builders and things like that. That really helped us and helped the builder in having a very clear understanding of what the required specifications were for various sorts of equipment. That was probably one of the key elements.

**Mr HAY** — Our first insight into the business case was really the receipt of the project brief that was issued to all shortlisted bidders. Obviously we saw from day one that the project brief had been very well considered. In the context of the business case, that was ultimately MCET or the government's business case that they worked through. We were responding to a brief that was developed around a business case.

We knew that we had to build a plenary hall with a minimum of 5000 seats and we had to build 32 meeting rooms of various configurations, which were defined. The detail of that definition certainly helped us in being able to respond and think, 'How can we go beyond that?'. A good example was the plenary hall, albeit subdivisible into three spaces. What we then did was take that and say, 'How can we give greater flexibility to the government and to MCET?'. That is where we identified from Canada the retractable seating system. Within 10 minutes 1500 seats can go from flat-floor mode to tiered mode. All of a sudden MCET was not just three halls that could be used for conventions, it was three halls that could also be used for banquets and cabarets. I think they have had the North Melbourne grand final breakfast at the Melbourne convention centre in flat-floor mode. That briefing gave our architects, services consultants and us the opportunity to drive some other innovations into the design.

Having that very clear line in the sand in the project brief around the minimum requirements means you know you have to tick them off as a minimum, but you ask how you can go beyond that. I recall the brief was a 4.5-star green star rating as a minimum. We as a bid team made the investment of going to a 6-star green star rating, which obviously then has brought operational efficiencies and cost savings beyond what would have been contemplated in the original business case. I think a detailed project brief with very clear minimum requirements but scope for innovation was what was achieved, hence the business case drove that brief. Having an informed client knowing where the business was heading in terms of conventions and exhibitions and looking at the number of international conventions that had been booked in over a period of time pays respect to the business case and the brief that we were able to respond to.

**Mr O'BRIEN** — You talked about the project meetings that you worked through. I know this has been touched on by other members, but again it would be good if you could provide some specific colour or examples in relation to the interaction between the operator and benefits there. I am thinking in terms of machinery that was purchased well in advance or designs that responded to that.

**Mr HAY** — The first example that comes to mind is the fabric of the plenary hall seats. I am sure you have all seen the green fabric. At one point that was going to be an international product. As Plenary had an interest in the future capital upgrade of the facility, what we wanted was to have a fabric that was not only going to perform in various modes but also had an extended life. We were after a high-quality fabric. There were a number of meetings about this fabric, not only about the colour, which others much more experienced than me would have different views on.

**Mr O'BRIEN** — I did ask about colour.

**Mr PAKULA** — What did you end up with?

**Mr HAY** — MCG green. It was certainly a local Melbourne colour. However, we did drive a different fabric, which was a woven local fabric with double the life of the original. That was driven because of our risk and our incentive and through meetings with various government bodies and operators. That is just one example of where there was a direct output change from what was originally there which had a greater whole-of-life outcome.

**Mr O'BRIEN** — With the local provider I presume you have got good maintenance contracts through the life of the fabric.

**Mr HAY** — Exactly. The seating was, at one point, meant to be Spanish. It became a local Camatic seat, which was better not only from the point of view of maintenance benefits but also to enable access to a local subcontractor. The retractable seating system was a Canadian design which was ultimately constructed and commissioned by a local metal tech, which at the time was a Melbourne company. Multiplex took the design from Canada and it was implemented locally. It was the largest rollout of this type of seating anywhere in the world; it had not been done on this scale. Because of the abatement and the KPIs that Paul mentioned earlier we felt it important that if something were to happen to the seating we would have access to local expertise very

quickly. If we have an international convention of 3000 or 4000 people and we have a problem with our seats, we need to respond, otherwise penalties apply. The reputation of Victoria is at stake.

**Mr O'BRIEN** — A long time won and easily lost.

**Mr HAY** — Exactly. Multiplex worked with a local provider, and since January 2009 we have been able to maintain the equipment locally without any international input.

**The CHAIR** — I do note your enthusiasm for the project, in particular for fabric seating. In terms of that enthusiasm, I have been impressed by your evidence that you are dealing with an informed client who is technically and operationally capable. There was a clear project brief, and all of these significant components went into achieving a successful outcome. I wondered if you could inform the committee further about your experience with this project and other projects you have been involved in and of any learnings we should note in relation to best practice and innovative examples that we could adopt in Victoria that are relevant.

**Mr CROWE** — I am happy to respond to that. The decision making on critical issues is important. We can use examples in this procurement. During the bid phase the procurement fell a little bit behind time because decision making became a little blocked or worn down. Through the project there have been minor issues in the scheme of things that have needed to be closed out. There is a need to make sure that whilst we have this great governance process in place we are actually resolving issues and getting to conclusions and outcomes. That is probably one of the things, from a best practice point and lesson learnt point of view. On this project you would say that we would like to see government decision making happening quicker in both procurement and actual delivery phases.

**Mr HAY** — The procurement process of nearly two years was very comprehensive, and it needed to be. We have had some examples in other projects where it has been much longer, and in some instances it has been less than that. It keeps coming back to this issue. In other projects where the operator is not informed or you have multiple user groups without any clear governance or decision-making structure you run the risk of not being able to make decisions within time frames that enable the architects to document, the builders to build et cetera. That is where — —

**The CHAIR** — Would you like to nominate a recent project where that has been a challenge?

**Mr HAY** — We have experience in other jurisdictions where they are probably not as experienced in the delivery of PPPs as what Victoria is. Where you have other jurisdictions that are embarking on the PPP process early on and where they may not necessarily have the skills and experience from PPP projects we have encountered decision making that is somewhat slower.

**The CHAIR** — So it is more or less a generic response to say that a lot of the rhetoric and evidence that we have received shows that Victoria appears to have been a leading jurisdiction in terms of delivery of PPPs. On the other hand we have also had evidence that there are other jurisdictions from which we could learn a great deal. What I actually had in mind was whether, in a Victorian context, there are any projects that you are mindful of where the sort of features that you found to be significantly advantageous in regard to this project were not evident. In other words, projects where you did not have the informed purchaser or operational and planning support behind the project. Is there anything that you would like to nominate as a less happy experience?

**Mr HAY** — I need to answer this in two ways. The first way is that I have often said the convention centre was one of the first PPPs that people really want to go to; they fly in from all around the world. It is a business; it is very different to a police station, courthouse or hospital. It is a different type of asset and it is a business, therefore our response to that is different to what it would ordinarily be. But at the same time it was a single informed client. I spent a fair bit of time working on the Spencer Street station redevelopment, but in that there were 100 bus operators and there were multiple train operators, both V/Line and private operators.

**The CHAIR** — A complex stakeholder.

**Mr HAY** — A very, very complex stakeholder, which meant generic decisions that impacted on all of those stakeholders. In reality it was much more difficult to get through in the time lines. I think giving that as an example is probably the best way to respond.



**The CHAIR** — Yes, that is good.

**Mr PAKULA** — We have had evidence, not so much in August but back in March, from Mr Rosewarne, the secretary of DPI, about the circumstances in which Major Projects Victoria becomes the lead agency in a large infrastructure project. I think it is fair to say that it is not entirely clear when it is an MPV project and when it is not. I think it is almost horses for courses. Can you give the committee any sort of enlightenment in terms of comparing experiences where you have dealt with Major Projects Victoria as the lead agency, as you did in this circumstance, versus other circumstances where a line agency might be the lead agency? Can you draw any comparisons? Do you have a view about whether MPV should be the vehicle more often than not, or do you think the particular project should be the guide for that?

**Mr CROWE** — I think one of the challenges we face is seeing consistent approaches across different departments. I know that a lot of the time we are drawing on the same consultant teams, and the same individuals move around so there is a degree of consistency, but we do see that challenge and we have been on the record, I think, as advocating for more centralisation of some of that expertise, whether that sits in Treasury, in Major Projects or in another department. I guess there is a debate. I think we have had different experiences, from justice procurement to health procurement to transport procurement, where these agencies do not involve Major Projects and then where Major Projects acts as a vehicle to assist some of the smaller agencies in how they approach it.

**Mr PAKULA** — I would not put words in your mouth, but is an MPV project preferable to you over a line agency project?

**Mr CROWE** — I think what we would like to see is consistency. As you said, there is a balance between having some centralisation of skills with procurement, contract management and construction management, which are somewhat generic, irrespective of what the asset looks like, versus having some operator and agency expertise. There is a balance there. At the moment I think that we do tend to see some differences in the way the Victorian government procures with the larger agencies compared to how it procures when Major Projects is not involved. In terms of how they ensure this consistency, it could be through Major Projects Victoria playing a stronger role or it could be through a stronger role from Partnerships Victoria.

**Mr HAY** — If I could add just briefly to that, obviously Casey Hospital is our oldest asset, from 2004, and one of the things we see is the turnover of people within government, post-construction phase. What we find from our point of view gets back to consistency and continuity. When a project, its risk profile and the intent of the project is enshrined in a contract many years before, when we are trying to then re-educate the intent of that into the operations base of the project we find that there is potentially an opportunity to look at centralising that a little bit more in the operations phase, not necessarily just in the construction phase.

**Mr ANGUS** — That leads to the matter I was going to raise, and that is the ongoing operations and your role in those. Could you just flesh that out a little bit for us? I could make some guesses and assumptions, but let's hear it from you and then I might ask you a bit more.

**Mr HAY** — I might just briefly speak before handing over to Chris. Our role as Plenary is to oversee not only the procurement phase and the construction and delivery phases but also the ongoing operations phase. What we try to offer the state and our clients in that whole-of-life approach is continuity of personnel and also the knowledge that you will always talk to the owner and the person responsible for making those decisions. Chris is the general manager. He is based down at the exhibition centre with the team and has direct access to the Melbourne Convention and Exhibition Trust personnel. It is about living and breathing the asset beyond the construction phase and picking up the subtleties of what happens on a day-to-day basis rather than being remote from that — issuing an invoice every quarter but not actually being involved. I think it is probably best to hand over to Chris in terms of what that means on a day-to-day basis.

**Mr CLIFTON** — Thanks, Glenn. I think that is exactly right. I think from our point of view, and hopefully from MCET and the state's point of view, having an on-site management team directly from the owner, if you like — so you are there, you are represented, you are out there trying to solve issues on a day-to-day basis — is very, very beneficial. We obviously have lots of formal meetings but we have a lot of informal meetings as well, so there is a very good relationship on site and I think that helps to drive better outcomes in terms of core

services for MCET and ultimately for the state. That is something that I think has worked very well to date and will continue to work well into the future.

We also have a very close relationship with the service provider at Brookfield Multiplex. We have a co-located team on site, so again, from the state and MCET's point of view, the owner and the service provider form a single team. I think ultimately, from a delegate point of view, someone coming in would ultimately see the convention and exhibition centre as run by a single entity. The MCET actually operates it, and we are hopefully a large part of supporting them in delivering what they need to. It is almost a seamless transition between operator, owner and service provider on site.

**Mr HAY** — I would just finish up by saying that that is not something that is specific to the convention centre for us. On our defence project we have a team based at Holsworthy army base, living and breathing the day-to-day issues. What we find is very important is that government is looking for certainty of service delivery and outcomes. By having a Plenary representative on site, overseeing the delivery through our service providers, we are proactively identifying any emerging issues and resolving them quite quickly, before they become a bigger problem. On a day-to-day basis we attend all the formal meetings, OH&S committees and emergency planning committees. We have a performance monitoring program for our subcontractors, we have quality systems and we have environmental systems, and that is at a Plenary Group level. All OH&S compliance is obviously being tailored as required to the national harmonisation legislation, particularly those sites that are part of the commonwealth. So it is very hands-on asset management, and it gets back to the original point about incentives. When you are working through the construction phase knowing that you are there for the long term, you are very highly incentivised to make sure that the outcome is what it should be.

**Ms HENNESSY** — This is more a high-level question based on your specific experience on this project and your general professional experiences. PPPs have sometimes been the subject of contested debate around the issue of the public interest, and I would be interested in your views as to how it is that the public interest as opposed to the Plenary Group's interests have been served by the use of this PPP model.

**Mr CROWE** — I would be happy to answer that. I think the public interest is serviced in this specific asset. I think you need to think of this asset as a business. This was an investment by government with a return that is not just around renting space but is an economic multiplier return. I think as part of the business case we were talking about earlier there was a lot of work done, before this came to market, on understanding what those economic drivers were. I think that is part of what we invested in ourselves in delivering a hotel and those sorts of elements. But ultimately the PPP model is looking at not just front-end procurement but procurement with a 25-year commitment to asset quality. For a convention centre in 25 years time — or is it 23, I think, we have got to go?

**Mr CLIFTON** — Twenty-two.

**Mr CROWE** — Twenty-two.

**Ms HENNESSY** — I hope that green fabric lasts.

**Mr CROWE** — Yes; it is those sorts of things. The fabric will be of high quality, even in 22 years time, and we have an obligation to hand the building back to government. I know schools are often used as an example of where procurement using a PPP model can free up time from the headmaster dealing with asset maintenance issues, and the communities have a commitment from government that the school will be built at a high quality and will be maintained at a high quality for 25 years. So I guess there is no risk of quality diminishing or a real drain on the local community to support or cover up a diminishing quality by having to raise additional funds for different things for their local school. I know that example gets used quite a lot, but it is very similar if you think about hospitals and those sorts of assets that get procured by PPP methodology. It is about that long-term commitment I think the government is making to those assets.

**Mr HAY** — I think there is also the element that the quite onerous KPI and service delivery requirements and the incentives associated with those drive these facilities to be very safe and secure for the public as well. Our obligations from a security, emergency management and safety perspective are, as I said, quite onerous. So I think what the community gets is a safe and secure facility — a facility that is going to be as relevant at the end of the term as it is at the start of the term, and hence it is being well maintained. I recently attended the

10-year anniversary of the County Court building, and the first point the Chief Judge said was, 'It looks as good today as it did 10 years ago'. I think that is a very good demonstration of how effective the model can be.

**Mr O'BRIEN** — Just picking up something on that: it touches a bit on this building but relates to a centralised rollout model for departmental projects. The classic is the BER, about which we have received evidence before, compared to a tailoring with project management and real stakeholder control on a site, particularly in the PPP model, and also where you have a department which can gather experience over the running of a project life and, most importantly, the stakeholder input. One of the areas that has been identified in the schools has been the environmental inefficiencies, particularly problems with the rollout of standardised fitouts and air conditioners — you have heard of those sorts of issues. I just ask you: how does government work through that centralisation down to the individual stakeholder input dilemma, if you like? What is the best way that can be resolved through the PPP process?

**Mr CROWE** — I think where we are talking about centralisation and consistency is probably at that oversight, procurement, contract, decision-making level. I think PPPs are set up with design management responsibilities at the early phase, both during procurement, where we do get a chance to engage with the users or the operators, and then at the early stage of design. The PPP model can respond quite well to unique design solutions that are unique to that site, and even in the procurement of 10 schools as one package of PPPs — I understand the Partnerships Victoria in Schools project — there are quite unique elements to each of the schools where the design was able to respond to local requirements whilst having a kind of flexible module of design so that from an overall construction point of view it was not too different that it became inefficient but it was able to be flexible.

**Mr O'BRIEN** — How much of that is the individual project managers assigned listening to the stakeholders who are sending the red flags up on the site, saying, 'Don't build it there; there is a basketball court' or 'Something is needed over there' or 'The sun won't come in' — all the various problems that could occur. How much of it is the structure of the arrangement? I suppose it is a bit of both.

**Mr CROWE** — It is a bit of both. I think you need to establish the projects in a way where the governance structure allows that local knowledge and content to come through because these projects are complex. There are large amounts of money and risk positions at stake, so you need a pretty stable governance structure. But you should not be doing it in a way that you build over a basketball court that could still be used and all those sorts of things. I do not know if that answers your question, but I think there is flexibility in how we are seeing the structure and how we have delivered under the PPP framework whereby we are able to respond to local issues that are on site — specific issues within the framework — and have them resolved.

**Mr HAY** — I think that is a key balance to strike — the balance between centralisation and local decision making — because in the nature of the assets, decisions need to be made, sometimes immediately if there is a convention or an exhibition or whatever might be taking place. So in terms of any centralisation over the site it is important that there are clear delegations between the central agency and local decision making so it does not get to the point of you then experiencing very slow decision making because of the centralisation of the process. Again, clear delegations help deal with that. That is something that I would suggest needs to be there, both during the construction and in the operating phase. Decisions still need to be made fairly quickly.

**The CHAIR** — In closing I invite you to make some general observations about the nature of the labour market as it is impacting on the infrastructure sector. There are a number of factors. Pricing and availability is like any commodity; labour is no different to anything else. We are hearing a good deal about pressure on the labour market in respect of the resources sector — I am talking about the construction industry specifically — and the EBAs in relation to the Wonthaggi desal plant are setting a new benchmark, as it were. I just wondered how that is affecting your particular interest in projects, particularly the availability issue. There seems to be quite a bit of discussion about the magnet of Western Australia. Can you make any observations?

**Mr CROWE** — I think we are within a constrained labour market at the moment because of the pool of the billions of dollars of infrastructure projects that have been delivered and still need to be delivered for these major resource projects that are under way. For that constrained market, like any constrained commodity, the price has gone up. I think that is very much a challenge for the government. It is one that is of concern to us because it does make it harder when we are working within a constrained budgetary regime to pick projects and to get on and have the confidence to procure essential infrastructure for Victoria in the face of demand in

Western Australia and the potential labour shortages here, so it is a challenge. I think it is going to be a hard challenge for the eastern states to work through.

**The CHAIR** — I think we have done very well; thank you very much. Your contribution to the inquiry was certainly informative, and we are grateful. You will receive a copy of the transcript in about two weeks, and if you could make any corrections and return it, it will then be posted on the website. This closes the hearing.

**Witnesses withdrew.**