VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

Melbourne — 20 March 2012

Members

Mr N. Angus	Mr D. O'Brien
Mr P. Davis	Mr M. Pakula
Ms J. Hennessy	Mr R. Scott
Mr D. Morris	

Chair: Mr P. Davis
Deputy Chair: Mr M. Pakula

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Executive Officer: Ms V. Cheong

Witnesses

Mr G. Hehir, Secretary,

Mr D. Webster, Deputy Secretary, Commercial Division,

Mr J. Monforte, Director, Infrastructure Risk Management, and

Mr J. Loos, Director, Partnerships Victoria, Department of Treasury and Finance.

Necessary corrections to be notified to executive officer of committee

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the inquiry into effective decision making for the successful delivery of significant infrastructure projects. On behalf of the committee I welcome from the Department of Treasury and Finance Mr Grant Hehir, secretary; Mr David Webster, deputy secretary, commercial division; Mr Joe Monforte, director, infrastructure risk management; and Mr Jason Loos, director, Partnerships Victoria. 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. Departmental officers, as requested by the secretary, can approach the table during the hearing to provide information to the secretary, by leave of myself as Chairman. Written communication to witnesses can be provided only 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 focused on only the persons speaking and that panning of the public gallery, committee members and witnesses is strictly prohibited.

As previously advised to witnesses here today, I am pleased to announce that these hearings are being webcast live on the Parliament's website. Those who observed the estimates hearings last year will know that we had an audiocast; this year we are video and audiocasting.

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. This committee has determined that there is no need for evidence to be sworn. However, witnesses are reminded that all questions must be answered in full and with accuracy and truthfulness. Any persons found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days of this hearing. Committee transcripts and PowerPoint presentations will be placed on the committee's website within two weeks of today's hearing.

Following a presentation by the secretary, committee members will ask questions relating to the inquiry. Generally the procedure followed will be that relating to questions in the Legislative Assembly. I might note that there are a lot of mobile phones in the room, including my own. Please ensure that they are turned off. I ask that the secretary give a brief presentation of no more than 4 minutes if desired.

Mr HEHIR — I will make a few opening remarks. We have provided a submission to the committee. I think the underlying messages in that submission are around the fact that there are critical success factors that are required for producing positive outcomes of infrastructure projects, and some of the things we have identified are that you need to have effective planning up-front in particular. Robust business cases are critical to get appropriate outcomes. That has to involve a whole pile of rigorous scoping specifications and putting realistic time frames and costings around projects and then putting in place effective governance around the project and making sure that throughout the project development and implementation you keep scope creep under control and effectively manage the contractors and all of that.

As the terms of reference for this inquiry point out, you need the right skills to make all those things happen. In our submission we have tried to set out what we think are some of the key skill sets necessary for achieving positive outcomes. On top of that you need to have good frameworks in place, and one of the key roles of Treasury on a whole-of-government level is putting in place the type of frameworks that are necessary to have those good processes to achieve good outcomes. The frameworks we have in place, which we have referred to in our submission, are things that have developed over time. We try to keep them at good practice and try to keep an eye on what is happening in other sectors to try to maintain the quality of our frameworks, but there is no doubt that inquiries like this and reports from auditors-general and ombudsmen always help us refine and improve those processes going forward.

Over time we have been trying to expand some of the training we provide with respect to the skill bases necessary for effective project delivery. That is expanding over time, and we have tried to leverage not just in-house delivery but working with the university sector et cetera to build up our capabilities, but there is clearly more we can do there. One of the key things we have to keep in mind when thinking about skills is that, like most work experiences, high-quality skills come from being on the job at the end of the day in this area. Getting some training is important, but to have high-quality skills to deliver projects you need people who have experience and have worked on the job and delivered those skills.

Generally what we find with respect to projects is that in those areas where you are working in departments or with respect to projects you do all the time you tend to build up a good skill base, and those projects tend to work quite well because the skills are in the organisations; they can draw on them, and they go along. Our capabilities and success in one-off projects where we have to drag in skills tend to drop off, and the pool we have to draw on can be quite small in some of those areas. I think that is a key thing in looking at how we build the capability.

One of the key issues is about the extent to which you have specific skills in departments or look at a centralised skill pool for an answer to those types of issues. In the private sector the people we contract with tend to use a national pool of skills. We tend to largely draw on just Victorian skills, and to some extent if you could sort of expand that skill interface across the nation, we would probably be more effective. There has been a lot of debate about that over the years in terms of developing national project pipelines and issues like that.

One of the key issues when you come down to how you implement policies around that area is around how you get the accountability right. There is a lot of debate in this area around how devolved or centralised you have processes for the development, operation and implementation of projects. The key issue that you need to balance off is how you develop up pools of skills versus how you get the accountability right. We have tended to favour a devolved approach to project delivery so that you can build stronger accountability for the project owner. So the more you have the responsibility for the control and operation of a project disengaged from those who are accountable for the delivery of the service at the end of the day, that disconnect can undermine the accountability framework. So while there is a lot of debate around centralised versus devolved with respect to access to skills, I think you have always got to look at the other side about how you get the accountability for delivery in the right place, and that is a key qualifier in that area.

With that, I might just finish my comments.

The CHAIR — Thank you, Mr Hehir. I am pleased that you have raised that specific issue of the devolved approach, which we will certainly come back to because I think it is a central matter for the committee to address — by that I mean reflecting on the corpus of skills required to deliver projects effectively and whether they are disbursed or disaggregated rather than being centralised.

I want to frame the question or examination process by making a general comment about Victoria's reputation. In a conversation preceding the hearing I indicated to the secretary that each jurisdiction seems to say that other jurisdictions do it very well and perhaps do it better, so as a consequence we have had a look at a number of other states in Australia and the way they deliver projects. Victoria actually has a reputation as a leader in this field; however, the evidence in fact questions the capacity within ourselves to keep control of projects — for example, references to cost overruns of $2 billion in major projects. That leads then to the question: how does the Victorian public know that it is getting value for money from its investment in significant infrastructure projects? It is really a basic fundamental question that then goes on to deal with the issue of those cost overruns. How can the public be convinced, when it is seeing evidence of the fact of government reporting cost overruns, that it is actually getting value for money? Would you like to just frame that general picture?

Mr HEHIR — Value for money is a very broad concept. I think you would have to look at the capital program of the state as a whole and make a judgement about whether the aggregate priorities being set are meeting the needs of the community as a whole. I think the study at a macro level is looking at the information that is published on the aggregate capital program in terms of its size compared to the infrastructure needs of the community. We have tended to talk over a long time about having an infrastructure spend which meets both the replacement needs of the asset plus the growth needs of the community — that is one concept — and looking at how that is spread across social and economic infrastructure and whether that balance is right. That gives you a sense about whether the level of investment is the right one — so there is a value for money concept there — and whether the projects picked are the right projects picked on some sort of cost-benefit analysis across the different elements.

Then value for money on an individual project can really only be determined on the basis of the quality of the process that is put in place in getting the project up and running. By that I mean the more clear and open you have got a competitive approach to the market to generate a price for a project with a competitive market bidding for it, the more you can be assured for a particular project that the price you are paying for it is one which is the right market price for the project.

So you start from a macro perspective about how projects are selected and the amount of projects down to the individual projects, which is around having a good process for procurement which produces a competitive market, and then that demonstrates you are getting the right price. Then through the project management process you ensure that the project that is delivered at the end of the day comes in at the price you paid for it.

I know that is pretty broad.

The CHAIR — Thank you. I have absolutely no doubt that we will come back to this issue of cost overruns, because I think that one of the issues for the committee is in terms of finding empirical evidence about the conclusions we need to come to. We need to use case studies in effect, and clearly projects where there have been significant cost overruns will at a later date be examined in more detail by the committee. We will no doubt come back to you in relation to that.

But in that context, before I pass to the deputy, I just want to ask specifically: in relation to the DTF role in oversighting the assurance processes it is not evident to me what or if any sanctions have been imposed or indeed are available in respect of any delinquency in projects that leads to significant cost overruns.

Mr HEHIR — I am not clear what you mean by 'sanctions'.

The CHAIR — What I mean is: is DTF just watching? DTF has the central agency role to oversight the expenditure of the state, so what is it that DTF does in relation to projects that are like runaway trains and the 2 billion of cost overruns that have been clearly identified and mentioned in submissions to this inquiry?

Mr HEHIR — Our role with respect to the oversight of projects breaks up into the front end and the back end, and I think you are mainly talking about back-end supervision once the project is under way. Major projects are largely defined as those which meet our HVHR criteria — that is, they are high value, over $100 million, or they are identified as being a high-risk project through an assessment tool that we utilise for assessing risk. The activity we undertake for all major projects is regular reporting from departments on progress of the project against time lines, cost and all of those elements, including milestone achievements. On the basis of that we make an assessment about whether the project has risks associated with it, whether they be of timeliness or cost, and we then provide advice to government on actions that they can take to remedy those situations. The actions that can be taken may involve changes to governance, if we see that as being a key element; they may involve changes to scope, if that is a key component of it. In some instances it may be that the project stops, depending on where it is up to. Our role is to advise government on action that it can take in these types of situations.

The CHAIR — I foreshadow that for us to complete this work we will inevitably come back to case studies to drill a bit further into this, so just take that on notice.

Mr PAKULA — Secretary, I just want to jump around your submission a little bit. You talk about your gateway review process, where you say that gateways occur at proof of concept, through business case preparation, through procurement, construction and benefits realisation — this is on page 16 of your submission. You also talk about Victoria as it relates to other jurisdictions, and you note that Victoria has been the leading jurisdiction in regard to PPPs and is widely recognised as a world leader. Victoria has been a national leader in developing alliance contracting guidelines and was the first Australian jurisdiction to use gateway reviews and so on. You also make the point in regard to the skills in the public sector that considerable progress has been made in building the required competencies over the past decade. There are a number of things that you have clearly been doing for a long time. When you talk about HVHR, given the way you say gateway reviews operate and given what you have said about your national leadership and alliancing, and PPPs and skill development, my question is: how different is HVHR to what you have already been doing?

Mr HEHIR — With respect to PPP projects, it is probably not a lot different. In a lot of respects what we have done with HVHR is to extend to the rest of our major infrastructure delivery the rigour of oversight, business case development and all of that, which we have been doing for PPPs — putting it in place as a mandatory framework for all of the processes for all of our large infrastructure projects. That is one element to it. The second element to it is picking up on some of the criticisms or recommendations that have been made in Auditor-General's reports about the role of Treasury and where it could have been argued that for the non-PPP projects Treasury was an observer critic on the sidelines rather than an inside player taking a bit more ownership for outcomes.

We have developed the framework so that at key points in the process Treasury and the Treasurer have sign-off roles that in the past were left out in departments. The type of things I am talking about there are stronger rules around projects not progressing to funding decisions unless the Treasurer signs off that the business case is deliverable. Just having a framework that says that puts a lot more responsibility on the Treasurer and Treasury for a rigourous assessment at that stage. We used to do this on PPP projects, but we have now extended it a bit further. We were always in the business case space, but that is just a bit more accountability.

The newly added bits really are around the go-to-market phase and the contracting phase, where we have identified risks between a business case and contract signing of scope movements, so Treasury has become more involved in the high-value, high-risk space, in ensuring that in relation to the EOI process when we go out to the market what we are going out to the market for is exactly the same as what we built into the business case and what we signed a contract for is exactly the same as what we went to the market for; so there is no scope creep in those spaces which is not brought back to government for decision-making processes. It is a bit more detailed in those types of areas, and then there are similar types of things post-contracting, in delivery.

Mr PAKULA — Is that more about formal roles? I am sure that Treasury is not saying that it was completely absent in relation to those steps in the past.

Mr HEHIR — No, it is much more about formal roles and much more about a situation where things cannot go forward unless certain authorities are signed off.

Mr PAKULA — Trigger points?

Mr HEHIR — Trigger points; so in the past if a flag was raised about a process, it was possible to go around that without it being brought back into central government. That happened on a few occasions, and we are just trying to formalise that process so it does not happen in the future. It is about formalising things, but it is about addressing some of those key elements we have identified where project scope issues caused cost or timeliness blow-outs.

Mr PAKULA — So, what, making sure that central agencies have, if you like, an indicator that reminds them to get involved? I am trying to imagine circumstances where projects get to critical points where a central agency is not already in there making sure that its view is well heard.

Mr HEHIR — I might hand over to Joe, who runs the HVHR process.

Mr MONFORTE — It is also a timing issue. In the past, as Grant pointed out, particularly for non-PPP projects, we were involved in the front-end in business case evaluation. It was not a formal requirement to gain the Treasurer's approval before the business case could be considered for funding. Once the project was approved for funding and implementation started, we then monitored it. We talked to departments regularly but we monitored it, and we tended to become aware of the problems after the problems had already started to materialise.

Now that we have the high-value, high-risk process, which requires the Treasurer's approval for things like contract variations, going to market and tender decisions, we can advise the Treasurer and work with departments to cut off some of those problems before they actually arise. The department will not be able to go to market with the tender documentation, for example, that includes scope creep because the Treasurer will not approve it. It would need to get the Treasurer's approval under the high-value, high-risk process. Because there is now a formal step we are much more involved formally and can cut off some of the problems before they actually start to arise.

Mr PAKULA — I will make one last point. One contemporary example I am aware of is the RRL. My recollection is that no tenders could go to market without Treasury tick-off in that case.

Mr HEHIR — I think that is correct because that was and is such a big project, but what we are trying to do is spread that process deeper — —

Mr PAKULA — To lower value projects?

Mr HEHIR — To ones that are over the $100 million threshold but not $5 billion. A lot of this is about cultural change as well. I take your point that some of this is about formalising things, but the formalities actually change behaviour and that is what we are trying to drive.

Mr MONFORTE — The other point about the RRL project is that Grant talked about PPP disciplines applying to PPP projects in the past, where we have also had a formal process around alliancing projects requiring the Treasurer's approval. A lot of the major RRL contracts were alliancing contracts. What high-value, high-risk does is actually extend a lot of disciplines that already apply to PPPs and to some extent to alliancing to other contracts, irrespective of the procurement methodology.

Mr MORRIS — Mr Hehir, can I go to the skills issue? In section 4.4 of the submission there is discussion around responsibility for securing, developing and maintaining project skills being largely devolved to individual departments. Can I ask you, and this will essentially be a two-parter, has DTF made an assessment of the extent of existing engineering skills in particular or skill shortages across the public sector and their impact on the timing and cost of infrastructure projects?

Can I also look forward on that point to section 4.5 of the submission where it talks about possible future enhancements? There is some commentary there around the approach being taken in the United Kingdom. You recognise in there that Victoria's capital program is roughly 10 per cent of the UK capital program and suggest that a cross-jurisdictional approach might be a suitable way to go. Could I first of all ask about the assessment of engineering skills in particular, and secondly, how a cross-jurisdictional approach might work?

Mr HEHIR — We, to my knowledge, have not done an assessment of the extent of engineering skills. I have never had raised with me that there is an issue around accessing those types of skills in projects, but that is not to say that people have not; I am just not aware of that having been raised as an issue. Certainly we access many of those skills from the market rather than having them in-house, particularly for those departments which do not have large ongoing programs. I am not certain that that is a problem. The issue is whether you can access the appropriate skills in a timely and cost-effective way rather than whether they are in-house or out of house, but we have not done a detailed analysis on that — —

Mr MORRIS — On whether they are in fact available?

Mr HEHIR — I think, as I said in my opening comments and in the submission, for a whole range of the skill needs required to deliver projects, the lumpiness of projects would mean that the public sector side of the delivery of those projects having a broader national market to access the skills sort of makes sense. We have done a bit within Victoria. Within the state itself I have seen individuals who have skills move around between departments and projects, and that has been a success. Probably more could be done in that space, but building up the national interface would be good. I am not certain how you do it, though. That would be an interesting thing for the committee to look at — —

Mr MORRIS — That is the part that interests me, yes. Thank you.

The CHAIR — Can I ask the supplementary, which I alluded to earlier?

Mr PAKULA — That is the Chair's prerogative.

The CHAIR — Yes, it is the Chair's prerogative; thank you.

It goes to your words, 'devolved approach'. I am really interested in this issue about departments and agencies having their own delegated project management function as opposed to central oversight, because this is a really fundamental issue in relation to our inquiry — centralised versus decentralised models.

I would like you to develop that further in the context of Mr Morris's question and your response. It is clearly critical to have a corpus of skills. I am alluding specifically to engineering skills. The way the state does its business is different now than it was two decades ago. Clearly we do not have the same high level of internal engineering capacity, so a decentralised model — a disaggregated model — means you defray that skill set again. Would you like to tease that out?

Mr HEHIR — I will start off on the devolved model and what I mean by that. What we try to do to get effective governance in place is ensure that there is a project owner who is responsible for the delivery of the project and that that project ownership is situated within the entity that is going to effectively utilise the project as much as possible. Our concern with a centralised approach is if you get the management or governance of the project too far away from the final user or the department that is responsible for it, you might get a disconnect between what you deliver and what you need, as much as anything else. That sort of accountability link breaks down. By a devolved model what we are talking about is getting the governance right so you get the right accountabilities with the people who build it, the right responsibility to deliver the project.

The people who undertake that framework in a devolved way need then to access a skill base to achieve it. If you are a department that has an ongoing asset program of roughly doing the same thing — and I think the classic example is education with a school building program or justice with a police station program or things like that — then it is reasonable for them to develop a skill base in house which can deliver that or a skill base for managing outsourced providers to do that in house across all of the skills necessary. Where you can have difficulties is where you have departments doing large one-off projects where they do not do those very often or big lumpy things that happen even in departments that have large programs. Where that is a problem is because the skills that you need, whether they be engineering or whatever, can be quite different between one type of project and another. The specific engineering skills for a large hospital are not the same as for a school or a police station or something like that, so you get some lumpiness in those kinds of things, but you still want the accountability for getting the right people together to be in the right space.

Your question is about — I take it as being — in those situations where you have that sort of lumpiness, is it reasonable to have some access to a pool of skills from across government? The answer to that is yes, if the skill base is generic enough, and we do try to do that in a number of areas, particularly in business case and project management and those type of areas, but can you do it if the skill is quite specific and the projects are not ongoing? That is when you get into trouble for having an in-house capability either in the entity or across government as a whole, because you do not have roles for them on a continuing basis. I think part of the issue with respect to the engineering side of things is that some of the skills which we wan to access we do not have roles for them on an ongoing basis, so a lot of the time we now access them from the market rather than having them. Sorry, I cannot go into detail.

The CHAIR — That is fine. Thank you.

Mr HEHIR — What we have tended to use in that space is Major Projects Victoria tends to be a bit of a housing space for skills where we get them to do projects for those entities that do not have ongoing programs — ones that do one-off stuff use the skill base of Major Projects Victoria to fill in for that, so it plays a bit of a de facto role in that area.

The CHAIR — Thank you.

Ms HENNESSY — Secretary, the Auditor-General has put a submission in to this inquiry in which he has spoken about the need for a much higher level of disclosure and the need to increase transparency and minimise opportunities for ambiguity and misunderstanding around costs and public interest in major projects. I note that you have you have addressed the issue of transparency and public interest in the DTF submission, but I was wondering: do you plan to publish public sector comparators?

Mr LOOS — In terms of the public sector comparator, that is a concept that relates to the PPP framework. The public sector comparator is essentially government's cost benchmark built up by the raw cost, which is the design and construct cost, and the ongoing maintenance associated with the government's estimate of the delivery. When we first started doing PPPs we actually had that public sector comparator developed and we did not make any of that available to the private bidding market. Over time though we have released the raw public sector comparator in the context of a request for tender proposal. It is made available in the context of the bidding process. The request for tender document itself is not made public, so the public sector comparator forms part of the request for tender documentation. Ultimately, though, the contracts are published on the website, and we have extensive project summaries for the PPP projects, which does provide information on the value for money where the public sector comparator amount is disclosed with the winning bid — net present cost as well — so we are actually transparent around the value for money that has been achieved in the PPP delivery.

Ms HENNESSY — Is that a yes?

Mr LOOS — The actual number after we have gone through the tender process and done the project summary, the PSC, is disclosed.

Ms HENNESSY — As a supplementary question, I note that in the DTF submission you have written about the public interest test that you say that the business case guidelines require every investment proposal to address. Is it your intention to publish the business case to enable greater transparency around how such proposals address the public interest?

Mr HEHIR— That is not a matter we can comment on. What is published is a matter of policy for governments.

Ms HENNESSY — Would it be cheeky of me to ask if you have a view about that?

The CHAIR — I think it would be very cheeky, thanks, Ms Hennessy.

Mr ANGUS — My question and the matter I want to raise is in relation to the whole issue of business cases. You mention in your introduction the importance of that, and indeed your submission under point 2.2 goes into quite an extensive commentary in relation to a robust business case. In relation to some of the deficiencies now documented by the Auditor-General and others in relation to business cases and perhaps either then not being prepared or not being prepared at the front end of a contract or being deficient in other ways, perhaps with assumptions included and so on, my question is: how are you going to ensure that those issues are not repeated, aside from the comments that you made a moment ago in relation to the high-value, high-risk function. And secondly, has there been any analysis to see where the gaps were and how matters were missed in relation to those business cases?

Mr HEHIR — I think if you do not have a rigourous business case done before you decide to go ahead with the project, then you can only assume that you will only deliver what you want by chance. The starting point is you have got to know what result you are trying to achieve from the project, have a desired outcome, and then build up a business case around that to describe how you want to go about achieving those outcomes. If you do not get all that scoping work and business case development done at the front, then your chances of actually delivering something on budget, on time are incredibly low.

You can see from most of the analysis that has been undertaken, both in Victoria and any other jurisdiction, most of the projects that do not go well have had poor business case development up the front. It is only reasonable that if you do not define what you want to achieve, it is really hard to achieve it at the end of the day, so it is critical.

We have talked about the HVHR process and for those type of projects that is how we are going about trying to get more rigour into the business cases. We have also put out guidelines to departments on what constitutes a good business case, so when things are coming up for funding, we assess them against whether their business case is robust enough to say that something is deliverable. I do not know whether there is much more that I can add to that.

Mr ANGUS — If I can just make a further comment. In terms of documented, deficient business cases, have you or your department gone back and analysed where they went off the rails or where they were deficient as identified by third parties?

Mr MONFORTE — We have not necessarily done that in a formal sense, but we do, usually on an annual basis, do a bit of a stocktake in terms of the business cases that come in and assess generically what has been happening, how that has stacked up compared to what our expectations are. It has tended not to be a formal sort of an evaluation, more of a sort of an internal stocktake. One of the things, however, that we have done consistently through the Gateway process is that we maintain a lessons-learnt database and what comes out of business case reviews. So we have got a bit of a history of the type of recommendations coming out of Gateway reviews and the deficiencies identified by Gateway reviews. These are identified in a very generic sense, and are not project specific because we do not have direct access to review reports for each individual project, but at a generic level we have got a database of the lessons learnt, and we have used that over time to help build our guidance and strengthen our guidance material.

Mr SCOTT — The information you have just given will provide the additional part of the question because it is relative. I note at page 16 there is a significant discussion of the Gateway process. It states that Gateway reports are not publicly available. You have just made reference to a lessons-learnt database that arises out of Gateway. Firstly, my original question was going to be: are you aware — I am not asking for your opinion on this since you cannot give it — of any proposed changes to that provision where they are not publicly available? Are you aware whether they are going to be made available in the future? And secondly, is the lessons-learnt database available to the public in any way, shape or form?

Mr HEHIR — I do not think it is available publicly. It is on our whole-of-government website, because those are the people who utilise it. I do not think it is on our internet but on the whole-of-government intranet.

Mr PAKULA — Can we have the password?

The CHAIR — I think the secretary cannot remember!

Mr SCOTT — Just to follow up on these matters: there is a series of steps that are outlined in the high-value, high-risk project approval process and performance that relates to the sign-offs of the Treasurer for any key milestone. Is there any public reporting of those processes?

Mr HEHIR — No, the processes are basically our internal sort of management processes and they are processes that feed into whether something gets a go-ahead. As you could imagine, when the government is doing a budgeting process there are a lot more bids for projects than are actually funded at the end of the day. That is consistent. Part of that filtering process is whether a project that passes muster is well developed enough to get past the funding stage. That is just how the process works internally.

Mr SCOTT — Can I just clarify one point. Is it correct that that occurs before the matter reaches cabinet now?

Mr HEHIR — You cannot take a project which meets the high-value, high-risk criteria to BERC unless its business case has been approved by the Treasurer.

Mr O'BRIEN — I just want to pick that up — and it also picks up the question raised by the deputy chair about the differences between the high-value, high-risk process and what occurred previously. I also pick up the Mr Angus's point in relation to the planning and analytical skills in 2.2, where you say a robust business case which clearly outlines the case for investments substantiated whole-of-life costing and sound risk management is critical. I want to take you, by way of a specific example, to the Auditor-General's report in relation to irrigation efficiency programs at page 8, where the Auditor-General said:

> Planning for irrigation efficiency and related projects, prior to the decision to invest, has been poor and has not met the standards expected of high-risk and high-value projects.
>
> None of the projects followed the business case development guidelines, which require proposals first to demonstrate a need then assess options to meet that need. Instead, all the projects went straight to business case stage, adopting the preferred option. This was particularly so for the food bowl modernisation project, where the business case was formalised two years after the decision to proceed.

As I understand high value, high risk, it will not get to a decision to proceed unless it has passed that Treasury approval phase. Is that correct, first of all?

Mr HEHIR — That is the methodology in the high-value, high-risk process, yes.

Mr O'BRIEN — That also picks up not just project delivery but the need for the project in the first place. Is that correct?

Mr HEHIR — That is right.

Mr O'BRIEN — What was the role of Treasury in relation to previous big projects, in particular that one that was identified by the Auditor-General, by way of a comparator?

Mr HEHIR — I think the Treasury is always involved in advising government on expenditure and assessments of projects. We undertake that role and have done consistently over time; that is what we do.

Mr O'BRIEN — Effectively the nature of the role has changed in the way you have identified with the requirement for DTF and Treasury approval prior to the decision to proceed. Is that correct?

Mr PAKULA — The counsel is leading the witness!

Mr O'BRIEN — I am just trying to clarify.

Ms HENNESSY — Nice try though, David.

Mr HEHIR — The process we have put in place I would describe as putting more accountability into Treasury than existed under previous processes for ensuring that we share with the departments more of the responsibility of the quality of business cases and that there are more specific decision-making procedures that need to be put in place rather than implicit ones. I think they are the changes we were describing at the beginning — —

Mr O'BRIEN — It is explicit rather than implicit, and being explicit it was not always followed.

Mr HEHIR — I think it put in place — —

Mr O'BRIEN — If I could just quickly quote David Downie from page 255 in relation to that:

> … if we'd done a business case, the government probably would've been forced into doing some other project … Other than a food bowl.

That is the sort of decision you are now involved in — is that correct — in that rigourous review?

Mr HEHIR — I think we are always involved in those processes, and we will continue to be. There is one point I would make: there will always be a circumstance where the procedures that you put in place will not be followed. You can always imagine in a case of some form of crisis activity, a government will decide that it is in the best interest of the community for them to proceed on a fast-track process, where you will see some of the business case development happening after the decision to do something occurs. What we try to do is put in place processes which are appropriate for the overwhelming majority of cases, but there will be occasions where governments will decide that something has to happen so urgently that those processes will be — —

Mr PAKULA — Truncated.

Mr HEHIR — Truncated, yes. That is reasonable. That is what governments are there to make decisions about.

The CHAIR — We are short of time, so I am going to try to abbreviate a series of questions which go specifically to skills. To do that I will lead to the observation that a number of submissions have implied that there are not explicitly stated published policies and guidelines in relation to skill sets, but the competencies and skills around projects are implicit rather than explicit. In relation to that, I am trying to get an understanding about what assessment there is — if there is one — from a DTF perspective about the competencies and skills across the public sector and what parameters are put around measuring those competencies and skills and informing central government in relation to what skills need to be developed, or does this actually happen within a vacuum in, and as a response to, projects as they come forward?

Mr MONFORTE — We have guidelines which indicate the sorts of skills that are required for projects. For example, the PPP practitioners' guide which we publish is quite explicit around the type of skills we think are required to deliver a project, both in terms of on the ground as well as governance. It is pretty explicit in terms of skill sets. Our Partnerships Victoria team is involved in working with departments to try to make sure those skills are utilised. Do we measure that? Probably not on an active basis, but we certainly do have guidelines around the sort of skills that are required. It is set at a reasonably high level because the guidelines are meant to cover every conceivable type of project. They are guidelines; they are not prescriptive rules.

The CHAIR — That would indicate you do not actually have an overview of where the skills reside within the government agencies — that is, central agencies do not really specifically know where to find a resource or resources within a certain skill set for projects. Those skills are requisite for individual projects and will be applied to those projects, but we do not have a clear understanding of what is available to us?

Mr HEHIR — I do not think that is quite right. We do not maintain a central skills register people, but we have 11 departments and a number of entities that do this. We work with them constantly, and their infrastructure procurement delivery units are well known to us, so when particular projects come up where, in discussions with departments, we identify skill needs, we will try to put them in touch with other departments where we think the skills are or identify individuals who could be moved from one organisation to another to meet those gaps.

We also try to keep an overview of what is happening with the flow of projects. If we think that a particular entity is not going as well as they should because of a skills gap, we will have conversations with them about the need to fill that. There are obvious examples like the federal government stimulus packages in education and housing where you have this large ramp-up in expenditure. We were in discussions with those departments from day one about, 'Have have you got the right skills? Where can you access them when you are ramping up a program of that nature?'. We are always having conversations with people about that type of stuff, and the people in the commercial division who work on these types of projects know the people who do the projects and try to put them in touch with each other, but it is not a formal process. I am not certain that a formal process is necessary, because it is very defined — the groups that are involved in these things.

Mr PAKULA — Secretary, I am interested in getting your comments. I do not want to verbal anyone, but as the chair indicated we met with departments from Western Australia, South Australia and others. There was an interesting conversation at a joint meeting in South Australia with the Department of Transport, DPC and DTF. Some of the commentary there interested me because it seems to be quite different to the attitude that Victoria takes. Without verballing anyone, it was along the lines of, 'Well, the traditional approach is to document, design and call tenders, but in a way that's the riskiest way, and it's the most likely to breach the budget'. So it is that this idea that you should not get the builder in early because of probity concerns is actually wrong and that the best way to hit a project on time is to basically have everyone in on the ground floor — all your contractors and your builders — and have them design and scope and cost along with you. I think the quote was, 'The obsession with fully documented hard money doesn't work'. I would be interested in the Victorian Treasury's comments on the attitude that we heard from South Australia.

Mr HEHIR — Our research and evidence has suggested to us that if you take the extremes of this, or the major procurement methodologies, where PPP is at one end, the one where you do all the documentation up-front and get everything nailed around before going to market, you have the traditional D and C and you have an alliance contract, which tends to be more about what you are describing — the evidence we have seen assembled in academic research et cetera would suggest that you tend to get significantly better value for money from a PPP-type approach or an approach where you get the documentation up-front than you do from ones where you do that type of process. There was some research published by the University of Melbourne about two or three years ago on that — I am calling on my recollection here — and there was something of the order of 15 per cent or 20 per cent difference in price outcomes and timeliness outcomes as a result of that.

But in these approaches to markets there is not a one-size-fits-all approach. In some places, like some of the programs we are doing in regional rail, alliancing is the right way to go when you are doing a brownfields site with a lot of complicated interactions where it is best to get all of the players together — the train operators, the contractors, the planners and everyone — and try to do it as you go along. The evidence suggests that in those types of processes you can get better value for money from that type of alliancing process. Our view is that you go to market strategy based upon what is best for the individual project, and sometimes the type of model you have described is the right one. But where it is important to know what you are buying and you know roughly what you are buying, you are better off designing it all up-front.

The classic example is IT projects. The classic documented failure, whether it be in Ombudsman or Auditor-General's reports, in IT projects is that the specific outcome is not well enough defined at the beginning; the product is not defined when you go to market and you sort of do all of these variations along the way and the costs get out of control. If you look at all of the evidence around IT projects, it is because of the type of model where you have not got a clear definition of what you want up-front that you get — —

Ms HENNESSY — There seems to be a — —

The CHAIR — Sorry, Ms Hennessy, we are out of time. That is regrettable because I know that the committee would like to pursue this further, so we will pursue it further by way of correspondence, and I have no doubt that you will be invited to participate in further public hearings as we go forward.

That concludes the hearing with the Department of Treasury and Finance. I thank the secretary and officers for attendance at our useful session. I am not sure that there were any questions taken on notice, but we will certainly be following up with unasked questions, and we would like a written response to those questions within 21 days.

While this concludes the hearing, the committee will inevitably be in touch in relation to term of reference (d):

> … whether particular significant infrastructure projects have been developed and implemented in a manner which aligns with the public interest and maximises transparency and accountability for the life cycle of the project.

The committee urges the department to provide any supplementary submission in relation to matters that come out of this series of public hearings so that any additional comments that are relevant to the inquiry may be heard. I thank all those who participated in this hearing, which is now concluded. Thank you.

Witnesses withdrew.