

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

Melbourne — 21 March 2012

Members

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Mr David Chandler, Former Deputy Chair, Building the Education Revolution Implementation Taskforce.

**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 Mr David Chandler, OAM, former deputy chair of the Building the Education Revolution Implementation Taskforce, members of Parliament and 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. 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 only on 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.

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. 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 the hearing. Verified transcripts and PowerPoint presentations will be placed on the committee's website within two weeks of this hearing. I ask that all mobile telephones be turned off, and I now pass to Mr Chandler for any opening comments of no longer than 4 minutes, if Mr Chandler desires.

Mr CHANDLER — Thank you, Chair. I have circulated a summary of the material that I thought was relevant for the committee to consider this morning. I apologise for its late circulation, but it just occurred to me that a 4-minute conversation over the phone was perhaps not going to cover all of the material. Essentially the material is as it has been submitted to you. The key themes that are relevant are; there was an apparent effect as a result of hollowing out informed buyer capabilities within government, particularly in the Victorian and the New South Wales contexts, for the BER projects. There were clear concerns regarding the performance of the industry in delivering projects in those jurisdictions, and in Victoria particularly amongst program management and external project manager performances. Again, that has been covered in my submission.

In regard to the core issues that are related to your inquiry, my sense is that the issue of the rising cost of construction nationally perhaps gets a little overlooked on a project-by-project assessment of the procurement processes, and I am not sure that the capacity to drive down the cost of construction nationally is going to be fostered by simply anticipating that the competitiveness of a project-by-project commitment process is going to achieve that. In summary they are the major themes that need to be considered.

The CHAIR — Thank you. Firstly, what we will do is have a number of questions from members of the committee who will introduce themselves when they speak to you. I am particularly interested in developing an understanding of your findings in relation to the Department of Education and Early Childhood Development's management performance and that of its private sector project manager. I thought your insights were valuable as I was reading your background papers. I would be particularly interested in the issue of oversight — that is, the oversight role of the Department of Treasury and Finance — as well as the management of the contracted program manager by the department. It appears clear in your written submission that there are gaps in relation to that oversight of the parties.

Mr CHANDLER — In regard to the oversight of the DTF, it did not really come into visibility until towards the end of the work that we were doing when it became apparent that there were significant issues that needed to be addressed. From the moment that DTF became involved I believe they were interested and effective in elevating the issues that perhaps had not necessarily been acknowledged or dealt with by the department (DEECD).

In regard to the performance of the program manager, which is in fact the wholesale outsourcing of the management of the procurement of school buildings for Victoria, there is a list of committed activities that are required to be performed, and there is evidence that all of those performance obligations had not been met. In particular for the program manager there was a requirement to undertake quality assurance audits of the performance of the project managers. Those quality audits were found to be insufficient and had not identified a number of the systemic issues that were occurring across the program as it was delivered. That then was further aggravated by the project managers — there were four working across the state — none of whom exhibited a complete capacity to deliver on their obligations.

Concern was expressed at the school level of the skills, the attention and the accessibility of those project managers to respond to issues at the schools, and quite often the better experiences were where the contracted party (builder) gave good attention to the school and the issues at the school as opposed to the service that the project manager may have provided. The issues were; shortcomings in the skill sets of project managers, shortcomings in the superintendence of the contracts and the enforcement of the works to be built in accordance with the contract. A really good example of that would be in the roofs of school buildings. I personally believe that until I started to get onto the top of school buildings and inspect roofs that the intention arrow shifted in the latter part of 2010 and early part of 2011 to understanding that there were quite a number of issues that were not getting the appropriate attention, including the setting of the levels of buildings. I think that the school at Highvale is possibly one that demonstrates a congregation of many of the issues that were systemic in the performance of the project managers.

My own concern as an experienced construction person was the role of the superintendents in accepting what I believe to be non-compliant work and then valuing that work for payment. I think that compromised the state's position to achieve full value for money. There are detailed discussions on that, and I think any further comment on that is perhaps not constructive. The only overlay I would make on this is that in regard to the roofs, as an example, the effectiveness of the Plumbing Industry Commission standing behind the self-certification of licensed plumbers is of considerable concern, and I am not sure that that message has been fully understood.

The CHAIR — One of the issues that came out in your submission related particularly to the empowerment of school principals and managing architects and also in relation to leveraging capital works capacity to act as an informed buyer. Those two issues were particularly highlighted. I am especially interested in your comment about empowering school principals. That goes to one of the core questions for this committee in relation to delivery of projects generally, and that is the decentralised versus centralised model. Clearly the BER is a process that was aggregated and administered from a state government school system centrally, whereas my own knowledge of non-government schools that were involved in the program was that they seem to leverage up better outcomes. But I have to say that is not derived from any objective data; it is just from observation and discussion. Would you like to comment on that decentralised model issue?

Mr CHANDLER — Chairman, I think the importance of an informed buyer must take centre stage here — that is, procurement knowledge that is assembled over a long period of time where there is procurement expertise gathered on behalf of the state but supplied to the benefit of the state's recurrent procurement program. The Western Australian government demonstrated, in my view, the capacity to blend centralised insight and intellectual property that had been built over a long time in setting out what projects and in what form the projects would take and then making sure that the rollout of that was very mindful of the fact that these buildings had to fit into the schools.

There was very clear instruction down through the chain and shortcut communications back to the central processors that the school communities and principals were to be actively involved and that the delivery of the project at their schools was to meet its expectations.

I believe that was achieved universally in Western Australia, and having physically walked the schools and had one-on-one interviews with school principals I believe that the ability for a central organisation to have the state's intellectual property, if I might say, in regard to volume procurement in one place but then with a rollout mindedness that the customers' desires are to be fulfilled was demonstrated in Western Australia. It was not demonstrated in the Victorian government program, and it was not demonstrated in New South Wales.

With regard to the independent schools, who largely were able to engage architects and manage themselves, it is a slightly different context because those schools are not necessarily supported by public money. Often the

schools have a master plan and a standing architectural relationship where they take an allocated amount of money and are enabled to do specialised buildings for each school. I am not sure that that is something that is an available option to a recurrent public procurement organisation.

Certainly my observations internationally are that both public and private organisations understand the importance of the portfolio effect and increasingly how they are going to leverage improved value for money from that portfolio application. There are some very good examples of that internationally which I have touched on in my paper but which require a lengthy discussion to fully flesh out.

Mr SCOTT — You have just segued into the question I was going to ask. I noted in your submission that you gave examples from Japan and the United States and made further reference to a multifamily rental REIT sector. Could you provide some further information of better strategic leadership in the international examples you cite, particularly in Japan and the US?

Mr CHANDLER — Mr Scott, I can certainly just quickly touch on that. I will touch on the Japanese situation first of all. When I was running an international construction organisation, Fletchers International Construction, turning over \$2 billion a year, I was able to have a look at what was going on internationally. In Japan I was very impressed with the fact that in the early 1990s it realised that productivity on construction projects was going to be a problem with the rising cost of labour and the fact that the workforce was probably going to be more attracted to white-collar and cleaner jobs into the future, as opposed to what was known as the dirty construction industry. There were significant improvements there. There was reduction of the on-site value add of at least 30 per cent and reductions of the workforce. There was reorganisation of the workflows. It has really made a significant impact.

This was similar to my discussions with Boeing. When we were tendering projects with Boeing, Boeing made it very clear to us that the project for which we were tendering, which happened to be a 2 million square foot R&D facility, was in fact just simply part of putting the next generation of 747s together, that it had already taken orders for the 747s and that the production of our building was just a mere step in the chain. Boeing absolutely understood the unit cost of the building as a cost component of the aeroplane. Everything formed a systemic chain of things that were part of its portfolio procurement. So whether it is Boeing or Hilton or McDonald's that is constructing buildings anywhere around the world, they have a kit of parts and a set of standards that allow them to get the best out of their supply chain moving forward.

My most recent experience has been in the work I have been doing in housing and looking at alternative housing models. I have been very impressed with the US rental REIT market and the work of the National Multi Housing Council. It is a matter of just going online and looking at their website and publications (but perhaps you need to pay a membership fee to get a better look at it). There is some amazing benchmarking there. There are over 2 million rental apartments in the formalised REIT market in the US involving for-profit and not-for-profit organisations, both of whom draw from similar financial pools. Their performances and returns on investments need to be measured by their ability to manage portfolios and create value as a result of managing those large portfolios.

The benchmarking data is published and compares both the for-profit and the not-for-profit organisations, and this has really elevated the performance and sophistication of that market.

Mr SCOTT — You have just mentioned the benchmarking data. Could you outline how that relates to the productivity that you are seeing in those sectors?

Mr CHANDLER — They report on almost every aspect of buying assets, owning assets and operating assets in a rental market, if you can imagine that. For example, they worked out that the average benchmark time from the time an apartment became available for rent to the time it was able to be reoccupied by the next renter was at one stage 7 to 10 days. They were able then to unpack what was the reasoning for that and how you might go about reducing that down to two or three days. They have now actually achieved an across-the-board benchmark where anybody who is taking longer than five days is seen to be a poor performer and the best practice performers are down to one day. That comes as a result of the use of technology, an integrated supply chain and sophisticated rental termination arrangements. The point I was making, and drawing this to your attention, is that quite often in a PPP-type context these things do not necessarily get

resolved or pursued because you are tending to compete on a project-by-project basis rather than a portfolio basis.

Mr MORRIS — In your email to the committee, dated 7 November 2011, you talk about the evaluation of the performance and capabilities of Education and Early Childhood Development and in particular note that there is a strong case for enhancing scoping and project oversight competencies within the department for recurrent school building programs. I was wondering whether you saw those particular areas — that is, the scoping and project oversight areas — as the only areas in need of additional expertise or strengthening, or whether that might extend to key trade areas as well.

Mr CHANDLER — If we just separate those, I will deal with them. My comments are meant to be constructive and not necessarily an attack on what I think are the well-intended endeavours of the department.

Mr MORRIS — Absolutely, yes.

Mr CHANDLER — But it seemed to me that it was odd that a new suite of template school buildings was put into play that had not really been considered for their size, their volume, their cost and the unresolved issues of things like heating and cooling. I was amazed, going around and looking at buildings — I personally have inspected probably close to 60 of the buildings in Victoria, I have probably seen close to 220 or 240 buildings nationally, so I have had a good look around — and I was a bit surprised to find that there was ambiguity, for example, in things like air conditioning and heating where the buildings that were designed and committed were going off in one direction and then at handover to the schools they went in another direction where they were retrofitted with air conditioners at the schools as opposed to the efforts that had gone into an alternate heating and cooling approach.

I do not have a view as to who was right and who was wrong, but it was concerning to me that on the face of it you have got the largest, most expensive and perhaps some of the most unresolved buildings being committed, so that tells me a little bit about the client's capabilities up-front in terms of articulating what they want and making sure that the business case for that is sustainable. The buildings were potentially 15 per cent to 20 per cent bigger than the Western Australian school buildings and I could not see any functional difference other than probably elegance and size, as opposed to any other criteria, in setting what was required. There were here to say, 'Who is asking penetrating questions?'. I do not know whether the Department of Treasury and Finance is going to ask those questions in the future but someone has not asked those questions, and it was not something that was overlooked because of the speed of getting the BER program rolled out because these buildings had been taking shape for some time prior to that.

At the implementation level, it was also concerning to see the number of unresolved design issues that were present in the buildings and that there was really no-one who was accountable or was taking specific interest in making sure that all those design issues were addressed, but there were quite a lot of flawed principles documents going into the field for construction. I believe, at this juncture, there is still a lot of resolution of those buildings, if they are the buildings that are intended to be pursued in the future.

As far as the trades' work goes, you would be aware that there has been a shift from certification by statutory organisations to private certification. That has multiplied in Australia over the last 20 years. It is not to say that it is not a good step, it is just the fact that it seems at the moment — and this was more evident in New South Wales and Victoria where the issuance of a compliance certificate is almost reduced to simply going online, inserting your licence number and hitting the print button, and there seems to be no-one walking around certifying that, and I understand that your own Auditor-General produced a report at the end of last year which probably correlated with our own findings in regard to that — so my concern is that the processes for assuring that the public realm is being assembled in a compliant and correct way are perhaps not as reliable as they might be, and perhaps that is also then being undermined by an increasing, or shall I say ongoing, decline in the completion of apprenticeships.

My observations in going around — and I am an old builder so I have a reasonable view of these matters — is that where projects were most successful they generally had an older supervisor on the site who had had a structured trades career and that the project, despite issues in the client documentation, were being identified and resolved, whereas perhaps a younger person who was being moved through the management process, and who had perhaps had more of an administrative background as opposed to a technical background, may not

have seen many of the things that an experienced person would see. How some of those things were then done by the trades — and I am talking about the roofs, the installation of services in the ground, some of the brickwork and a number of the other finishes that go to make up school buildings — were performed at the level they were was a surprise to me.

Mr MORRIS — Thank you for a very comprehensive answer. Could I just ask one very quick supplementary question that relates to the issue you raised about the retrofitting of air conditioning, heating and so on. Do you think that could have been resolved if there had been a greater capacity for schools, particularly principals, to have input at an early stage?

Mr CHANDLER — I think we have some issues to deal with here that sit at the recurrent funder level first — that is, split air conditioning systems are extremely energy hungry. If there were 10 000 new buildings built in schools across Australia and they all had split air conditioning systems installed in them, I cannot imagine what the national increase in power consumption would be. I think there is a fundamental issue, first of all, that says, ‘How is this state going to manage its energy consumption and provide appropriate learning environments for young people to go about their business?’. I think there is a high-level issue there.

If the debate is not settled — and it requires firm policy leadership once there has been an informed basis to make a decision — then I think there needs to be a discussion and a working with schools to implement that. It will be a change; it will necessarily need to be a change, because some of the work that was done by the Department of Education and Early Childhood Development in Victoria was very good and thoughtful work, but the difficulty I think they had was in the rollout. It became schizophrenic because no-one had the capacity to say, ‘Look, this is where we are heading nationally’.

It is a pity. If you look at our final report, you will see the banding of where air conditioners can stop and start as you go up the east coast of Australia is quite extraordinary. You cannot have air conditioners, for example, south of the northern rivers, which are technically in New South Wales. That runs to the Queensland border. In Queensland you are technically not supposed to have air conditioners until you get to Gladstone. We sort of have an east coast problem as much as we have issues within the school jurisdiction, so I think there are some border policy and leadership issues to be resolved before you can just simply cast it and say, ‘Why not solve it at the school level?’.

Mr MORRIS — I appreciate that. Thank you for that.

The CHAIR — I just want to make a quick intervention in relation to something that came out of a response to Mr Morris’s initial question. It relates to what I would describe as accountability and oversight by the Department of Education and Early Childhood Development in regards to the project. Because of the program manager Arup’s involvement in the delivery of the project, was there sufficient oversight and accountability of the program manager’s role?

Mr CHANDLER — I personally do not believe so. I think it was almost a set-and-forget type of exercise where there was an expectation that they would fulfil, to the tee, all of their obligations. I have been on the sites with some of the people from the department and had a look at some of the issues. I do not want to go and nominate any individuals, because I think that is inappropriate. But I was surprised. There lacked any subject matter experience that would say, ‘Hey, someone is not doing something that they are supposed to be doing here’. There was almost a naive level of capability.

If I were an informed buyer, I would want to be able to walk around the program and have the capacity to make judgements about its performance based on my own skills rather than just relying on somebody else to tell me it is okay. I think there is a significant weakness not only in the department of education, because I think this is an issue where public works agencies have been hollowed out around the country. I think this exists in health and housing. I have seen these things firsthand, because I work across the sectors. I am seeing increasingly generalists moving into positions where you really cannot deliver the full service without a higher level of technical capability.

The CHAIR — You are going exactly where I am pleased that you are taking the committee in terms of the capability.

Ms HENNESSY — No need for the witness!

The CHAIR — Because that is an area which we are very interested in, because particularly it is, what I would describe, as the hard-edged engineering capacity across government agencies. Your commentary about generalists is very useful.

In your submission you suggest that a more detailed and independent review of the department's performance in delivering BER projects would provide insight and so on. I am particularly interested in pursuing this issue a little further with you — that is, the skill set which is a core function of this inquiry. Would you like to drill into your evidence or knowledge of the departments generally, and particularly education, in terms of the capacity to deliver projects of the magnitude that you have been involved with?

Mr CHANDLER — Perhaps if I could come at that from this perspective: I understand that there is currently a national review going on into the accreditation process for delivering education to project managers. I can send you the link to that review at the moment. It is looking at what are the competencies and experiences required for program and project managers to actually take the reins of the jobs they are seeking. One of the concerns the committee should be aware of, in my mind, is that the Australian Institute of Project Management would claim to have about 10 000 members and they are able to tell us that about 80 per cent of those members are involved in finance and banking and only 20 per cent of their members are involved in construction and engineering projects. To continue to appeal to their family of members, because their existence evolves around the membership fees, they are progressively moving their skilling processes to generalist skills as opposed to applied skills. In looking at the review of the technical education skills that are being set out to qualify as training project managers one can observe this shift to generalisation as opposed to applied capabilities. My concern here is that, yes, there will be some quite excellent people who come from those sorts of programs, but will they have a universal capability to oversee the procurement of Australia's public realm into the future?

It is my view that we are probably going to, in the next 20 to 30 years, build as much of the built environment in Australia as probably is standing today as we replace old stuff and build new stuff, and we would seem to be setting ourselves up for a significant shortage of people who have the skills to competently deliver that program of works. If you take it to the next step and say, 'Traditionally architects and engineers have had to be licensed to operate', project managers do not have that and increasingly they are moving into positions of influence in the procurement process where they are making client-based decisions about the technical capacity of buildings, the compliance of buildings with design. They are having a far bigger say than perhaps people are aware of in certifying and specifying projects, and I think this is a serious issue.

Overlaid on that is that I am then moving back to the department saying, 'I do not think the department is sufficiently across what are the essential skill sets that are required by people who are either performing program management or project management and drilling down and making sure that the people who are offered up to them have those skill sets'. It is almost as if once you have signed up an organisation, you will take whoever they provide. I think that is a breach of the contract to start with: that you have to intervene and say, 'Look, I am sorry but these are the people we have qualified to do this work and until such time as we qualify more people we are not letting more people do this work'. In going around some of these projects and seeing some of these program managers and project managers, one just wonders how they got into the positions they are in because they certainly do not have the assumed capabilities to ensure you that you are getting what you should be getting.

Ms HENNESSY — Very quickly, I note your positive observations of the BER project in Western Australia. One of the other issues we discussed yesterday with the Victorian Auditor-General was the fact that in Victoria our Auditor-General does not have the power to follow the dollar in his audits into private sector organisations from either a financial or performance audit perspective. WA does have follow-the-dollar audit capability, as does the commonwealth Auditor-General. The only argument we have heard against giving the Auditor-General follow-the-dollar powers is that it can have some negative impact on private confidence. I was wondering if you have any observation or perspective on that.

Mr CHANDLER — My view is 'Who has the gold maketh the rules'. It seems to me that if private organisations are putting their hand up to deliver essentially alternative public programs, then they should be as accountable for the performance of those programs as any public organisation would be. Without naming them now, I can recall a number of instances I have seen where, for example, the state has assumed that the tendering protocols of the state have flowed down to the private organisation delivering the dollar project and we would not have been certain that those guidelines would have been followed and therefore the dollar outcome was as

robust as it might have been. I think there is a very strong case for the auditor being allowed to go where the auditor feels they need to go in the pursuit of making sure that best value for money is achieved. I think there is no case to defend it.

Ms HENNESSY — Thank you.

The CHAIR — Thank you. Mr Angus — which will probably be the final question I think.

Mr ANGUS — I just want to return to a couple of things that you touched on. Firstly in your introduction you talked about the roofing matter, which I must say when I read the document and read the sentence:

For Victorian government schools there are many examples of ambiguous client design and specifications. Roofing stood out. The observed general standard of workmanship on BER school roofs ranged from poor to bad.

I found that quite surprising. Then over on the next page of your submission you had an extract from the Australian Construction Industry Forum which also stated in part:

Industry is not satisfied with range or depth of skills being delivered to it at trade or management by the education system.

The last couple of questions have touched on the whole issue of essential skill sets and engineering program managers and so on and supervisors and builders. I am just wondering in your experience whether there were any standout examples of the team approach that is obviously required in projects such as this as working particularly well.

Mr CHANDLER — You have covered a whole range of issues there. I think there are concerns where you have soft contracting arrangements. I keep coming back to the fact that clarity up-front and accountability on the way through are seminal in my view. When you move to soft arrangements where no-one is fully responsible for a particular outcome, then you end up with these sorts of issues popping up. The roofing is a really good example, because under project managers for the Victorian government there were some very good roofs, but there were generally poor and some very bad roofs. That was not observed in the delivery of the non-government schools in Victoria, which were delivered concurrently with the government schools. So it seems to me that there was a different superintendent attitude to delivering that. I did not find that I could support any acceptance of someone saying, 'Well, we were under pressure to build buildings'. The non-government schools built very high-quality buildings in the same market, using the same trades and resources. It seemed to me to be about the applied expectation and making sure that there was rigorous achievement of that.

I know that the ACIF also had concerns. One of the issues those sorts of organisations have is that they find it difficult to speak on occasions where it may affect the interests of members. A good example of that is the MBA, who acknowledge some of the shortfalls of the industry but say, 'We really haven't got a mandate to go out there and take a stick to our membership'. I think that has got to be addressed. But particularly when organisations such as the institute of project managers make representations to you, I think one has got a look under the sheets and say, 'Yes, but what is the substance of that?'

I do not want to go quoting examples where I have seen really good outcomes, but if I had to, I would say that the experience of building, I think it was the North Ainslie Primary School, but I will correct it in my notes, but it is in the ACT, and there was another school in Tasmania, Inverness Primary School – Launceston, both of those were public schools where I can attest to the fact that there was a unified engagement of the department, the school, the designers and the contractors and it delivered excellent outcomes. So if I could come back to you and just name those schools correctly, I would give those as two really good examples of where everything came together and everybody's expectations were achieved.

The CHAIR — Thank you, Mr Chandler. Regrettably, time does not permit us to go on, but this has been a very useful session for the committee. I would ask that if there are any further matters that arise that you become aware of as a result of being riveted to the webcast of proceedings over the next two days, then you would make any further reasonable informal submission. I formally conclude the hearing for the former BER implementation task force. I thank Mr Chandler for his participation today. It has been a very useful session. If there are any matters that in afterthought we would like to ask you, we may write to you and follow that up, but thank you for your participation in the proceedings today. That closes the hearing.

Mr CHANDLER — Thank you, and I wish you well with your findings.

Witness withdrew.