

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

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 L. Wallace, Acting Secretary, and

Ms L. Price, Director, Capital Projects, Department of Health.

**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 Health Mr Lance Wallace, acting secretary, and Ms Leanne Price, director, capital projects. Members of Parliament, departmental officers, members of the public and the media are also welcome.

In accordance with the guidelines for public hearings, I remind 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 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. I remind TV camera operators to remain focused only on the person speaking and that panning of the public gallery, committee members and witnesses is strictly prohibited. As previously advised to witnesses 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 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 the 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 transcripts for verification, to be returned within two working days of this hearing. Verified transcripts and PowerPoint presentations will be placed on the committee's website within two weeks of the 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 ask that mobile telephones be turned off. Before I ask the acting secretary to give his presentation of no more than 4 minutes, I ask the secretary to advise what the status is of the questionnaire which was mailed on 22 December to the department.

Mr WALLACE — I am happy to start with that. I think the committee is well aware that departments provide responses to public accounts and estimates in conjunction with the government's policy position on those responses. It was my understanding that the Department of Treasury and Finance was providing a joint submission on behalf of all agencies; hence, we have not responded, because of that. I have subsequently been advised that the government is not against — even though that was their starting position — departments providing individual submissions. I only became aware of that factor later, after the events and the closing date for submissions. I am happy to provide a response to the committee because I now have that further advice.

The CHAIR — The position of the committee is that we are a committee of the Parliament of Victoria, and a fundamental understanding for officers of government departments is the separation of powers. To observe the appropriate courtesies to the Parliament, notwithstanding your view about the chain of management decision making, at the end of the day, if a parliamentary committee requests you to provide written information by way of a questionnaire, you will provide it, and there can be no excuse for not providing it. I have to say I am incredibly upset that we do not have a questionnaire response today.

The committee cannot undertake its inquiry effectively without proper information. You have not provided the information the committee requested, and this is not the first time this has been raised with the department. I have talked to the secretariat staff, who have made numerous attempts to obtain this questionnaire response. The fact that it is not before us today is an outrageous contempt of this committee in my view. We will not be taking — or at least I am not proposing to take — further action other than to advise you that should we receive your questionnaire and have further matters to raise with you, we will invite you back here again. I do not think we can do justice to this hearing today in the absence of the questionnaire response.

Having said that, we will hear from you now, and I will leave it to my colleagues on the committee to ask questions.

Overheads shown.

Mr WALLACE — With the short time available for the presentation, I was just going to make a couple of key points. The first slide in front of you is really doing no more than indicating that the Department of Health has a large asset investment program. It is reasonably sophisticated in its delivery of infrastructure in that it has an ongoing series of projects of some scale and hence has support infrastructure staffing to meet that need.

The second slide: you will make your own independent judgement, but from our perspective we believe that we have had a sound and long-term record in project delivery. The important feature that we look at is to ensure that capital works initiatives meet the client needs and that they are delivered on time and on budget in accordance with the original business case proposed. Our view is that on that measure we have been reasonably successful over a long period of time. We have had a range of project sizes, which is indicated there.

I think importantly on that slide we have a stable workforce of well-skilled and trained technical staff in delivery and strong working relationships; I think members of the committee are well aware that the hospital sector consists of a series of statutory entities that are reporting to their own boards, so the department facilitates outcomes between the department and those health sector agencies. Again that slide also just points out that we have reasonable experience in both traditional procurement and also public-private partnership arrangements, and over recent years we have delivered a number of major public-private partnerships.

In terms of centralised and decentralised models, it is probably important when talking to departmental staff about those issues that we are both talking about centralisation that can occur in units such as major projects or central agencies, but also whether or how much to centralise between the Department of Health and individual large hospitals in the way that infrastructure is delivered. That basically makes the point that our view is you need a critical mass to actually be successful in delivery; because we have an ongoing program it allows us to maintain a critical mass of appropriately trained and skilled staff. Our general view would be that that is one of the major prerequisites for successful delivery.

On to the next slide. Whilst there are a lot of important issues, from our viewpoint the approach generally taken is that the skill of staff involved is one of the key points. As mentioned earlier, to be able to both attract and then maintain and develop a core group of staff without significant turnover helps you to build and retain skills over time, to learn from delivery successes and delivery problems that have occurred in the past and to bring people through to more senior roles under supervision, so that they are not tackling very, very large projects without having experience in other projects prior to that. It is very much concentrated on staffing resources.

The only other point I would make is that we do use the private sector quite a bit as well, particularly in high-end technical skills — quantity surveying and detailed architectural design. It is just a matter of the balance between what you can afford to retain on staff and the continuity of work; and there is a particular special skill set that the private sector brings to bear, particularly in complex design where we use international teams as well as the best local people.

The last slide that I have highlights some of the major projects that have occurred in the infrastructure area over a period of time. In particular the committee would be aware that the Women's and Children's will be subject to detailed Auditor-General's reports on those major projects, but there are a series of other projects there.

Those were really the major points I wanted to make, and I am very happy to answer questions in any direction the committee would like to take discussion.

The CHAIR — Thank you very much for your presentation.

Mr MORRIS — Mr Wallace, the purpose of this inquiry is to improve the provision of infrastructure across the whole of government; that is the very reason for the inquiry. One of the projects that we intend to look at is the provision of the Royal Children's Hospital, which apparently has been done very, very well; so it is a gross understatement to say that the lack of information this morning is disappointing. As I say, that is a gross understatement; it is simply not acceptable. I am not going to waste the time of the committee in seeking to ask questions when I am not fully informed, but I want to make it clear that I expect you to come back here once the

information has been provided and to have the conversation that we intended to have this morning. The committee has a very heavy schedule, and it is incredibly inconvenient to be stuffed around like this.

As I said, I do not intend to ask any questions, but Mr Chairman, I do want to just make the observation that in my view the attitude of the department this morning is a contempt of this committee — not necessarily in the technical sense but certainly in the manner that the committee has been approached — and also of the Parliament from which this reference emanates.

Ms HENNESSY — Mr Wallace, I am interested that of your nine significant projects completed you say 100 per cent have come in on budget. We have looked at a whole range of projects, many of which have had some significant budget overruns. What is it that you say the Department of Health might do differently from other Victorian departments that has led to your department delivering nine significant projects on budget?

Mr WALLACE — Firstly, I should respond to previous comments made. From my personal viewpoint I meant no disrespect to the committee. I understand your frustration as a committee. I was working on the best advice available to me. I understand that the committee does not believe that advice was appropriate advice, but I am happy to rectify it, and of course I am happy to attend and answer further questions at any period that the committee would like us to appear.

My viewpoint is that if you regularly undertake similar projects — even though they may have some different characteristics, in that a specialist children's hospital may have quite different characteristics to a generalist hospital, such as the Sunshine extension or the Frankston project — you are leveraging off experience in doing similar projects. My experience is — I worked in the infrastructure area prior to joining health many years ago — that where you do once-only, one-off projects, particularly large and specialised projects, it is hard to have built expertise in those projects and to ensure that you do not fall into traps and issues that a learning system can avoid. I think probably the major single factor that we have to our advantage is that we are building a number of hospitals and we have been building a number of hospitals over a period of time. Whilst there are differences in characteristics between those hospitals and health services, there are many similarities. We have been able to retain a strong team. We have low turnover rates in that team. People are motivated because they believe working in health is something good and satisfying to do, and we have been able to leverage knowledge off each of those projects and ensure that each time we come into a new project development we are picking up the best of learnings from previous successes and some things that have gone wrong.

Ms HENNESSY — Just as a supplementary, Chair, with your indulgence.

So a pipeline of ongoing infrastructure projects is obviously important. I was also interested in your observations. One of the debates and discussions that this committee has been engaged in goes to the capacity and capability of the public service to manage the delivery of infrastructure projects. One of the observations that has been canvassed was that perhaps over the last 20 to 30 years the public service has run down its capability around those with civil engineering expertise, just to pick one particular cohort of the workforce. Do you have the view that it is better to have those with infrastructure capability located within the public service or that you can achieve the same result if you contract those and you have capable contract managers?

Mr WALLACE — Perhaps I might start, and Leanne, who runs our capital program, may want to add to that. Probably we operate with a mix of staffing. We operate with people who would by any sense be traditional public servants, in that they hold down particularly traditional public servant roles. Those people in our technical area would generally be skilled in engineering and have undergraduate engineering or architectural qualifications. But that is also supplemented by our contractors. We would contract into the marketplace for shorter or longer term people who are on staff, who are staff look-alikes, but who have particular skills that complement the existing skills we have or might fill certain gaps, and then also, as I mentioned before, we have a mix of private sector engagements, such as architectural, quantity surveying and other types of engagements.

The debate to me is not private or public sector. We have a mix. I think you need a mix. The issue will be where that balance is. We personally have found that to have people who feel an ongoing commitment and a sense of ownership of the projects, where they professionally feel the successes or the failures when a project delivers to client expectations or misses, you need some continuity of the team and that you need to build a bit of team morale and spirit about doing something positive for the community in this sort of sense. So having people who

come in job by job, I think you lack a bit of that sense that we have been able to build up, but that is not to say it is a total public sector model. It cannot be; it needs to be a mix.

Mr ANGUS — Mr Wallace, just following on from that, obviously the model is working well for you according to the presentation and the report you have just given us. My question is really in relation to those teams that you have — and you said you add to the teams as different skill sets are required and so on. Are they essentially doing one job, or are they in your head office, so to speak, and then go from job to job; or do you have sub-teams, and how does that work? Following Ms Hennessy's question as well, particularly in relation to engineering, have you seen shortages of engineers affecting your ability to pull them in as experts into your teams?

Ms PRICE — It is probably useful to note that currently we have over a hundred funded projects, so we have the core team sitting certainly in the office. We have what we classify as four major projects, where we have set up project-specific teams to deal with those, but the rest of the team is actually working across quite a number of projects, which is why we do supplement the resources. It is probably useful to note that we are actually in the building industry. The building industry tends to have perhaps a wider ability to resource. It is not quite as specialised, perhaps, as some of the economic infrastructure that is done elsewhere in government, so for us engineering is only one component of our projects. Obviously Lance has already mentioned architects and quantity surveyors, and there is a fairly robust building industry that supports the work that we are doing as well.

Mr SCOTT — I would add to government members' comments that it is difficult to formalise questions in such a hearing with the limited access to information that we have been provided, to say the least. Among the things you laud is a stable workforce and extensive experience, and I noted your comments about low turnover rates. Obviously there are some pressures on with — and I will phrase this carefully — policies that require there to be some reduction of overall staff within departments. Are you taking action to ensure that this core of expert staff are retained?

Mr WALLACE — The answer to that question is yes, very simply. The other observation that I would make is that there are some differences between staff working on recurrent policy and departmental administration and infrastructure versus capital staffing, and depending on the funding models you use, there is some capacity to use capital funding. But the simple answer is yes.

Mr SCOTT — But could you explain? You touched upon the differences depending on capital and recurrent. Can you explain just explain exactly what that means in terms of the skill sets you have lauded to us?

Mr WALLACE — I think simply what I am indicating to you is that if you receive capital funding for a capital project, then it is not unreasonable that some part of the project funding is used for skilled staffing. For example, externally contracted architectural, quantity surveyors and other staff would be met from the capital funds available. That is a different source from the department's recurrent appropriations, which are there to deliver core departmental services which really go to policy program management types of services. There are some differences in the funding arrangements. If capital funding is reduced over time for any reason, then obviously associated quantity surveying staff will be reduced with it, so it is a little bit dependent on the capital staffing rather than some more general recurrent budget issues.

Mr O'BRIEN — In the absence of a submission I am also going to ask some general questions about matters you have touched on in your oral presentation. I noted you used the phrase that your workforce feels the successes or the failures. Whilst I can accept that in relation to successes, I wanted to draw you out on the real accountability. Is there real accountability for failures in the public sector? It would certainly be a concern of many non-public sector Victorians that when a government project blows out — and I am speaking generally, and the comment was made generally — ministers and politicians move on and public servants can move to a different department or end up in the public sector and the public is left to pick up the purse and there is not that real hard-felt accountability of, say, a private sector business going broke or a family not being able to pay its bills. Having regard to the comment you have made, firstly, what level of real accountability can there be in the public sector when we have the public purse? If there are ways to improve that, what suggestions do you have from your experience?

Mr WALLACE — Leanne might want to comment on this as well. From my perspective we have a mix of staff. If you take senior people like Leanne and myself, we are usually on three or five-year contracts, and it is very easy not to renew a contract of somebody who is not performing. That is not an immediate issue, but all our senior executive staff are on those sorts of engagement arrangements and have been for a long period of time. Similarly for major projects, particularly the very large projects, we tend to also use contracted staff. Again they are on relatively short contracts. I think it is fair to say, without being flippant, it is because very good people are hard to find in the marketplace, and sometimes good people, despite their best efforts, do not get everything 100 per cent right. This not suggesting in any way a cavalier approach with people, particularly highly skilled people, but the reality is that if the senior contracted staff who build the major projects do not succeed, they are not continued. That is fairly much the philosophy — that is what I understand and they understand — so they have a very large personal incentive for success. The types of contracted staff and project management staff who we use for very large projects — the Casey project, the Women’s project, the Children’s project, particularly the large partnership PPPs — are on limited-term engagement.

For smaller projects we tend to be using more general staff who are lower paid, so their tenure is more secure than it would be for the large project managers or the senior staff. The sort of issue that I have talked about before is really a cultural issue of the link team response, but the senior people are at risk, and genuinely at risk, on these projects.

Ms PRICE — The other aspect of accountability is that it is probably one of the strengths of having the capital program within the department that we were also responsible for the delivery of the services, so it is not just delivery of the project and walking away on the day that the ribbon is cut and the door is opened. We have actually got long-term responsibilities and accountabilities within the health sector in delivering the health services to the people of Victoria, so that does add considerably back to the approach that we tend to take in the entire capital program and looking at long-term asset management across the health sector as well.

Mr O’BRIEN — As a supplementary — and you may not have anything additional to add — one of the issues in some submissions we have is that they compare the situation with the private sector where the major objective is maximising financial return for the private sector enterprise. Obviously that is different for the public sector, where you have a wide range of public interest considerations beyond just the bottom line. Is there anything we can do better in terms of our contracting arrangements, even preferred contract models, to appropriately — and I do not in any way want to suggest inappropriate incentivising — incentive the interactions with the public sector to ensure projects are delivered on time and on budget?

We just had a presentation in relation to the BER, and it is noted that if a building project goes well — I used to do a number of building cases — then things go very well, everyone gets paid on time and we can all move on to the next project; if it fails, it has a cascading effect, and the people have got to step in and fix up those sorts of projects and it can become an exponential financial mess, let alone the inconvenience that occurs whilst people are waiting for a project to be completed. In terms of specific contract models or appropriate incentivising within the realm of protection of the public interest, probity and accountability, are there any things that this inquiry can take for consideration that can be improved in the system?

Mr WALLACE — I will probably make a couple of points, and Leanne might want to make some points as well. What I was talking about before was that we started with individual personal accountability for projects. That was a project management responsibility, but with total project delivery it is not only a project manager, it is about the teams that are established, it is about construction risk and it is about construction delay; it is about a whole range of issues. So it is about appropriate risk transfer and ensuring that your structures appropriately place risk and transfer risk to the appropriate place as part of the solution.

So again on very large projects that we have undertaken we have tended to use PPP-type models, which transfer significant risk to commercial providers. They then take that risk in a commercial way, so that there is still, obviously, overall risk for the department and the project manager, but that risk has been mitigated and appropriately assigned to parties that can pick up and manage that risk. With the sorts of models where you do not have all the risk in one place and you are thinking about risk attributions, the dimensions of the project are one of the ways that you deal with it and one of the ways that we have been able to deal with it, particularly as projects become much larger and much more complex. It is just a practical issue that if you are running a project over four years as compared to four months, they are the sorts of problems that you would be getting.

Mr O'BRIEN — Just one more following on that. Just on the PPP modelling, it was also suggested to us, I think anecdotally on one of our inquiries in South Australia, that perhaps PPP modelling in a decision suite of potential contracts is more appropriate for predictable rollouts than it is for the more one-off projects — perhaps something like hospitals, where the department has some background experience in engaging that level of risk transfer — where there is not the built-up level of expertise within government to appropriately manage or define the risks that the respective parties will take and make sure the government's financial position is protected in those situations. Do you have any comment on that?

Mr WALLACE — I have a quick comment and Leanne might have a comment.

Mr O'BRIEN — If you could then think about it in your fuller submission on some of these issues, if you have further comments.

Mr WALLACE — I would be happy to do that. When you completely contract at a very early stage with the private sector and a PPP, your functional brief is critical. How well can you describe in writing what you want? How can you pick up all of the nuances of what you want, because you will get a contract against that functional brief? Obviously if you are developing functional briefs for similar types of projects — so that functional brief is growing and it is a learning document — you are much better placed in the marketplace.

The only other thing I would mention is that in my experience of PPPs if you have got a site where you can fence the site and give the builder complete access to that site and they do not have to be dealing with an operating hospital in a construction zone, you are also minimising risks. Sometimes projects do not allow you to do that, and so there are some more inherent risks in trying to transfer those to the private sector.

Ms PRICE — I will just add two elements to that. In terms of the appropriateness of the PPP model, we are fortunate that within our capital program within the health sector we are now currently onto our fifth PPP health project, so obviously we have been able to take a lot of learnings and roll them across from one project to the next. I think that is a core strength that we have.

In terms of how we actually established the appropriate procurement model in the first place, we also have quite a robust framework that we have developed over the last decade to actually assess each project individually. Each project has its own unique issues and elements associated with it — the risks and a range of other factors — that need to be considered in selecting the appropriate procurement model. There are some projects that more obviously lend themselves perhaps to one model or another, but they all need to be assessed individually, and we undertake that sort of assessment on each and every one of our projects.

Ms HENNESSY — Mr Wallace, we are aware that internationally, particularly in places like Canada, and certainly there are some instances in South Australia and Western Australia, there is a growing exploration of the use of PPPs when it comes to social infrastructure. Does the department have a view about the appropriateness of that? Is the department exploring a greater use of PPP for the building and delivery of services? Finally, do you have any comment around what limitations there are about engaging the private sector? I would imagine that with some of these services once you have dealt with maintenance and car parking it is pretty difficult to think about where the private sector is going to make a buck.

Mr WALLACE — Our experience with PPPs has been in the construction and operating of non-clinical services; that is the majority of our experience. We have had some limited experience in full turnkey PPPs where a private provider would finance, build and completely operate the buildings. Those experiences have not been particularly successful in our view. However, the last time we attempted a model of that type — a full finance, build and operate — was a long time ago. The marketplace has changed, so our experiences may change if we enter the marketplace again.

With the PPP model there are obviously some overheads in contracting, with a very detailed contract right up the front of a project or a PPP. We have generally had a rule of thumb that we need a reasonable project scale to warrant the approach. As I mentioned before, our experience has been that if you have a more greenfields type of site or part of site, that has limited some of the risks in trying to fully specify all of your requirements and have appropriate metrics to measure those requirements at an operational site.

We have had good experiences with PPPs. Are we considering more of them? Yes, we are, but within the sorts of constraints I have talked about — once the scale of the project increases and where we have the ability not to

have too many operating hospital integration issues in the construction of the process. We have not really revisited going any further with a PPP other than providing maintenance and some non-clinical support services such as cleaning, but we are still open to that and no doubt government will have further discussions about those models in the future.

The CHAIR — Thank you, Mr Wallace. That concludes the hearing. In wrapping up the hearing I note that Mr O'Brien has sought further information in relation to a matter, and I am presuming that we will get a formal response to that at the same time that we receive a response to our questionnaire, which has been outstanding for approximately three months. I look forward to receiving that questionnaire shortly, and I further look forward to seeing you back here before the committee again. Thank you for attending today. It is evident that we have a good deal more to discuss. I will close the hearing at that point. Thank you very much.

Mr WALLACE — Thank you.

Witnesses withdrew.