

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

Melbourne — 22 March 2012

Members

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Witnesses

Mr H. Ronaldson, Secretary,

Mr P. Noble, Acting Deputy Secretary, Investment and Major Projects, and

Mr T. Bamford, Executive Director, Major Projects Victoria, Department of Business and Innovation.

**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 Business and Innovation Mr Howard Ronaldson, secretary; Mr Peter Noble, acting deputy secretary, investment and major projects; and Mr Tim Bamford, executive director, Major Projects 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 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 camera operators are allowed at any one time in the allocated spaces. 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. 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 all mobile telephones be turned off. I now call on the secretary to give a brief presentation of no more than four minutes if desired.

Mr RONALDSON — I would like to make two or three points to begin the discussion on the central topic of skills and how they are arranged around major projects. The first point I would like to make is perhaps an obvious one, but I will make it anyway. That is, with any major project there are basically two functions. One is the function of the client: the person who wants something built, the person who believes that their reality is going to be changed in a particular way by having a particularly big thing built, who wants a whole lot of outputs as a result of that physical manifestation and who is concerned largely with those outputs — and we believe quite rightly concerned with them — but not necessarily concerned directly, at least initially, with the goings and comings of what happens on a development site. Secondly, there are those people concerned with the delivery mechanism. Although it is too pure a way to talk about it, it is nevertheless instructive to think of these people as being less concerned with the outputs, if you like, and solely focused on delivering a contract.

They are, at least theoretically, two different roles. We believe as a central point of governance that when these roles are clear, understood, delineated and transparent, and you get the right interaction between those two different roles, you indeed get the best results. For instance, what bedevils a lot of big projects is the issue of scope change. If there is scope change, or there is to be scope change, presumably the client wants the scope change because they believe that once again the bundle of outputs that they want is not sufficient or it is the wrong bundle of outputs or it is leading them in the wrong direction. Theoretically, the people on the other side delivering the contract are less concerned with this and really concerned with delivering the contract.

What really needs to happen, we believe, is an active and at times vigorous exchange of views between the group of people who want to deliver the contract and the group of people who actually want to get the bundle of outputs at the end of the process. I believe that a lot of the goings-on that I have seen over a reasonably long

career in this area are where the two roles are confused and indeed the two roles are in the one place. You try to get a person to be a client, and you try and get a person to be a deliverer — all the same person. Then inevitably when a scope change happens or they hit something difficult in a project, the assumption is you can rely almost on internal dialogue to sort it out. We believe that is a weaker mechanism.

Ultimately, in our model, we do the big one-offs. We do not do the ones where you do many repetitive tasks, like schools, roads and hospitals. We do the big one-off major projects around the state. Although it can be a difficult environment from time to time, we definitely believe it is a better environment if there is a client minister with all the powers that a minister has, there is a client who rules the roost — that is, a client that definitely bears down on the deliverers — and you have an arm of government that, with the market, delivers the project.

The last point I might make about this arrangement is that you might get very good bureaucrats, typically at a deputy secretary level, and they are very good at what they do, but what they do most of the time is program delivery. They might be a person who distributes sports grants, and then all of a sudden someone says, ‘I think it’s a good thing if we rebuild the northern stand at the MCG’, or whatever it might be, and it is in their area. You certainly want their expertise in terms of program delivery, knowledge of sport and who’s who in the sporting world and all that, but it may be that they have never built a major project in their lives. We think it is a tough ask for a department and a tough ask for them to get that necessary expertise to directly engage with the market. So two bodies acting that way, interacting in that way, which can lead to robust exchanges, we think is the most transparent way to go about it. In my career, I have seen the best results when that occurs.

The second comment I would like to make is about skills, and I note that excellent submissions have been put about skills and how you get them. I have not much to add there, except to say that from our point of view the most desirable characteristic by a long way that we look for when we are recruiting people is the ability to demonstrate that they have done it before. We do not recruit first timers. We recruit people who have actually been there, done analogous or like things before and have a track record of delivery — end of story. Why do we put so much emphasis on that? The plain truth is that any major project will go wrong; that is just a fact. Any major project of any size will sooner or later hit hurdles, and why? Because human beings are not perfect beings with perfect foresight. As much as you can plan, as much as the business case is modelled, as much care as you can take, as many gateway processes as you want to go through — whatever you want to talk about — I can absolutely guarantee that both in the public and private sector there would not be a major serious player that would disagree with this: that sooner or later something will go wrong with a major project, and sooner or later the contractual environment will not help you. I will just say that again: the contractual environment will not help you. Why? It is because it does not envisage it, particularly for PPPs that span 25 and 30 years.

No-one can seriously sit here and say that with all their complexity you can draw up a contract for 25 or 30 years, foresee everything that is going to happen and make it work. That is ridiculous, and yet we write these contracts. So the essential skill you want in the middle are people that can actually navigate their way through this jungle when the contractual environment does not help you and you have people like auditors-general and others bearing down on you looking through strictly legal and other interpretations. This goes to my third point, or at least it segues — I just like that word ‘segues’ — it is a reasonably punishing environment. That is not a complaint. No-one forces us to do this stuff; but it is. I have delivered the odd program in my time and I have delivered capital projects for a long time too, and because of the factors I mentioned before — and many other factors that I am happy to expand upon — it is a risky environment. It is particularly risky for public servants. Let me assure you that if you went about major projects with an eye to the Harry Hindsights who might follow, you would never do them. An important point is embedded in the language I have used here, but the ‘doing’ of major projects is a risky and fraught environment in which individual judgements that are called for from time to time are risky judgements, or purely commercial judgements. Government is not a commercial beast, and quite often it can be a foreign environment for a senior bureaucrat to make a commercial judgement inside government.

Lastly — and I will give an example of this — again it might be obvious, but I will just say it: to a professional in the area in any way, when you are judging performance, at least on the delivery side, the first sensible set of figures you look at are after the tenders are in and you know your environment. I will just say that again: they are after your tenders are in, because you do not know your costs before then. You can do all the best estimates in the world. Ministers can make announcements. The press can assume what they think the figure will be, and so on. But until the tenders are in and negotiations with the preferred tenderer are over, until the regulatory and

other environments are known, and other environments can be everything from the prevailing interest rate on the day — I say that again, ‘on the day’ — right through to the conclusion of EESs that can take a year or two, you are not going to make any sensible statements at all with any accuracy about timing, about cost and about quality, until all that is concluded and you have the tender in. Typically a major project will attract lots of coverage in the media, who would talk about all aspects of projects prior to that happening. I can say that with all that discussion, they will be estimates only.

The CHAIR — I would have to say there is a lot to contemplate in what you have said in your opening remarks, and we could spend our time just discussing your overview and we would not get to some particulars of what the inquiry is trying to get to at this stage, but I will try and focus on skills.

Mr PAKULA — In fact, Chair, it would be useful to have the questioning after we get the transcript.

The CHAIR — Indeed we will have the opportunity to do that, because we intend to look at case studies and your point that ‘something will go wrong in every major project’ means that we do have the opportunity to learn from past experience. To a large degree that is really what this inquiry is about: to learn and inform government as best we can about how to do projects better in the future. To that end we expect to look specifically at the Melbourne Markets projects. That is just one example and we will be looking at a number of others, some which have gone well and some which have not gone as well, and so we need to understand why there are differences. You may have summed it up in your opening statement, but in particular regard to skills, given the experience of MPV and your understanding of the skill set across government, having worked with a range of departments and agencies, I wonder if you have any understanding or any public sector-wide analysis of the skill sets that are available in terms of project management? Do you have any data, or is it simply a general awareness?

Mr RONALDSON — You will have to ask other people. I am not aware of a sector-wide analysis, and I could not speak on behalf of the sector. It is because we essentially have a decentralised approach. I can make statements that I believe to be true, but if you say, ‘What data do you base it on?’, I will say, ‘My own experience’, which is probably unsatisfactory.

Mr O’BRIEN — Not always.

Mr PAKULA — It would be interesting, anyway.

The CHAIR — We are happy to hear your view.

Mr RONALDSON — Well, the first thing I would like to say in relation to this point is that — it is not always true, obviously, but generally speaking — I do not think the issue of skills from the delivery side is as big an issue as people make of it. I go back to my earlier comments: I think that generally when the contracts are signed and your regulatory environment is known and you get a bunch of public servants around delivery of a project with the main contract, it is usually administered very well.

My own belief is that you cannot say that is the case on the other side, and it is a difficulty. I go back to it: there are plenty of people sitting out there who are perfectly good at what they do, and all of a sudden somebody in their area says, ‘We’re going to build something big’. It is a hard ask to ask some departments to have lots of people sitting around for a project that might come along now and then, and they are probably the wrong people if they are sitting around anyway. So I do believe that with all the consultancy work you can bring in, basically a good business case is one that stands on its facts, sure, one that uses the right techniques and one that someone absolutely believes in through their guts to be right. That is the experience bit.

If you have a known, experienced and good operator who delivers a big program, after lots of experience in that program — be it mental health or whatever it might be — they know intuitively and otherwise and they have the facts before them that building this sort of thing in that sort of place will give them the results they require, and they know it backwards and forwards. I think that is the area, in my experience, that has not been so firm for a whole variety of reasons. You can spend hours talking about this, but a whole lot of circumstances arise in government where — to use the phrase — at the end of the day you do not end up with that result. And if you start with the result and give it to a bunch of deliverers — or, in my world, even worse, if you turn around and ask the same person to actually perpetrate what they have done and all of a sudden acquire all this instant

knowledge about approaching the big contractors of this world and trying to do something through tender — then I think you compound the problem.

I think it is reasonable to ask each department, at least in Victoria — they are a fair size — to do the first function well, difficult as it may be, and I am happy to talk about that more. I do think, though, that you want just a few deliverers who can do the other side. I think deliverers inside the government are people like our unit, and we deliver projects for other parts of government combined with the market — I call that a deliverer — because we do indeed offer a bundle of skills, in terms of dealing with construction and other financial and legal markets that other departments rarely see, and we do big projects, including multibillion-dollar projects from time to time.

Even in relation to base skills in the client area — what a lot of people call base skills — I do not see great evidence of them being around, at least at a sufficient level of understanding. In my world I do not think I understand a project really well, at least from the client point of view, and it ultimately comes down to a spreadsheet. Can you actually see a spreadsheet in front of you that quantifies all the known factors going out, over however many years, to do with the project? Can you actually quantify it? Can you understand the sensitivities against the cash flow numbers going forward? Can you really play with these numbers so you can imagine every possible scenario that can happen? Have you thought of every possible risk? Have you actually costed it? Do you understand it, and is there a sheet of paper that describes it quantitatively, even if it is best guess?

The really good client functions have such a document, and attached to it they have a whole page of major assumptions: ‘Let us understand our major assumptions and talk them through extensively, and let us get the numbers pertaining to those assumptions and really ensure there is a perfect match between the two’. When you get to that point you then open it up to third-party scrutiny, be it a gateway or whatever it might be, and then you crunch through every significant number. Sorry, do you want me to keep going?

The CHAIR — Yes, keep going.

Mr RONALDSON — On the delivery side, the common skills are around. There are lots of good engineers who can put on a hard hat and build a construction site. There are many good companies. Victoria has a wealth of this sort of thing. What you are really after is the sort of person with the really hard commercial skills who can back themselves when something goes wrong — and sometimes things go catastrophically wrong in a way that is beyond the scope of anyone.

As an example, when you are looking at the risks involved in the project, every person does it the same way. They look at the big risks, and they look at them discretely — ‘This can happen, that can happen and that can happen’. Whether they use Monte Carlo techniques or whatever they are using, they try to put numbers on this and they try to run their sets of views and try to understand what will happen with the project et cetera. This is the case with transport projects in particular. But what happens in the real world is that you do not get discrete risks; you get combinations of them, and it is just unrealistic to sit there and run lots of combinations of risks that you think might happen. But that is life. You can be sitting around, that risk there, that one there and that one there, and they all happen at the same time and create a completely different risk environment than the one you envisaged. That happens.

Contractors fail; they really fail, and when they do it is reported in a particular way. I do not want to go into examples — I did not come loaded up — but there have been some famous cases that have been all over the papers, and still are, about the general incompetence of government and how they cannot run projects. But that is rubbish. What has happened in a lot of these cases is that the contractor has failed. In myki the contractor failed — catastrophically failed.

You then have some ugly choices. What do you do? Sue them? Sue a US corporation? Stop the whole project and start again? Go to the contract for satisfaction? The contract does give you some satisfaction, but if you load up the sort of satisfaction you wanted into these contracts, you would never do a deal or you would do a deal and it would be so highly priced that you would not want to do it to begin with. Contractors do fail.

I was involved in the financing of the Great Southern Stand of the MCG back in the late ‘80s. One of the most respected companies in Australia failed mid-term: John Holland failed on site with a whole lot of financial arrangements spreading over 30 years stemming from the agreement. Things happen. What you are after is the

really experienced professional who can handle these circumstances when literally hundreds of millions of dollars are at stake and who can explain what is going on to the PPP executive and steer a clear way forward. That is the sort of real hard skill you are after.

I might say, while I am at it, that all governments have a strong disposition to be non-litigious. You are asking a person to be on the one hand deeply commercial, and on the other hand they are working for an organisation that probably does not act like an ordinary commercial organisation would act, and there are good reasons for that. It is not that everyone is timid; it is just that government delivers essential services, and here you can have conflicting roles underlying what you are trying to do. On the one hand you want a project to happen, but on the other hand you might want an essential service to continue. Ministers — politicians — have difficult judgements to make. Do you go for commercial results and try to belt the hell out of the contractor — and there are plenty of examples where the government could have — or do you want the essential service actually in place? And does that overwhelm any short-term or contractual commercial aim that you might be heading towards? I have been involved with lots of projects where that is the case. It is not just governments that make mistakes — and we do; it is contractors that make lots of mistakes too. Sitting behind that is the realisation that at the end of the day you want an essential service for the public. Are you going to win the fight, or are you going to get the service?

Often underlying these projects is almost the true cost of the government providing de facto underwriting of these projects. That is never taken into account. Perhaps I will stop. I am sorry; I wandered a bit.

The CHAIR — No — it is all valuable. I am going to try to lead you to something specific, given that I have asked a fairly general question that involved a fairly broad response. You have broadly identified the skill set that is required to deal with delivering projects as being a high-level competence and understanding of how to deal with the emerging challenges which occur in managing a project. I guess one of the issues that has been repeatedly put to the committee is that because of the change in the way that projects generally are delivered by the public sector or for the public sector for government these days compared to, say, the eighties, we have progressively changed the placement of the expert skill set, being that they are outside government rather than within government, particularly the skills around what I describe as the hard-edged engineering analytical skills and the capacity to understand what is technically involved in delivering projects, whether it be in the process of design, negotiation with the private sector or oversight through to completion.

I am interested in your view about whether or not there is really a deficit in the hard-edged skills as opposed to those that surround the general project management — finance, legal — governance area, because it is really that commentary which has been repeatedly put to this committee over successive days that we just do not have a capacity. Given the interface with all of the agencies you deal with, are you aware of whether or not we have those people and whether or not we have duplication — for example, have you got your own team and different departments have them as well?

Mr RONALDSON — Can I ask a question? I assume you are talking about the rise of the PPP and other long-term financial rather than the D and C world that was largely there?

The CHAIR — Yes.

Mr RONALDSON — I repeat the point I made previously. I have not really got an overview, but from what I have seen I think there is a lack of skill sets in departments around a good client function in the way that I would describe it, and I think you need that up-front for a PPP. In all fairness, though — please stop me; you will anyway, if I ramble — Victoria has been leader in PPP and in trying to create a PPP environment and as such has openly experimented. The understanding about PPPs used to be straightforward, and from my understanding it is still true. It is quite simple conceptually, although the concept has been stretched a bit in Victoria. This is my roundabout way of saying you can have whatever skills you like, but if you throw them at a bad deal, you can only get a bad deal. You say, ‘What about the skill sets?’. I say that if you can talk about the nature of the deal to begin with and you can understand whether it is a good deal or a bad deal, you can understand that whether or not you have got the right skills is irrelevant.

PPPs need three things — don’t worry; I will not go on! It is quite simple, but it is sometimes overlooked. You need a big lump of capital, you need to be building something big and most importantly you need big recurrents running out of it. That is the reason you do a PPP — that is, you ask the private sector to be creative. Once again,

there has been huge misreporting — it has nothing to do with prevailing interest rates or where you can borrow. It has everything to do with the fact that you think the private sector can bring its creativity to the table in the way the public sector cannot to build something that is smart and that cuts down on your recurrents. That is it. In my opinion an ordinary road should not be PPPed. Why? Because it is a big lump of capital but there are very few recurrents flowing out of it. It is very hard to build a smart road as opposed to a dumb road, and if you do build a really smart road, you are not going to save much money anyway. If you are talking about toll roads, it is an entirely different argument. That is a really complex topic, but that is the principle behind it. As long as the principle is right and you get the business case right, you should be able to assemble the skills, but I still think those essential skills on the client side are lacking.

On the engineering side I think there is some weight to your comment. I look back at my experience over 30 years with the state government. There is no doubt that the big change in my lifetime in the public service above anything else has been the outsourcing of functions and the privatisation of functions. When I joined the public service there were big cultures of technical expertise that were bred in the state, largely in the semi-governments: in the Board of Works, the SEC, the Tramways Board, the public transport bodies and Gas and Fuel. These were wellsprings not only of seasoned engineers but they were also the cornerstone of things like the apprenticeship programs. There were big technical shops inside the public sector, and I have no doubt that this bred a sort of technical backbone inside the public sector that we no longer have.

In the higher order skills, the types of engineers you want to see put on a hard hat and go and run a really big project — yes, there are less of them around government. But the private sector has adapted and we do have — I repeat — a huge reservoir of real strength in this area in Victoria. We have some excellent companies to go to. I suppose your question is do we have the people who can run the people who run the sites? In my opinion that is broadly covered satisfactorily.

Mr PAKULA — There are so many things I could ask out of the last 20 minutes, but I will go to two. Following on from the Chair's comments and your own comments about how some of those governmental authorities were the incubators of those skills, if you like, and now those roles are no longer played, you made the point yourself that, as far as MPV is concerned, when you are looking to hire your own experts you are looking for people with experience. We heard from APESMA before about the lack of opportunities for graduate engineers within government. I suppose my question is: if MPV is not looking for graduate engineers and is not looking to be the place to incubate some of these skills, who in government should, and do you see a role for yourself in that?

The second point I wanted to go to was your first comment that the best projects are when you have a delivery agent and a client as separate entities, rather than the delivery agent and the client being the same person or the same department. There are a huge number of situations that I can bring to mind in which the delivery agent and the client are one and the same. Are you foreshadowing that you see a bigger role for MPV in being the delivery agent for projects that are currently carried out within departments, or am I misunderstanding what you are saying in that regard?

Mr RONALDSON — The first point is incubation. It is not our role to grow engineers. Now, if it is not our role, it is the role of those whose self-interest will be met. The organisations that have a self-interest — that is, an ongoing business that requires them — will do it, and the best example in the Victorian public service by a long way is VicRoads. It has graduate programs, it takes in a huge number of civil engineers and it has fantastic training programs which grow great engineers. We do not. We assemble teams project by project. We do have a core of engineers in the middle, but they are not there to grow continually and, to be honest not to act in an incubator role.

I might say the other problem we have, and it goes to your second question, is we do not know when our next project is coming. We do not twist anyone's arm to actually use us. They can go to the market directly themselves, or they can come through us (I am thinking about this next statement). Probably there is a tendency for governments in tougher times to go to core delivery projects — to go to your roads, to go to your hospitals, to go to your schools, to go to your courts and probably jails, and there is probably less scope to look at the sort of big projects that we look at. I make that as a general statement. That being the case you get resources gravitating towards those places that, from a project point of view, look more like a process shop. And if you look like a process shop, if you are continually out there building those sorts of things, then I would argue that you should act as an incubator and think about your future engineering requirements.

But we do not; we assemble team by team by team. One of the hardest parts of building something like a synchrotron, for instance, is finding people who know about synchrotrons. You might argue that it is pretty hard once you do have them too. To find some synchrotron scientists who would actually live with the building of the synchrotron was some trick. So we go for the more unusual skill sets from time to time, and we assemble them as we see fit.

Mr MORRIS — I will make two quick points on the submission if I may, and then I will ask a question. In the submission, questions 1 and 4 simply reference the DTF whole-of-government approach, and I just wanted to confirm that you actually supported the view that had been put by DTF.

Mr RONALDSON — Yes.

Mr MORRIS — Thank you. The second point is pages 3 and 4 refer to the MPV project management framework. Is it possible for the committee to see that?

Mr RONALDSON — Yes.

Mr MORRIS — Thank you. Getting to the question of substance, Mr Ronaldson, in your opening comments you particularly talked about a number of things that struck a chord with me: the need to make decisions that are risky and fraught with danger; analysis on the basis of hindsight in terms of the success of a project; and that you do not know what the price is until the tenders are in. I would not personally quibble with any of those comments. Where I want to take you on the basis of those comments, though, is that before you can go to the market and before you can get the tender price, a series of decisions must have already been made. Obviously cabinet has to decide that it wants to proceed with a project before you can go to the market. If they are going to make a decision on whether to proceed or not, there has got to be a price tag attached to that in some way or another.

We have heard in other evidence — interstate evidence, I think it was — views expressed that there is perhaps a lack of courage in the public sector in terms of what is put up. As I was saying, this is not necessarily reflecting on Victorian experience but there is a tendency perhaps to underprice a project because cabinet will not approve, say, a \$500 million project that is priced at \$350 million when everyone really knows it is going to cost \$500 million — that sort of thing.

To give you an example of the sorts of issues I am looking at, there is a very small project close to my heart, Mornington Pier, a \$4.5 million project, that was supposed to have wave screens attached: ‘Sorry, we spent the \$4.5 million so we cannot put the wave screens on’. So, yes, it came in on budget; it was just not the project it was intended to be.

I accept that the comments you made earlier are, I think, probably correct and that you do not know what the price is until the tenders are in. But there is this whole process that has to be gone through, leaving aside the tendency for ministers to make announcements. But just in terms of improving the process, how do you get more rigour into that front-end process before you get to a point where you go out for tenders? Because that seems to be where a lot of the disconnect is.

Mr RONALDSON — If I understand the question, I think I have attended to the bit about what I call the client role. In my experience I think that can be improved; I think that is where most improvement can occur. I repeat my advice: once the contracts are signed I think the public service by and large performs pretty well. By and large. There are a whole lot of factors in that client role. I was just commenting on the skills bit. You are bringing a bit more of a real-world edge to it. How do various cabinets go about their business? How do various ministers go about their business? How do various departments go about their business? There is no one model.

Even in the client role there is a lot of sounding out of the market. If you want to build a toll road, you spend a long time talking largely to the financial markets. You talk to them for a long time before you even think of developing a business case. I have been involved in both toll roads; I did one and was involved in the other. The trick to that exercise really is an open dialogue, with the big financiers of the day, and getting those key messages put inside government and understanding the practical implications of what financiers are saying if you really want to get private finance behind these sorts of projects.

From a simple public servant's point of view you would like the sort of world where all this was done objectively, scientifically, where you have plenty of time, there is always plenty of money in the budget to do things, et cetera. But once again that does not happen for a variety of reasons. It is hard to comment past that other than to state the obvious — the closer you get a good bundle of skills to the task, the more scientific you can be about it, the more time you can take to do it, the better engagement with the markets you can have while this is being done so you can get some real market feedback into your numbers and all that, the better result you will get before you actually go to the market.

Ms HENNESSY — We have had a lot of evidence given to this committee, Mr Ronaldson, from the private sector perspective basically saying that they do not believe they have an informed purchaser more often than not in the public service. You have partially addressed that, I think, in your contribution this morning, but I just wanted to ask an open-ended question: what weight do you apply to that private sector criticism of its experience with the public sector?

Mr RONALDSON — Once again it is hard for me to comment generally. I will go to the previous answer. I think it is important to sound out the market for many major projects, the sorts of things that we do, the really big projects. You do not just sit around in the back room and bring a bundle of skills together and conceptually decide to build something; you really do need a good dialogue with the market. I guess I conceded that point: that our dialogue with the markets from time to time could be better in the formulation of a business case and other preparations leading up to a major project.

There has been a lot of criticism by the private sector about the cost of PPPs. That is a difficult one. I sympathise with what they are saying. On the other hand, a modern construction company is a bunch of engineers and even more lawyers and they act in a particular way. Again that is not a criticism necessarily; it is just the commercial way in which they operate. We certainly go about our business with a very strict eye to the legality of what we are doing at all times. But it is true that PPPs are very complex things. What underlies PPPs sometimes, I think, is a real contradiction. There is this wonderful idea that you can split risks at the heart of PPPs. Is this what you are asking? The D and C world has progressed a lot too, but I think there is less criticism generally over that.

But there is this broad idea that there is this bundle of costs that everyone sees the same way and somehow you can get into a dialogue with the private sector and they can take and manage the risks that they best manage, and we can manage the risks that we best manage. I have already made some comments about how risks might fall — the really tricky ones, the ones you do not see: no-one sees them or they happen in combinations. Then you move inevitably into territory outside your contracts. In my opinion, the healthier environments allow for some commercial negotiation on top of that. It is the same for privatisation too. The really difficult ones are where either party, be it government or the private sector, in my experience wants to take particularly strict interpretations sometimes of what they believe to be the legal environment.

I might say also that I have been involved with quite a few arrangements where the government — this is the contradiction I was talking about — almost does extra well: that is, it manages to pass a huge number of risks off to the private sector, which then proceeds not to make a profit.

I have always been a great believer that if you back a private organisation into a corner where they are not making a profit for long enough, you cannot predict the results — nor should you try to. You should not say, 'Aren't I good? The issue is not for us', particularly PPPs that span 20 to 25 years. If you back a private sector organisation into a position where they are not making profits, difficulty will inevitably follow no matter what contractual environment you have. There are some fantastic examples around where that has occurred in the past, in transport and in other places.

Ms HENNESSY — This is a supplementary question. Could you outline for us what the relationship will be between major projects and the new high-value, high-risk unit, which, to a degree, is being held up as a panacea for some of the issues that have afflicted previous projects, not necessarily all major projects?

Mr RONALDSON — My colleagues might correct me, and I might not have understood the question, but to the extent that we are managing the delivery side of what they deem to be a high-risk, high-value project and to the extent that they want to look at the delivery side as opposed to what I call the client side, then we will be

involved with them. There are certainly more checks and balances, and certainly a shift of responsibility. I guess it is another iteration, and we will see whether generally that improves the environment.

The CHAIR — Thank you. We are out of time. I know my colleagues would like to ask some further questions; they may have the opportunity of doing that as we go forward with this inquiry because, as I flagged earlier, we will be looking at some case studies and we will inevitably invite you back here. We might have had the opportunity to read the transcript and have some precise questions in regard to your overview. Thank you for the contribution you have made today. It has been very useful. I therefore thank the officers from the Department of Business and Innovation for their attendance today. If there are any further matters which you wish to comment on, we would be pleased to hear from you, but we will probably follow up with some specific questions after this hearing. Thank you very much. That concludes the hearing.

Witnesses withdrew.