

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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Chair: Mr P. Davis

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Witnesses

Mr R. Bolt, Secretary;

Mr J. Miles, Acting Executive Director, and

Mr C. Keating, Assistant General Manager, Office for Resources and Infrastructure; and

Mr P. Clarke, Executive Director, Skills Victoria, Department of Education and Early Childhood Development.

**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 Education and Early Childhood Development Mr Richard Bolt, secretary; Mr Jim Miles, acting executive director, Office for Resources and Infrastructure; Mr Chris Keating, assistant general manager, Office for Resources and Infrastructure; and Mr Phil Clarke, executive director, Skills 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 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 2003, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. This committee has determined that there is no need for evidence to be sworn; however, witnesses are reminded that all questions must be answered in full and with accuracy and truthfulness. Any persons found to be giving false or misleading evidence may be in contempt of Parliament, and subject to penalty.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days of this hearing. 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 4 minutes, if desired. Thank you, Mr Bolt.

Mr BOLT — Thank you, Chair. With the committee's indulgence, I will share the presentational duties with Jim Miles.

The CHAIR — Sure.

Mr BOLT — By way of introduction I say we appreciate the opportunity to present. We would like to start by saying that the department has a long track record in planning and delivering good quality infrastructure projects. We have a long and numerous pipeline of projects, and our focus is now moving to a more systemic approach to delivery, particularly in the planning phase, where we are continually enjoined to be more transparent, to engage more potential partners in planning our infrastructure — which we already do very well, but we are under pressure to do more — and where carefully and thoroughly conceptualising our projects, scoping them, engaging partners, and making the best use of the capital available to us is more of a focus. It is more complex, but it ought to produce better outcomes.

I will briefly dwell on slide 3 — I think you have the pack there — entitled 'The lifelong learning agenda'. I think the committee is probably well aware of the business of the department, but to repeat the point, we have three interrelated systems that we oversee in early childhood, where we are not a deliverer for the most part ourselves and do not undertake asset development for the most part. We have a school system, where of course we are the predominant provider, and a large asset base, and the higher education and skills sector, where there is a large asset base but significant management of that is devolved to the TAFE sector. But we still have a role in their delivery programs.

As I said just a second ago, in each sector we have a strong and growing emphasis on partnerships, and we can elaborate on what they look like if the committee wishes us to. The other point I would make before handing over to Jim is that each sector is under significant pressure from population growth and increasing demands, particularly the early childhood and schools area. We have had a sharp increase in births since 2000; it is flowing through to the school sector now, and as far as the school sector is concerned, the vast increase in training under the Victorian training guarantee has seen not only an increase in that demand but shifts in its focus, and that has capital consequences. I will now hand over to Jim, and we will stick to our 4 minutes and allow the committee time to interrogate.

The CHAIR — Thank you.

Mr MILES — Thanks, Richard. I will just talk a little bit more in terms of the asset context of the portfolio. On the slide there, there are just under 1540 government schools, they have an asset value of \$13.9 billion, and around \$7.4 billion of that is buildings, the rest of it being land — \$6.5 billion. In terms of the 18 TAFEs — 14 stand-alone TAFES and 4 TAFE divisions of universities — there are about 1000 buildings on 96 campuses. The total asset value, as you see there, is \$4.2 billion; around \$3.6 billion of that is buildings.

As Richard talked about, there is a very deliberately planned pipeline, and prioritised pipeline, of asset investments available to government in both the schools and the TAFE sectors, and then decisions on that pipeline, as you know, are made in the budget each year.

If you look at the slide in terms of how school projects are delivered, government has a policy of giving schools three options. Schools can choose self-management, which is option 1; they can choose managing a project in partnership with the department; or they can ask the department to manage a project for them, with them as the key stakeholders or clients for the project. Schools are provided with guidance and support material — particularly if they choose self-management and if they choose a partnership arrangement with the department — and those tools to assist them in carrying out their responsibilities and tasks, but the tools also give them an ability to make an assessment about the desirability of self-management and to understand that before they make a decision.

In terms of school capital delivery, the schools vary. The vast majority have been delivered with traditional procurement. That means the projects are fully designed and then tendered to the market, with the market delivering the building project. There has been one exception to that which was a PPP project which was undertaken across 2009–10. That project was \$255 million, in 2008 dollar terms: it was for the design, construction, financing, maintenance and operation of the facilities for a 26-year period. We are now into the operations phase of that project. As required under the Partnerships Victoria guidelines, we have a contract manager in place, a user manual and an issues management framework in place.

In terms of TAFE capital delivery, on slide 7, the department is responsible for program management, which is oversight of TAFE projects in delivery at any one point overall. The individual TAFE is responsible for the project delivery itself, and there is a project control group established for that purpose. The department will sit on that project control group and provide guidance to the TAFE institute and particularly provide strong guidance up-front in terms of scoping, design and cost estimation for a particular project.

I move to slide 8. In terms of key competencies, we seek skill sets both internally and externally. In terms of internal skill sets there is a strong requirement to understand what is being sought in a project, and so a strong requirement to put together a very clear and detailed design brief that can be put to the market in a way that the market can understand it, and then obviously deliver it in terms of a built project.

In terms of internal skills, the department looks very strongly for procurement skills — in other words, the ability to select the right architect for the right building project so that we get a good outcome. Contract management skills are very important, and that is particularly the case in terms of PPP projects. It is not only understanding the contract but having the skill set and awareness to use contractual mechanisms to ensure that what we have bought we are able to continue to get delivered over the life of the contract. For instance, if there is underperformance — limited underperformance or, obviously, substantial underperformance — the contract manager needs to be able to recognise that and ensure that the department intervenes early and appropriately.

And then a key part of what we do in terms of internal skills is stakeholder management: stakeholder management in terms of schools and school communities and in terms of the TAFE community as well.

In terms of external skills, they are listed in the slide and they are the sorts of things you would expect. They are the sorts of skills that we would not want to have in-house on a permanent basis because the quantum of those skills varies depending on the asset investment that is made by government from year to year. In effect we will dial up and dial down the quantity of those skills from the private market.

In terms of maintaining capacity, we obviously require accreditation both for internal and external staff or contractors. We ensure that consult project managers are appropriately registered through the Australian Institute of Project Management, and we ensure that our suppliers are registered on the government's construction supplier register.

In terms of keeping pace with the environment, ensuring best practice, we do that through a range of internal forums, and also there are a range of external forums in the marketplace.

Mr BOLT — The last slide simply summarises the four main points we are making. The large asset base: we draw resources internally and externally, dependent on the demand for the skill. Mainly, as Jim has indicated, we have one PPP project involving 12 schools, and it is a departure from our normal procurement method. We have our accreditation and dissemination of best practice approach in an attempt to maintain a high quality of asset planning and delivery.

The CHAIR — Thank you. What we will do now is spend the remaining time on questions, and before going to that I would like to just acknowledge your timely and informative response to the questionnaire, which has been particularly helpful to members of the committee in preparing for this hearing. Coming out of your detailed response to the questionnaire and your presentation, I turn to slide 5 in relation to project delivery and I refer explicitly on that slide to the options 1, 2 and 3, and option 1, managing the delivery of its projects independently — that is, with support from the department — and which you refer to also in your response to question 1 in your submission. I am just curious about what proportion of projects are managed under that regime; that is, managed independently, as opposed to a more cooperative partnership role by the department?

Mr MILES — Most of the projects in terms of schools choose option 2. In the 2011–12 budget where you have 25 projects, of those, 17 choose option 2 and then 4 each choose option 1 and option 3. We are quite comfortable to work with schools in whatever option they choose. It just requires that we adjust what we do, the way the department deploys resources and the way the department works with the schools to ensure that we get a good project outcome. We can get a good project outcome in each of those three options, otherwise we would not be working with them. It just means that, yes, we need to adjust what we do, we need to make sure that at the school end stakeholders understand what is required, when they need to make decisions, how frequently we would need to meet with them and how they need to relate to building contractors and managing architects. We have experience internally to do that under option 2 and then obviously to do that under option 3. It is probably fair to say that over time, as schools become more familiar with what is available, there may be some change in the extent to which they might choose option 1 or option 2 or leave it as option 3, but that will evolve over time.

The CHAIR — To follow that through, in relation to the Building the Education Revolution funding and program you had a program manager approach. I am interested to know whether under the BER rollout the same principles were applied or whether there was a different set of options in relation to selecting how to implement and deliver a project.

Mr MILES — Under the BER it was a centralist approach, and that was obviously a very different program from a state budget program. It had very different and ambitious time lines and it had a quantum of funding and projects that is not normal, so to speak. So, yes, it was a centralised approach because that was driven by the stimulus requirement and driven by commonwealth guidelines. Schools were not able to choose to the degree that they are able to choose under this current approach. That said, under this approach we have to work with schools in option 1, option 2 or option 3 and see that there is an outcome that is appropriate, within budget and well accepted by the school community, the principal and the school council. The outcome is important whichever approach we take, but, yes, BER was a more centralised approach.

The CHAIR — That then leads me to — you may be aware that the deputy chairman of the Building the Education Revolution task force appeared before the committee yesterday and gave evidence. He also made a submission separately. I just want to tease a little bit of that out before we go on to more general matters relating to your particular submission and the questionnaires.

In David Chandler's commentary he made the observation that there was a strong case to enhance the scoping and project oversight competencies within the department for the recurrent school building programs. I qualify that by noting that you have just given evidence that the BER was, in a sense, a stand-alone program separate from your usual operations. He also made the comment that there is an overreliance on outsourcing program management and simply relying on internal process oversight, which does not achieve the level of informed buyer capability that would maximise benefit. Further, he suggested that a more detailed review of the department's performance in delivering BER would be of value. He went on in his oral submission to talk about comparisons between jurisdictions, which left us with a clear impression that we could have done this much better in Victoria. I am not wanting to have a crack at the department. What I am really saying is that you have an opportunity to respond, in effect.

Mr MILES — In terms of the BER, we are about to undertake a review. The BER is in the tail phase of project delivery. We about to undertake a review to articulate a whole lot of lessons learnt through the program. It was a program of a size and speed that we are not likely to see — well, we may, I do not know, but that we have not experienced very often in the past. There are a lot of lessons learnt from that and there are a lot of lessons that we would like to take from that into the way we deliver capital in the state program, because we anticipate we will continue to have a capital program year on year.

Victoria devolved a lot of its public works capacity in the early 1990s. We work very actively with the private market in the way that, since then, we deliver the state capital program. We do not see a substantial benefit in retooling up a large public works capacity because every government will make a decision year on year about what it wants to invest in the portfolio. Having a resource base at that level, which is more optimally that level one year and that level the next, means it makes a lot of sense to buy that capacity just in time rather than to have it standing in the department each year. In general, then, lessons learnt are going to be incorporated into the state program, and it is important to distinguish that BER was not just what we delivered in the state program; it was something quite different in terms of scale and time lines.

The CHAIR — Just before I throw to my deputy to get into the questions — —

Mr PAKULA — Do I get four as well?

The CHAIR — I just wanted to round this issue off because it is quite important in terms of the evidence we have received. You are essentially talking about oversighting projects and buying-in capacity. In your submission or questionnaire and in your presentation, you have talked about the Australian Institute of Project Management in relation to accreditation and project managers being accredited in that respect. We had evidence from the institute yesterday, but we have also had other evidence that suggests there is a hollowing out in terms of capacity in the area of what I describe as hard engineering in project management. That is, we have a lot of project management expertise that is essentially generalist or finance based, but we have very little now across government generally in relation to somebody who actually has been on the tools, in simple terms — who has actually built something. I am interested to know if you understand your strength or weakness in that area.

Mr MILES — There are a couple of comments to make in relation to that. We contracted four project management firms through the BER. Without talking about any particular firm it is fair to say that there was variable performance from those project management firms; and it is fair to say that within each firm there was variable performance, which goes to the point you are making — the institute is making — about the relative skill sets of individual project managers. Some were excellent and some were less than excellent, so I do not have a particular comment to make in terms of the institute's requirements — I am not familiar enough with them to do that — but it is a fair observation to say that there is variability. We have experienced that in terms of performance. With the state program going forward and with the BER we source practitioners from the construction supply register, and there are pre-accreditation requirements in that regard. Chris may want to make additional comments.

Mr KEATING — A large proportion of employees of the infrastructure division of the department have engineering or technical backgrounds. In their practice these days they tend to execute much more contract management, program management and financial management; but certainly there are a large number of people with those backgrounds. Whether they are current is probably the issue that Jim would have raised in terms of how we maintain those skills at a current level — we would rely on industry doing that much more.

Mr CLARKE — On the TAFE side, the head of the TAFE facilities unit is an architect and the position description for that position actually requires technical skills, either of an engineering, quantity surveying or architectural background.

Mr PAKULA — I just want to go back to slide 5. We heard in submissions yesterday Boulderstone Hornibrook talking about the interplay between engagement with the construction sector and probity, and in particular the question of whether or not probity rules were making it more difficult for government and the construction sector to engage properly prior to scoping being carried out. We have a situation now where we have 4 of 25 projects being managed independently by schools, which is admittedly only a small number, but can you take us through how the department oversees probity of the awarding of those contracts? Do you run the tender? Do you provide the schools with guidelines for how they should run the tender? How does it work?

Mr MILES — I will get Chris to talk about it in some detail. We run the tender process, but certainly we ensure that schools understand as much as they need to understand and as much as they want — which can be all the way — in terms of the requirements, both on themselves and on us. We are quite attuned to the need to do that, and Chris might like to make some more comment.

Mr KEATING — We have a couple of layers in terms of the way we manage probity. One is that we appoint probity advisers for larger projects, in terms of actually providing that probity advice on the way through to make sure that all tendering processes and all questions and answers during the tendering are above board and well considered. We have a very detailed capital works procedures manual, which goes through every step of the process in terms of advising schools, our stakeholders, us and the people we engage to work on our behalf on exactly how we do business, so that is made very clear. We also play a very strong role, regardless of the model, to make sure that all government procurement guidelines are followed, that all probity guidelines are followed and that sensible procurement decisions are made. We are not devolving that probity risk; we are devolving the day-to-day administration.

Mr PAKULA — The management?

Mr KEATING — That is right.

Mr PAKULA — Then there is no risk that a rogue school council or a rogue school principal can give a job to their mates to build a new gym or a new classroom?

Mr KEATING — The other part of it is that we would always require that any people or any firm that is being engaged goes through the government's construction supply register. Schools or school councils cannot just go off into other parties to engage works.

Mr MILES — In terms of the specifics, we sign the contract with the firm or the individual that is going to undertake a construction project at a school.

Mr MORRIS — Good morning gentlemen, and can I echo your words, Chair, with regard to the submission. It makes it much easier from this side of the table to have the information in front of us. Can I first just make an observation in relation to the comment that was made in the presentation about a pipeline: I accept and agree with the value of having that. Perhaps one thing that we do not do — and I say 'we' collectively — is perhaps we do not manage expectations of those who are in the pipe as well as we might. When it is a particularly long pipe that obviously causes some pressures.

I just want to raise one issue that we perhaps might get further information on and then come to a specific question: that is with regard to the experience with the PPPs. In terms of the questionnaire, we have not sought specific information with regard to this, but having just read through it, it seems to me that you now have very valuable experience with the PPP model and more standard methods of provision. At this point I wonder whether any assessment has been done in terms of both the financial outcomes of the project — and those anticipated over the last partnership — and the non-financial outcomes in terms of satisfaction and so on. That is a bit outside the ambit of what we were seeking with the questionnaire and I do not know whether any work has been done on that, but if it has been it would be useful information for the committee.

Mr BOLT — Again I will let Jim talk about the specifics, but as a relative newcomer, to go to a PPP school and to hear the accolades heaped upon the process by school principals, because of the support they get in

managing the asset itself, I would say that that has been a resounding positive. Of course that does not answer all of your question, and I will ask Jim to talk about the overall evaluation.

Mr MILES — In undertaking the PPP we constructed what is called a public sector comparative benchmark — what would it cost the government to design, construct and maintain this facility at this specified standard after 25 years? We costed that and then tested bids from the market against that, so they had to be less than that for the government to enter into it, and that was the case. It was a 2.5 per cent saving over the life of the project against that, so there was a financial saving. There is an assured standard of the facility at the end of the 26-year contract period, and as Richard said, they are very well received by stakeholders. Also in a really practical sense the principal or the deputy or the business manager does not have to worry about all the services that are provided by the contractor in terms of maintenance of the site and in terms of all services, from waste services and pest control to furniture portage, which is moving desks and chairs around in a classroom. In terms of all of that — security, carrying a whole lot of keys — that is not the concern of educators any more under that arrangement, so we think it makes a lot of sense, and the feedback we get is very strongly of the view that it is very well received.

Mr MORRIS — Has a formal assessment been done yet?

Mr MILES — The formal test financially has been undertaken; that is the only reason it went ahead. And we have done post-evaluation, which Chris can talk about.

Mr KEATING — There has been some post-occupancy evaluation to understand from the construction side how it is performing, what the defects were and how they were rectified; and there has also been the starting processes of understanding how it is performing operationally. The challenge I suppose is probably 5 to 10 years out that you really want to be assessing how it operates in terms of what happens after the players who are there at the outset have disappeared as to how the contract stands up and how the contract administration stands up. But certainly there is ongoing evaluation. It is probably year 5 and year 10 that you really want to test the mettle. But the construction, the price and all the elements that were done at contract handover had been robustly assessed, with an ongoing assessment of the operation.

Mr PAKULA — I do not want to jump in here, but we were just looking at this PPP model and the 26-year contract, and we are trying to understand where the return to the private sector is. It is obviously in the maintenance, but is there anything beyond that? Is there a lease-back arrangement on the land? Is it the government's land?

Mr MILES — Yes, it is the government's land.

Mr PAKULA — So the private sector turns a quid through what — just through the maintenance billing?

Mr MILES — Yes. The private sector makes a return on its equity through the operations phase. We have a 26-year period of quarterly payments; so there is a consortium or a special-purpose vehicle established, which had equity put into it by the financiers, and debt, and then the operator is part of that consortium, as was Abigroup for the construction phase. The private operator makes a return from the operations side, but the reason they make that return is that in the building phase, when you know that you will receive a 26-year payment stream and be responsible for maintaining that facility at or less than that payment stream, you make decisions about what to invest in, in terms of the fabric of the building, in terms of the way the play areas are finished off et cetera. It puts all the incentive into the build which you then can make a profit on over the life of the contract.

The CHAIR — So the spec is not about the build. It is actually about the conclusion, in effect, so that they will invest more heavily in the capital at the start of the period?

Mr MILES — Yes. That is right. So the spec is about performance of the facilities in terms of temperature, acoustics and so on, and so the private sector makes decisions about, 'What will I invest in?'. To give you a really practical example, we would put plaster board of a certain thickness in classroom areas, and they decide to put in something that is almost double the thickness. That is because if children kick walls, accidentally or intentionally, they know they will not need to come in and replace them anywhere near as often as they might have done otherwise.

Mr MORRIS — In terms of something that flows from that, we heard yesterday, again, a suggestion that with some of the facilities there was the standard build and then schools were retrofitting air conditioners or heaters or whatever outside the plan. It certainly has not been the case in my electorate, but apparently it has happened elsewhere. With a PPP, is there the opportunity for schools to add or subtract — probably add more likely — to the building; or is the total package defined and immovable?

Mr MILES — Chris can talk in a bit more detail, but there is the opportunity to add to what is there, and we would do that through a modification to the contract. There needs to be the opportunity to do that because schools will have enrolment growth over a period of time. So there is the opportunity to add in a fixed sense to the building but also in a movable sense through relocatables.

Mr MORRIS — That would be in terms of a variation to the contract, not the school going out and purchasing split systems and putting them in there? The contract would retain effective control of the building? I know that is clumsily phrased — —

Mr MILES — Yes, that is right. The building has been specified for performance standards so there would be little, if any, reason for a school to want to put in air conditioning, for instance, because the building is performing to a certain level. If it is not performing then we are putting a financial penalty each quarter on the operator, and the operator would make adjustments if they needed to. So there is a way of dealing with those potential niggles to school communities within the contract itself.

Mr KEATING — I might just add one comment: one of the major benefits of adding an addition to a school through a contract like that is that the whole-of-life cost is considered. So we might be putting in a new building, but the thought of what it will cost over 25 years is considered at the outset, and is factored into the contract so that you are making the right financial decision, versus alternate arrangements where schools might build something, do it on the cheap, and it ends up costing them a lot over 25 years, like air conditioning.

Ms HENNESSY — Thank you very much for your presentation. I too have a question around pipelines. There has been a lot of evidence given to this committee about the importance of pipelines for the purposes of not just certainty in the market but certainty around how government procures. Given that this government has walked away from the Victorian schools plan, whereby every school was going to be rebuilt and renovated by 2016–17, can you tell us what is the policy basis upon which the department now has a pipeline with respect to the building and refit of schools?

Mr BOLT — In broad terms we are looking at growth, we are looking at asset condition, we are looking at other sources of input, and constructing what appears to be the best forward program of investments subject to budget capacity. But in terms of any more detail, Jim, do you want to elaborate?

Mr MILES — The department has a responsibility to maintain the asset base as efficiently and effectively as possible. As Richard said, we would look at building condition, future enrolment pressures or reductions in enrolment. We would also look at, through maintenance condition assessments or condition audits, additional information. For instance, we try to look across the life cycle — asset and maintenance expenditure. If a school is spending all its maintenance money plus a bit more on maintaining a facility and then there is a pressure on us for an internal contingency we have for maintenance, we would look at that and ask whether it made sense therefore to be high up in the asset priority order, so we would put the order up subject to comparison with other schools. We maintain a pipeline that makes sense to get best value out of taxpayer dollars that are going into the asset portfolio.

So we have got a pipeline that is there. We always seek to have a pipeline that is more than any government wants to fund at any point in time, because you might get surprised about how much money government wants to put in at a point, and we do not want to be short. Therefore we do have a multi-year pipeline in place, and annually at least we would be updating that pipeline.

Ms HENNESSY — Given that, does the department have future plans to continue to use PPPs for the purposes of building new schools?

Mr MILES — The use of PPPs is a government decision, not a department decision. The department has good experience with its first PPP project, and we would be very open to doing that again, but ultimately it is a decision for government.

Ms HENNESSY — Tell them we need some more in the growth suburbs of the west. We have got two PPPs; they are very good.

Mr ANGUS — I want to continue along the line of the PPPs. You mentioned a moment ago the special purpose vehicle that is set up. I am wondering if you could expand on that in relation to during the course of the 26-year period what the situation is where the main provider, who presumably is an equity holder or certainly a participant in the special purpose vehicle, ceases to exist or something like that, what does that mean. Also at the end of the 26-year period what are the arrangements then? It sounds a long time, but I am sure that many of our electorates have many school buildings that are well in excess of that age, and it soon goes around.

Mr KEATING — I will answer the second question first. At the end of the contract life the buildings must be in the condition they were constructed at, so the option would be the department could take them on and maintain them as they do our traditional stock, but they would be handed over at the agreed standard that was provided at the outset. Or we could look at re-engaging a similar type contract to take on the lifecycle cost. That would be the option at year 26.

In terms of the first question around the protection of the equity and the debt, the special purpose vehicle is an island in itself. Even if the parent company disappears, as Babcock and Brown did, the funds and the debt are separated from that and are protected. There would be many PPPs that Babcock and Brown were involved in, but that funding is still available to that project. It is secured; it does not rely on the parent company existing. It is a stand-alone entity in its own right, and it is able to deliver for the 26 years.

Mr ANGUS — In terms of the department, does it have actual equity in that entity?

Mr KEATING — The department does not have equity. We have a legally binding contract.

Mr ANGUS — Just contractual arrangements.

Mr KEATING — That is right.

Mr MILES — The department has assets on its balance sheet, which are the buildings and the land. It also has a liability, which is the future payment stream under the contract. That turns into net debt on the whole-of-government balance sheet. In the event that the Royal Bank of Scotland did not want to hold that debt any more and for reasons to do with Europe it wanted to exist, there would be the opportunity for us to seek somebody else to take on that debt, or there would be the opportunity for TCV to take on that debt and become the funder. But in terms of the school, the facilities and the operations that would not be impacted.

The CHAIR — We are out of time, but we did start a little late, so I will take a very quick question from Mr O'Brien and have a very quick answer, please.

Mr O'BRIEN — I am happy for part of mine to be on notice. I notice your submission did not really tackle the criticisms, which you might not have been aware of, made by Mr Chandler in relation to the BER, and I understand your answers in relation to that. But for the purposes of this inquiry would it be possible to provide a written response or a response to the issue in relation to the BER, particularly in relation to the issues of project management and centralised delivery, because it seems there has been some criticism of the project management. I am aware of individual cases, and I understand you are still investigating some of those. I do not want to comment on individual cases necessarily, but the accountability of the project managers is an issue of concern to many Victorians, amongst other things. For the purposes of this inquiry we would like to have that information, if we could, in relation to where the department considers that program delivery style worked and where it did not.

Mr BOLT — I would be happy for us to provide some additional information, but as Jim indicated there was — in an early discussion I had with him — a review to learn the lessons from a project which was somewhat unusual, possibly unique. It has some limitations in assessing our ongoing capacity. What was necessary then as distinct from what we need for the pipeline we confront at the moment are different things, but nonetheless we will look at it. I am happy to give you a response. Whether that will be as fully informed as once our review is completed — I would have to say it probably will not be — we will answer it as best we can at this time.

Mr O'BRIEN — Particularly the impact of that sort of delivery method on the capability of projects in the pipeline would be of interest.

Mr BOLT — That is fine. There were a number of challenges, and again with the benefit of hindsight and my own non-involvement, there were a number of challenges in the way the BER was framed as well as the particular demands placed upon us to deliver it, so to untangle cause and effect and where the real needs and lessons are, as I said, will be complicated, but without overdoing it I will come back.

Mr PAKULA — Also lots of parents would enjoy the fact that their kids have brand-new classrooms.

The CHAIR — Thank you very much for that intervention, deputy chair. That is good.

Mr PAKULA — It is easy to bag things.

The CHAIR — The issue here is that we are out of time. I regret that, because there are a whole lot of unasked questions. We will no doubt follow up this hearing with some further correspondence seeking clarification, and we would be grateful if you could respond to that in a few days. Furthermore, we will be holding further hearings later in the year in relation to what I would describe as case studies, so we may be in touch with you in relation to that. We would be pleased to get any further additional commentary based on any of the evidence that has been presented over the last couple of days. Thank you for your attendance.

Witnesses withdrew.