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Driving Business Success for Consulting Firms in the Built and Natural Environment

Executive Officer

Public Accounts and Estimates Committee
Parliament House
Spring Street
East Melbourne, Vic 3002

Friday, 11 November 2011

Dear Mr Davis

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

Thank you for providing Consult Australia with the opportunity to respond to the terms of reference for your inquiry into effective decision making for the successful delivery of significant infrastructure projects.

Consult Australia is the peak industry body representing consulting companies that provide professional services to the built and natural environment. These services include design, technology and management solutions for individual consumers through to major companies in the private and public sector including local, state and federal governments. Consult Australia represents over 270 companies, from large multidisciplinary corporations to small niche practices, collectively employing over 50,000 staff.

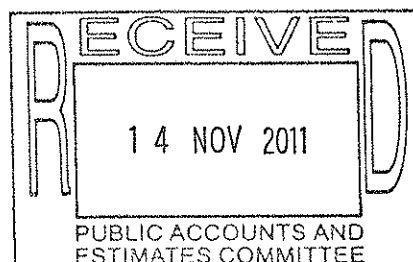
Consult Australia's vision is to drive business success for consulting companies in the built and natural environment through collaboration, education, support and advocacy. We are dedicated to providing support and advocacy to our members with integrity, commitment, evidence based positioning, responsible actions and respect.

Consult Australia achieves these goals through a range of top down (improving regulation and creating opportunities) and bottom up (building capacity and community to reduce risk) support and services to members.

Members of Consult Australia are often multidisciplinary firms and collectively employ people working in over 100 different types of occupations. These include planners, engineers, architects, surveyors, project managers, architects, human resource specialists, and economic planners.

Public Accounts and Estimates Committee

Submission No. 13



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Response to the six terms of reference:

(a) The competencies and skills that public sector managers require for the effective evaluation, decision making and oversight of significant infrastructure projects and protection of the public interest.

The public service will continue to suffer shortfalls in the skills and capabilities required to manage significant infrastructure projects where it is uncompetitive with the private sector in providing long-term rewards (remuneration or other) and careers for its professionals, project managers and managers. Technical knowledge and capabilities must be preserved within the public sector; too often it appears that technical knowledge is promoted into policy or executive management and lost where it is most needed.

The competencies and skills that public sector professionals, project managers and managers require include:-

- A thorough understanding of the infrastructure project they are managing;
- Substantial contract management experience;
- A strong understanding of the issues facing the private sector – contractors and consultants – in tendering and delivery of the project;
- A thorough understanding of good risk management and risk allocation serving both the public and private sector interests;
- Ensuring that documentation produced is clear, unambiguous, accurate and timely, and properly scoped with a fair and appropriate risk allocation;
- Establishing clear evaluation criteria and then apply them objectively and consistently. This can be done either qualitatively or quantitatively or a combination but must be applied consistently with any advice or information that has been provided to tenderers. Terms such as 'value for money' should be defined so that tenderers and client have a common understanding of what the client means by such an expression.
- A clear understanding of the importance and opportunities to support the private sector through best practice procurement, effective risk allocation and liability management undertaken in parallel with decisions ensuring value for money and public liability management.
- Further, the public sector manager needs the competencies and skills that any good manager – public or private – would possess. It is in the private sector's interest to have skilled and competent public sector managers.

(b) The extent to which Government policies such as the National Public Private Partnership Policy and Guidelines (NPPPP Guidelines) and the Partnerships Victoria Requirements (PV Requirements) specify these requisite competencies and skills, and support the Department of Treasury and Finance's (DTF) application of these across the public sector.

Apart from emphasising the importance of contract management and providing project managers with "principles and tools to support effective contract management in PPP projects" it is not apparent that either the *NPPPP Guidelines* or the *PV Requirements* specify the "requisite competencies and skills".

This is not seen as either surprising or a problem. The above documents are more concerned with commercial issues, public interest and probity, which is considered appropriate.

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It is noted that the *PV Requirements* indicates that the Department of Treasury and Finance (DTF) is responsible "for establishing and implementing an appropriately credentialed and professional standard training program for public sector contract directors/managers." This could be very beneficial assuming any training arranged by the DTF is fair and unbiased and supports the development of those skills outlined in response to (a) above.

These arrangements do provide important support for the DTF's contribution, but an even greater level of contribution to the infrastructure needs of Victoria would result if these contributions were either overseen or delivered by a specialist infrastructure body as detailed in response to (e) below.

(c) Strategies in place within the public sector for the development of such requisite competencies and skills and for their ongoing refinement and enhancement through knowledge-building from the sharing of best practice examples and guidance in the public sector

The government used to be a pre-eminent trainer of the workforce. Many of the more senior consultants in the industry began their careers in the public sector and learnt their trade. This is no longer the case and much of the knowledge building and sharing of best practice occurs within the confines of infrastructure contractors, consultants and academia, not with government.

It is difficult to tell from the outside what strategies may be in place across the public sector since a wide range of organisations is covered. However, the DTF training identified in the *PV Requirements* (see response to (b) above) would be potentially beneficial, and in addition, the *PV Requirements* state that DTF will have responsibility for "facilitating the sharing of contract management knowledge, including through conducting forums for contract managers to share lessons learned and network with their peers".

It is not known how well the DTF discharges this obligation. It is considered that a useful strategy would be to maximise the involvement of staff, particularly contract management staff, in collaborative contracting methods (alliance, ECI) where possible. This would facilitate the public sector employee/manager developing a better and broader understanding of the issues facing the private sector in infrastructure delivery, thereby leading to an improvement in their management skills. This approach has also shown to be well regarded by the public agencies' staff themselves in assisting in maintaining or increasing skill and experience levels.

Training, including 'on the job' training, is an important contributor. The public sector commonly supports external training reasonably well but is often less structured and formalised in respect of on the job training. To maximise the benefits of on the job training, appropriate coaching/mentoring/evaluation/feedback needs to be part of the implementation package.

Staff swaps and secondments between the public and private sector do take place and these should be encouraged as they lead to broader experience and better understanding of the other's point of view. Public sector staff making more use of the training offered by organisations such as Consult Australia is encouraged. The opportunity to network with the industry and hear a variety of perspectives on issues such as risk, project management, liability and contracts and workplace health and safety should be supported.

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A more general 'lessons learned' from all aspects of the project rather than just the focus of the DTF would be beneficial, together with a suitable methodology.

Appropriate remuneration is also a key to obtaining and retaining managers with the requisite competencies and skills. Demanding jobs need the appropriate recognition/reward.

(d) Whether particular significant infrastructure projects have been developed and implemented in a manner which aligns with the public interest and maximises transparency and accountability for the life-cycle of the project.

Both VicRoads and Linking Melbourne Authority (LMA) have successful track records of delivering significant infrastructure projects. VicRoads has for some years delivered via Design and Construct (D&C) approach and has more recently, where appropriate, delivered through some form of collaborative mechanism such as an Alliance. DTF has questioned whether pure Alliances deliver 'value for money' and has developed a variation which it considers delivers more market tension. It is considered within the infrastructure sector that perhaps DTF does not fully appreciate the extent of benefits that do flow from implementation of a pure Alliance with an appropriate Target Outturn Cost (TOC). The Victorian Policy and Guidelines for alliance contracting are the subject of significant concern by Consult Australia (as per our submission during the 'consultation' provided against this policy in 2010) and we strongly advocate for their review as a matter of urgency.

For example, two of the projects the LMA has delivered via PPP (EastLink and Peninsula Link) had different financing models. However each model is considered appropriate to the specific project and to the time and economic situation appertaining when it was being initiated.

The existence and implementation of the Gateway Review Process (GRP) at appropriate stages of a project is also seen as a part of ensuring that the public interest is well protected.

Those projects that have been delivered as Alliances have been successful and have had the added bonus of cross-fertilisation of staff. Some projects delivered as PPPs, such as EastLink and the Desalination Plant, have had their issues BUT the public interest has been protected and the risks that were taken on by the private sector have remained with the private sector.

(e) Relevant infrastructure delivery strategies and practices, including in public-private partnerships, in relation to enhancing public sector expertise in place in other Australasian jurisdictions and relevant jurisdictions outside Australia

There are a wide range of delivery strategies that have been developed in Australia and internationally. There is no one size fits all approach to delivering significant infrastructure. It is considered that the public agencies in Victoria are reasonably well informed in respect of various delivery strategies used elsewhere, and usually choose the strategy best suited to the project at hand. The key delivery methods we are familiar with in Victoria are Construct only, D&C, and Alliances.

Construct only, where the government agency does /arranges all work leading up to putting a package to market for pricing and delivery, is the most basic and most competitive form of delivery. However, if the

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optimum solution has not been chosen in the first place this approach will not necessarily provide value for money.

D&C contracts can vary considerably in the scope that is allowed for change and innovation, and in how much is specified by output rather than a constrained client Reference Design. In recent times, the D&C approach has evolved to include a collaborative element which enables the contractor to more openly discuss proposals with the agency to gauge whether the proposal(s) or innovation would satisfy the required outcomes. Collaboration can result in skill transfer from contractor/consultant to agency but this is seen as assisting in the continuing development and maintenance of skill levels for an informed client.

Alliancing is the most collaborative form of delivery and it can be implemented in a 'pure' form, as a competitive alliance, or a form of Early Contractor Involvement (ECI). As per our previous comment Consult Australia does not support any 'default' approach for alliance contracting as advocated in the Victorian policy and guidelines. Alliancing must be preserved as a strong method of delivery well suited to situations where the scope or risks or other aspects of the project are difficult to define or specify at the time the agency wishes to proceed.

The Private Finance Initiative (PFI) model developed in the UK has been instructive to Victoria agenda with regard to our PPP delivery models, and has played a major role in enhancing the capability of the public sector on major projects.

In addition, Government could make better use of practices implemented by other jurisdictions, as demonstrated by the establishment of such bodies as:

- Infrastructure Australia
- Infrastructure New South Wales
- Ministry of Infrastructure, Ontario, Canada
- Office of the Coordination General, Queensland
- Infrastructure Planning Commission, UK

Melbourne and Victoria would benefit from a more centralised degree of oversight across all major infrastructure categories to ensure long-term land use planning and associated infrastructure needs are effectively coordinated.

A clear and transparent, long term approach to the prioritisation of infrastructure delivery is essential at all levels of government. Many projects are prioritised through clear and rational assessment, but in some cases decision making risks being misconstrued and may appear to be driven by political exigency where no clear process or guidelines for assessment have been developed. When communities are competing for dollars spent, clear processes are essential to assess, rank and prioritise infrastructure delivery. These must be robust and stand the test of changing political and economic circumstances.



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While Infrastructure Australia has instituted clear processes to assess and evaluate projects—and improved transparency through the commitment to publish cost-benefit analyses—to date such a process is not replicated across all states and territories. This has led to delays in infrastructure delivery, budget blow-outs, and the politicisation of project prioritisation and selection. In an increasingly competitive labour market, the implications for industry and the wider economy are significant where resource planning, forecasting and delivery estimates are compromised.

An emphasis on the development robust infrastructure plans is commendable towards identifying needs, but does not in itself go far enough to provide secure funding over the medium to long-term. Nor does this adequately prioritise delivery and decision making through a robust and consistent framework.

Consult Australia recommends the development of a robust, independent and transparent process and governance model for the evaluation, prioritisation and decision-making supporting infrastructure delivery as a 'best-practice' approach.

State ministers and their governments should be transparently held accountable to the independent advice provided through such a governance model through the publication of an annual ministerial response; detailing the rationale informing subsequent infrastructure prioritisation and funding by governments.

(f) The merits of centralisation versus decentralisation of available skilled experts in the Victorian public sector during the life-cycle stages of public-private partnership projects, including considering any benefits that may be derived from greater flexibility to contract specialist services from external sources.

Some large government departments, such as Department of Transport, have struggled to acquire and maintain appropriate skill levels in the areas of planning, development and delivery, with significant numbers of ad hoc contract personnel being engaged to supplement skill levels and experience. In many cases this has led to a lack of continuity of personnel and an associated loss of corporate knowledge of both departmental processes and project specific knowledge.

By way of contrast, two agencies which have concentrated on specific areas of expertise and management appear to have achieved the best results. VicRoads has moved from being involved in the physical delivery of assets to the provision of policy, standards, and the project management, scoping, and packaging of projects that are put to market for delivery by the private sector. Similarly LMA, a relatively small organisation, has concentrated on large transport projects delivered by PPPs. The LMA has a small group of highly experienced people who have trained and expanded their skills to be conversant with the principles and requirements of the often complex procurement and delivery processes for PPP projects. They commission specialist consultant services to provide expert advice in key planning and procurement areas including environmental, transport planning, legal services, finance and economic support.

VicRoads could be considered as being decentralised, whereas LMA could be considered as centralised. Both organisations deliver well. Hence it could be argued that it comes down more to quality of staff, and organisational culture more than the geographic organisation of the agency when considering the availability of skilled experts.



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Conclusion

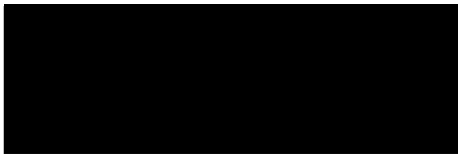
Consult Australia would encourage Victoria to develop a strong forward looking Infrastructure Plan, to maintain the complete advantage Victoria has from a liveability and commercial perspective:

- Enhancement on the delivery of infrastructure that our community needs.
- Strong support of our education of infrastructure professionals.
- An Infrastructure pipeline, to enable industry and government to attract, train and retain the key professionals. An Infrastructure pipeline that ensures Victoria has the capacity to support the delivery of Infrastructure nationally and internationally.
- Collaboration between government, contractors and consultants to ensure workable contracts, appropriate risk and reward. Many government contracts impede infrastructure construction, with government lawyers protecting government risk at all costs.

Consult Australia would welcome the opportunity to meet with the Public Accounts and Estimates Committee to discuss our submission further.

If you have any questions on this submission please feel free to contact me via our State Manager, Kate Di Gregorio, on kate@consultaustralia.com.au and 03 8699 7700.

Yours sincerely



Ric Bland
Acting Chairman
Victoria Division



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