VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry Into Effective Decision Making for the Successful Delivery Of Significant Infrastructure Projects

Melbourne — 8 October 2012

Members

Mr N. Angus
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Witnesses

Mr G. Hehir, Secretary (sworn/affirmed),

Mr D. Webster, Deputy Secretary, Commercial Division (sworn/affirmed),

Mr J. Loos, Director, Partnerships Victoria (sworn/affirmed), and

Mr J. Monforte, Director, Infrastructure Risk Management (sworn/affirmed), Department of Treasury and Finance.

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 Treasury and Finance Mr Grant Hehir, secretary; Mr David Webster, deputy secretary, commercial division; Jason Loos, director, Partnerships Victoria; and Mr Joe Monforte, director, infrastructure risk management. Members of Parliament, departmental officers and members of the public and 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. DTF officers, as requested by the secretary, can approach the table during the hearing to provide information to the secretary by leave of myself as chair. Written communication with witnesses can only be provided by 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. There are no cameras, so I can dispense with that guideline.

Please note that these proceedings are not being webcast. 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. All evidence given today is taken under oath or affirmation and is being recorded. Witnesses will be provided with proof versions of the transcript within 15 working days of this hearing, which are to be verified and returned to the committee secretariat within two working days of receipt. Unverified transcripts and PowerPoint presentations, if any, will be placed on the committee's website immediately following receipt, to be replaced by verified transcripts within 48 hours of receipt.

Following a presentation, if any, 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 and call on the secretary to give a brief statement if so desired, after which we will take questions. No statement? Thank you.

Just by way of introduction to what I hope will be a conversation, really, the reason we were keen to speak to DTF again was to flesh out a better understanding of a number of matters relating to financing of major projects and relating to the assessments DTF is obliged to provide in terms of its central agency function, irrespective of the line agency which is delivering a project, to have a look at the assessment of capital costs and value for money. In a general sense, and this is the nature of the discussion we are interested in, the committee's terms of reference do not go to the issue of specifically looking at what I have described as technical, financial analysis detail but do go to the issue of skills. That is the area we wanted to actually discuss.

This is about the nature of understanding the skill sets that exist within the public sector, and particularly within DTF, around matters relating to the expertise and capabilities in determining the public sector comparator — for example, analytical rigour, whole-of-life costing and risk-adjusted costing, risk management, effective risk allocation, risk sharing, contract negotiation, development, ongoing contract management and value for money of various procurement methods. Over the last year or so we have had an enormous amount of evidence about different opportunities or options for better delivery of major projects: alliancing versus PPPs versus design-and-construct bundled projects and so on. Those are just some of the elements we are seeking to have a, if you like, discussion about this morning, and necessarily the committee needs to have a better understanding of the processes DTF undertakes in relation to its core responsibility to advise government in regard to each of the projects that go forward.

I am using the Department of Transport example because we have just had a hearing with Jim Betts. The nature of the questions to the secretary of DOT were around the issue of the skills that exist within that department. I am going to have to verbal him, because I do not have a transcript to quote. For example, the question was: with the major blow-outs in costs for myki — and I think it is understood that essentially that relates to the early stages where there was a far too optimistic and totally unrealistic time frame established, the result of which is that there have been incremental costs over time — why is it that that occurred? Was it because there was not a skill set within DOT to be able to make the appropriate, impartial, objective, non-optimistic assessment, rather than being pushed along by the enthusiasm of those involved in the technology side of it? Equally, why is it — because assuming DTF concurred with the general proposition advanced by DOT in regard to that project, for example — that in that assessment there was not a more sober or conservative view, because the Treasury is always noted for conservative views? I am using that as an example to try and get this discussion going to help the committee understand the way in which DTF undertakes that sort of analysis.

Mr HEHIR — That is a very large field of question.

The CHAIR — It is.

Mr HEHIR — I am thinking of how to segment it down a little bit. The start of a process for considering a new infrastructure project largely commences for DTF when a department puts on a broard agenda that they want something to happen. In the current processes that basically is when they seek approval effectively to get a business case developed up for the project. When we do that, the skill and expertise Treasury brings to the table is looking at priorities across the whole of government. I am going to dismiss that phase, because I do not think that is what you are talking about.

When a project comes to government with a business case for approval is the key bit in our process. What Treasury tries to do in that component is twofold — firstly, to provide clear guidance to departments about what a good business case should look like and, as we talked about at the last hearing, during the process of going through the development of things that we consider meet the high value high risk category, we would be working with departments through the business case development phase trying to make sure it is scoped appropriately and all those factors are dealt with. When it gets to government, if government makes a decision whether it wants to do it or not, it has a realistic project on the table where the government is getting advice that it can be done within the terms of the business case. That is what we try to do. Your question is why does that not always pan out that way?

The CHAIR — To help your level of comfort I might say that the evidence we have taken over the last year is that there are a lot of projects in other jurisdictions that have the same challenge, so I am not suggesting that there is a fundamental deficiency in the Victorian DTF. I am saying there is an issue around major projects where there is an inherent optimism at the outset, and often there is disappointment.

I am trying to drill into what are the skills within DTF that would help DTF be able to provide advice to government that indicate that DTF has sufficiently examined the detail of a proposal that the advice going to government is qualified by people who have the necessary skill set to do that. For example, if it is a PPP that they are informed sufficiently and equally in terms of the relationship with the private sector, or in the case of myki, which is a design and construct-type model, why is it that it was not understood how optimistic the initial proposal was?

Mr WEBSTER — Picking up on that, if we look at the robustness of public sector comparators, for example, one of the things we have introduced over the last 12 months is getting more technical advice from external consultants. Picking up very much from my banking background where prior to going to credit committee the bankers will get technical advice on the robustness of the cost estimates, robustness of the operation proposed, et cetera, what we have done is picked up a number of those scopes of work and said, ‘Well, let’s do this up-front and have that level of QS drilling down into the capex and opex to get some more robustness’, or to try to make sure that we are getting as robust advice as possible. A variety of skill sets are needed at that stage — the contractual advice and the frameworks we have around PPPs and alliance and traditional contracting there is a good deal of understanding and a good number of people up the learning curve in terms of what makes robust contractual positions. It is continuous improvement, that use of supplemental technical advice where we do not have the expertise and it is not cost effective for us to have QS’s just sitting around inside Treasury, because that is not what we do. There is an evolving process.

The CHAIR — I am trying to tease that out. Would you like to set out for the committee what sort of process you would wrap around a project like HealthSMART, for example, or myki, which are two ICT-related projects? What sort of process do they go through in terms of the assessment that is made to get the imprimatur of DTF before the project goes forward to cabinet?

Mr HEHIR — What David can do is talk a little bit about that in the context of what we would do now and what we think is the right way of doing it now. Maybe after he runs through that we will talk a little bit about what is the change.

The CHAIR — That is a useful way of approaching it.

Mr HEHIR — What we think are the key changes compared to what we have done in the past.

Mr WEBSTER — Let us come back to the ICT examples after we talk about PSCs in general. Across the board there is a lot of literature around optimism bias, and it is seen within the public sector and the private sector. When the UK Highways Agency started to go out and do PPPs they went back and did an analysis of traditional procurement: the difference between out-turn costs and early estimates and business case stage. On average they were finding there was about a 30 per cent or 35 per cent optimistic bias. What they did for the public sector comparator purposes was add in a 30 per cent weighting for optimism bias on the capital costs. There are a lot of risks around that in terms of it encouraging — —

The CHAIR — Leveraging.

Mr WEBSTER — Exactly. You get this feedback loop of optimism bias in there, so there is undercooking et cetera. In terms of that risk adjustment, I do not think that is appropriate.

Also at the outset the level of design as you move through the business case process down to the bid changes quite dramatically. At the business case stage you will know you need a 360-bed hospital. You have got some rough benchmarking costs that similar hospitals of similar square footage costs about this much. As you go through the process the design gets more and more detailed in terms of the number of rooms, layout et cetera, so the level of design detail becomes greater than the cost, and certainty around the design detail comes as you go through the process. So when you start out, the level of inherent error around any estimates is greater, plus or minus X per cent, and as you go through the design process that path actually narrows down.

In terms of an ICT project, again, it is very much working with the technical experts, notwithstanding what the up-front design criteria are. In terms of ICT at least my thinking is evolving in terms of what the best way is to procure those, and what we are looking at is actually breaking those down into more bite-size pieces. Rather than going out for large-scale ICT projects, it is having more breakpoints — having more defined options — to exit, rescope and redevelop. I think ICT projects and construction projects are very different in terms of the levels of risk, in terms of the level of certainty you can get at the outset and in terms of scope.

Mr HEHIR — I think the thing which is evolving, which David has talked about and as he said, is that what you get at the business case stage, which is where projects basically start going to market, tends to have a lower degree of certainty around it than when you go to market and as you go through more design components of it. What we have done over recent years is try to become more explicit around the risks of meeting the project outcomes in dollar terms, largely, when we are at the business stage, so we tend to talk a bit more explicitly about what sort of probability rating there is around numbers at that point in time. Since something like myki started we have become a lot more explicit about that. Joe, would you agree?

Mr MONFORTE — Yes. We recently issued draft guidelines around costings in developing business cases and specified what we expect in terms of development of the costings, ranging from a base cost estimate but then rigour in addition to that around a risk assessment and contingency provisions and requiring external validation around the rigour — —

The CHAIR — Sorry to interrupt. How is this substantially different from the protocols that would have been in place when decisions, for example, around myki or HealthSMART were made? What is materially different, in summary?

Mr HEHIR — I think we are a lot more explicit about the risks that sit around the numbers. Over time we have required departments to become, in building business cases and putting things forward, more explicit around the risks and trying to put some value around those risks a bit more so that when government makes a decision at the business case stage it understands the risk factors around it a lot more.

I think the other thing David alluded to was that to some extent what Treasury has been doing and is moving towards doing more now than it did in the past — and this is particularly the case in very large projects — rather than just relying on the analysis in the business case the department puts forward and then us reviewing that and checking out its rigour within the internal capacity of DTF, is bringing in some external advice to basically do a second check on it.

Mr WEBSTER — Due diligence.

Mr HEHIR — So getting a second opinion on what the department brought forward. Previously — —

The CHAIR — Sorry. I am choosing my words carefully. I am not reflecting on the capacity of the officers in DTF, but there are two interpretations one can take out of that. One is that you do not have the skill set within DTF to do that comprehensively, or what you are really doing is setting up, in effect, an audit process.

Mr HEHIR — We would not want to have the skill set in DTF to do this at an ongoing staffing level, because we would not utilise it efficiently enough, so it is more cost effective for us to contract it in on a case-by-case basis. The skill set we try to develop is at a much more strategic level and detail, so we want people who know what a good business case looks like and can analyse it and identify where a problem might exist. Then if drilling into it needs to be done, that is when you either get the department to redo stuff or get experts in on the particular area where you have a concern. So in a business case analysis we are trying to increase the capacity of our people to know what a good business case looks like and where they should be focusing their attention, and that is the key. In Joe's area, looking at the HVHR stuff, that is the key thing they focus on.

Our skill base in the PV-type area is around the contract design: what is the best commercial, go-to-market strategy? Our people there are highly skilled in that, but they are not quantity surveyors, nor do we want to have that type of technical skill, because it would just be too expensive to keep it in there. It is quite expensive in public sector terms. I am not certain we would be able to afford good-quality staff on an ongoing basis.

Mr WEBSTER — Yes. Just picking up the analogy back to my banking career, before you went to credit committee you would have commissioned a number of reports on the robustness of any proposal. In a lot of ways it is good to potentially have a technical adviser who has worked on a hospital in Queensland or a prison in Western Australia to give you some relative benchmark costings et cetera. The key skill set is actually knowing, in how to commission the report, what terms of reference should be and the level of sophistication and inquiry into the results of that. When you do get the due diligence reports, it is having the expertise and the experience to actually read that and know what is in there and which buttons to actually press.

The CHAIR — Before I call on the deputy, I am particularly just wanting to put the context so you know why we are asking these questions. It relates to the evidence we have been getting about the case, which has been made quite strongly and is within our terms of reference, to have a look at centralising those skill sets — centralised versus decentralised models for delivery of major projects. The question arises out of other jurisdictions like Ontario and British Columbia, for example. Is there a case to be made for gathering up all of those people across the sector who are involved in major project delivery? The question is relevant to DTF as well. Are there people within DTF who would be able to find a greater degree of continuum, if you like, of expertise by being exposed on an ongoing basis? But that is really not a question; it is an observation. We are trying to resolve those sorts of issues.

Mr HEHIR — Can I just make an observation on that?

The CHAIR — Sure.

Mr HEHIR — As we talked about at the last meeting, Treasury's role is not the delivery of projects; our role is to try to give government assurances around the allocation of resources and the capabilities there to deliver. I think the question 'Does government have enough skills for the delivery of projects?' is a good one, as is whether consolidating them is important. Within Treasury the process we need to do, I think, to add value, is one separate from that; it is a sort of second-guessing, oversight one.

The CHAIR — Yes; accepted.

Mr PAKULA — Secretary, we spoke to a range of auditors-general in the jurisdictions we visited both in BC and Ottawa, and Mr Morse in fact — —

The CHAIR — Good question.

Mr PAKULA — Mr Morse in London. It is clear that in regard to PPPs or P3s or PFIs as they are described, there is certainly an ongoing rethink occurring amongst various jurisdictions about their efficacy or the way they are designed — whether there is a bigger capital payment into construction to defray the long-term costs et cetera. But one thing that is not entirely clear, and I would be grateful if you could just clarify the situation as it relates to Victoria and perhaps take us through how it might have changed as accounting standards have changed, is the on-book, off-book nature of a PPP for the state: if a project is done as a PPP, how it is booked, when it is booked, whether it is on the state's book as debt, whether it has an impact on credit rating agencies and how that has changed over time?

Mr HEHIR — For us it has not changed very much in substance since the late 1990s, I think. Our standard procedure for a PPP is that when the business case is approved and the government goes to market we treat it as if it is a state build project, and we keep it in our forward estimates as if it was a state build. The decision is made, effectively it is an increasing debt through an increasing cash requirement being funded and all of that. When it gets to contractual close — —

Mr LOOS — Financial.

Mr HEHIR — Financial close, we flip it over to a finance lease. We withdraw the capital expenditure from the cash flow statement, in effect, and replace it as a finance lease on the date of the estimated contract completion or construction completion.

Mr LOOS — At financial close it sits in the notes to the accounts — note 33 — and the actual finance lease and corresponding asset is recorded once the facility is completed at commercial acceptance.

Mr WEBSTER — So it is on balance sheet; it gets treated by the rating agencies as debt for the purposes of state metrics, which is in contrast to the UK, where PFIs have been off balance sheet and continue to be so. The only exception is the toll road concessions where the accounting standards at present, and they may change in the near future, have the debt of PPP companies — toll road concessions off balance sheet.

Mr HEHIR — That is because they are fully financed. The toll component of it is effectively fully financed off the state accounts.

Mr SCOTT — Is that then more analogous to a public non-financial corporation or public financial corporation as opposed to the general government sector?

Mr HEHIR — No, they are not in the public sector whatsoever.

Mr SCOTT — But in terms of not being in the general public sector because they are not being financed by taxpayers dollars, in effect.

Mr HEHIR — For example, if in building a toll road the state makes available a lump of land to the concessionaire, that would be treated within the general government sector or within the public non-financial corporation sector as an asset free of charge and have all of the debt implications, so that would work. But because the bit that is being financed by the toll is completely financed outside of the general government sector, that is not the case.

The accounting profession is looking at two things at the moment: one is entry into a toll road PPP in 20 or 30 years time when the asset reverts to the state and whether that reversion to the state should be — what is the word?

Mr WEBSTER — Give rise to an asset or liability.

Mr HEHIR — Rather than coming onto the books right at the end, whether the asset should be amortised over the life of it — so that should change — and given that is occurring, whether an associated liability should also occur. There is a question over whether the asset and liability should come onto the books over time. Another option is to treat it as other PPPs in general.

Mr PAKULA — I just want to pursue this. For those of us who are not as au fait with double entry accounting as perhaps Mr Angus is —

Mr ANGUS — There are a very few of them.

Mr PAKULA — and who are not Treasury officials, can I just ask: in a nut shell then, is what you are saying that apart from these toll road projects, which are treated somewhat differently, all other PPPs make no difference to the debt profile and/or the credit rating agencies' view whether they are done as a PPP or as a traditional government build and construct?

Mr HEHIR — That is right. Conceptually you could have things other than toll roads whereby you are giving out a concession and they are producing revenue, but basically we treat them as if there is no difference, and in accounting standards there is no difference between — —

Mr WEBSTER — I will clarify that. With a PPP the liability gets capitalised as a lease liability, whereas if it is done as a traditional procurement, it would just be an increase in net debt. Now the lease liability and the increase in net debt will be in the same ballpark but they may not come up as exactly the same number — —

Mr HEHIR — Sorry, but the finance lease does go against debt.

Mr WEBSTER — Correct.

Mr SCOTT — Could I just ask for clarification on exactly that point? The calculation of the quantum of the debt related to the finance lease: how is that calculation undertaken?

Mr WEBSTER — The accountants actually split the availability payment into an operational portion, the capital portion, and then they capitalise the capital portion using the weighted average cost of capital of the vehicle. That becomes the lease liability — —

Mr SCOTT — Relating to its actual cost rather than — —

Mr WEBSTER — Relating to the availability payment the state pays to the concession. Is that right, Jason?

Mr LOOS — Yes.

The CHAIR — Just to use a case study, when does the desal plant fully come on board in those terms?

Mr HEHIR — It is on; 12–13 is when it is expected to be operational, so it is coming on this year.

The CHAIR — How will that be treated — I do not quite actually understand — in terms of the impact on liability, given the contingency of the lifetime payment schedule — —

Mr HEHIR — As David was saying, there is a payment required from the state to AquaSure. That payment is split between an operational component and a capital component. The capital component becomes a finance lease, so it goes against debt. The operational component is just treated like any other operating expense.

The CHAIR — And it cannot be anticipated because it depends — —

Mr HEHIR — No, we know the vast majority of it; what we do not know is the bit that is — —

Mr LOOS — The variable.

Mr HEHIR — The variable component. But that is operating.

Mr SCOTT — Just a final clarification on that, are these calculations or the components of debt that relate to PPPs published in any form that would be available to the committee?

Mr HEHIR — They are in the — —

Mr WEBSTER — Notes to the accounts.

Mr HEHIR — Notes to the accounts.

Mr SCOTT — But broken down by project?

Mr LOOS — So in the notes to the account, Note 33, between financial close and commercial acceptance there is a clear breakdown, project by project, of the PPPs. Once it gets to commercial acceptance it is captured as part of the department's or agency's assets and corresponding finance lease liabilities, but they are individually split out in the commitment note, note 33, prior to completion.

Mr SCOTT — To the annual financial report?

Mr LOOS — In the annual financial report.

Mr HEHIR — I think it is also available in the PPP summary.

Mr LOOS — Yes, in the PPP summary we go into a bit more detail around the actual project, a summary of the project — the contractual elements, commercial elements, the public sector comparator and the value-for-money-type calculation.

The CHAIR — Are you ready to go? I will come back to you.

Mr PAKULA — I am staying on PPPs.

Mr ANGUS — I want to depart from that and turn to your original line of inquiry and particularly to clarify the role of DTF. I know there is obviously a line in the sand from when there was a change of government and the new high-value, high-risk unit and so on. I want to go back and look particularly at the myki example and get some further explanation from you. I understand from evidence that has been given previously that DTF did have a role and that it had people involved in that process virtually right from the start. My question really is around: what alerts did you, as DTF, raise in relation to the problems that were evident early in relation to the myki project? Can you just flesh out your role a bit more there. Did you raise things and were ignored? What happened?

Mr HEHIR — I think we started to get into the issue that came up at the last meeting. The advice that we provided to the previous government on projects is not something that, under the guidelines, I am permitted to talk about. The things that we would have been providing advice to the government about in the context of a project like myki would relate to the robustness of the business case. In that particular project, because of its complexity around governance — governance is important in all projects — in that particular project governance was a very important element to it. My recollection is that the Auditor-General's report made some significant commentary on governance with respect to myki.

Mr MONFORTE — I am not sure — —

Mr HEHIR — Not sure? I think it is around the board and then the switch to TTT as the governing body and those types of issues. In my recollection there were significant discussions in the early phases of that particular project about the form it would take. One of the challenges with projects which have a strong IT component is around the extent to which you do off-the-shelf versus trying to create something more bespoke for your own specific circumstances. My recollection is that there was a lot of debate around those types of issues.

Mr ANGUS — As to the new structure, the HV, high-risk, can you give me a comment as to how well that is working and how the departments are receiving your input in relation to projects coming under that?

Mr HEHIR — I think to date we would perceive that it is working pretty well. I think departments are comfortable with the framework. Joe, do you want to — —

Mr MONFORTE — I think that is generally right. I mean we have always, as you have gathered, been involved in providing advice to government on projects. This adds a more formal step. Some departments were a bit more reticent, or may have seen that as a bit of added bureaucracy, but I think they have accepted that it is government policy and it is required under government policy. Generally departments are working quite well with us in implementing the policy, which is particularly around us engaging early and around going through the approval steps that are required at various stages in the project's life cycle.

Mr ANGUS — So that would be seen as a significant improvement in the whole process, really?

Mr HEHIR — I think we have talked in the past here about the fact that over time we have continually tried to improve the process, and we continue to do that. If you are looking at the high-value, high-risk, you would have spoken to people in the UK about their new framework. A lot of what we are doing is very similar to what the UK is doing in their new framework. They have got some other things in their processes which we have not included to date, but they are very similar in intent in lifting the rigour. It is basically experience from around a whole pile of jurisdictions that is leading to moves down the path of what we are trying to do with high-value, high-risk.

Mr PAKULA — I want to go back to the PPP thing. It was interesting from our conversations that about the only thing that was consistent across all the conversations was that auditors-general seemed to have a — I am trying to be kind — sceptical view about the value of PPPs. They looked not just at the premium that is paid for the risk transference to the private sector but at the premium that the private sector pays for financing compared to what the government could pay.

There was an example put by the Auditor General of British Columbia about a particular project where the financing fell through and the government ended up having to do it itself and — I think in the words of the Auditor General — saved some hundreds of millions of dollars because the government's ability to finance the project was at a much cheaper interest rate than in the private sector, and it was delivered just as well. The general view was that in terms of the risk transference you could get the same result by putting appropriate incentives in a D and C as you can in a PPP. It is fair to say that the private sector had a very different view, particularly one organisation that has a strong involvement in PPPs.

I would be interested in your comments about that, particularly given what you have already said about the fact that it makes no difference to the on-book nature of the project, whether it is a PPP or a government bill. And on the premium that is being paid for the private sector to go out and raise money versus what the government could raise it for, and whether there is any evolution in thinking about that going on.

Mr HEHIR — In Treasury I believe we are pretty neutral between Partnerships Victoria or PPP approaches and doing it ourselves. We try to do it simply on a value-for-money basis, and that is the approach we have always adopted. Because we have always had them on our books, there is no budget advantage to it, unlike places like the UK. So we have always been pretty neutral. Before the global financial crisis the ability of private providers to compete against public sector comparators was much greater because the spread between government finance and private finance was a lot narrower. The amount of value that the private sector could get through innovative practices and therefore cover off the cost-of-capital component was much smaller, so they got over the line a lot better. Since the GFC the amount of extra value they have to get through the construction delivery phase to pay for the higher financing has made it tougher on projects, and we have seen that on a number of things. That is leading to all jurisdictions around the world looking at the model and seeing how sustainable it is if risk premiums are going to widen out to the extent to which they have done and stay that wide over time.

Mr PAKULA — Except some would argue that the model just gets tweaked to make the PPP stand up.

Mr HEHIR — I do not believe that we do that, but I know that people say that is the case. I might hand over to David, who can — —

Mr WEBSTER — I suppose just two observations. I think the first one is that in corporate finance 101, week 1 at university, everyone gets taught that the risk discount rate you should use for a project depends on the riskiness of the project. The whole debate around the idea that the government can borrow money cheaper completely ignores the point that the risk of the project is the risk of the project is the risk of the project. The discount rate you should use to evaluate the project should be appropriate for the risk. The fact that the government can borrow cheaper than that does not impact on the economic analysis of whether it is a positive NPV project or what the appropriate discount rate is.

In terms of how the market has developed, pre-GFC, particularly in Europe, there were long-term tenors available for financing. So you would have 30-year concessions and 27-year debt at cheaper margins. What has happened post GFC, particularly in Australia, is that the tenors of the debt that the PPPs have been able to attract have become a lot shorter — five to seven years is the sort of norm — and the margins on that have become more expensive. In terms of looking at those structures on the Bendigo hospital, for example, we have asked the private sector to come back with a bid where we actually put in a government contribution at the end of construction which lowers the capital at risk. That is really appropriate on a case-by-case basis in actually looking at how much risk that private sector special purpose vehicle is taking. What is the appropriate amount of risk capital in there? And it actually lets us look at ways of getting the appropriate amount of risk capital in that particular vehicle, but that may vary on a case-by-case basis. That is a variant that we are actually looking at in terms of an evolution of the model.

Mr HEHIR — Within the risk transfer component, it is probably true that the amount of debt and equity that you need sitting behind a structure during the construction phase is much greater to get risk transference than what you probably need during the operational phase. During the operational phase you need enough debt and equity sitting behind there basically to ensure that if a problem occurs in delivering the services, they can stand up even if the service payments go down a bit, so that the amount of debt and equity does not get chewed up too quickly if there is a service delivery problem, and also to ensure that at the end of the life you get the asset back at the value — —

Mr WEBSTER — Or the condition.

Mr HEHIR — Or the condition that you specified. So if you do not leave some debt sitting there, you will reduce the incentives of the banks to keep equity under control and do all that. A lot of the debate around the place is, 'Well, how much debt do you need to keep the commercial risk in place?'.

Mr WEBSTER — Picking up on one of the other points, I think PPPs work best where there is a reasonably substantial operations piece attached to the PPPs and where actually the private sector is looking at whole-of-life costings, so they are able to do that cap-ex versus op-ex trade-off and they are actually looking at making the design and making the whole layout more efficient as far as the operating capability goes. Some of the best examples are some of the UK prisons when there was a lot of design innovation to allow operational efficiencies. Again, there are some outstanding PPP hospitals around the world where actually the innovation in terms of driving better clinical operations and facilities management operations has led to design innovation. Where it is an exemplar is where you do have that mix of a chunky piece of operations with the D and C. Where it works less well is where you have a very small operational component longer term compared to the up-front build amounts.

Mr PAKULA — Jason, you look like you are busting to add to something.

Mr LOOS — No, no.

Mr SCOTT — I seek clarification on one matter. You touched upon the skills of the people working within Partnerships Victoria, and in particular I think you are referring to public sector comparators. At that point there was discussion around that issue. Being a sort of empiricist by nature and wanting to seek a differentiation between opinion and evidence, in Canada we received evidence that there had been actual projects that had been stopped as a PPP due to the public sector comparator, and we heard further evidence from the OECD that this was actually quite extraordinary and unusual. This sort of leads to that sort of argument about how real a public sector comparator is. Are there examples in the Victorian jurisdiction of projects that have ceased to be PPPs due to the public sector comparator process being delivered through other vehicles?

Mr WEBSTER — No.

Mr HEHIR — No.

Mr LOOS — Previously in Victoria, the first time a third international container terminal at the Port of Melbourne went out to market — that was early 2000s, I think — that was a PPP but we did not get the EOI responses at that time.

Mr HEHIR — Melbourne Markets went from a PPP to a — —

Mr LOOS — Traditional.

Mr SCOTT — But that was not through the public sector comparator process.

Mr WEBSTER — But equally speaking, for example, the UK, once they have made a decision to go down a particular procurement route, they do not reprosecute that at a later stage. We do not get to the point of being about to sign a D and C contract and then do an analysis of, 'Actually, should we have done this as a PPP?

Would it have been better value as a PPP?'. Similarly, for an alliancing contract, we don't get to the point, just before we sign an alliancing contract, of saying, 'Should we have done this as a traditional procurement or as a PPP?'. PPPs are the only procurement route where you have this test at the end of, 'Should we have done something else?'. Every other type of procurement, we just get on with it and do it.

Mr SCOTT — It was just almost extraordinary, because when we spoke to the OECD they had almost never heard of it appearing like that. The evidence in Canada was that they had actually reached points. From memory, I think it was Ontario, and they just decided to turn around and say, 'No, this is actually not going to give you value for money'.

Mr O'BRIEN — I just wanted to draw you back to the discussion about the capital asset pricing, and pick up some of your comments about the weighted average cost of capital, particularly in relation to comparisons with the work that the High Value/High Risk unit is doing now and some of the work that may have gone on in relation to these projects. It is my understanding that the issues in that model involve the assessment of risks and beta calculations, leverage betas and ratios between equity and debt, and comparisons to specific stocks, trades and portfolios, and wherever possible, if assumptions can be firmed up with the actual data that assists in the robustness or the accuracy of the risk assessment and therefore the project capital price, essentially. Is that the issue you are touching on, or one of the issues?

Mr LOOS — There are probably three elements to that. In terms of the public sector comparator, the first part is pricing the real construction, the construction-related risks, and then the maintenance and operational risks associated with that. That is the hard-core cost, leaving financing aside. You then have companies that invest in PPPs that have their own internal rate returns and they have their own weighted average costs of capital based on an aggregate of their investment portfolio, and that changes depending on the investment type. You then have an analysis on discount rates that we use to then discount, if you like, the nominal cash flows that bidders bid back on PPP projects to do the value-for-money assessment.

In coming up with the discount rate, there is an analysis of the systemic risk, and that is where betas come into play. But that is around systemic risk, not project-specific risk; for example, that the cost of concrete has gone up. That is actually costed in our benchmark in a real sense.

Mr O'BRIEN — I would like to talk about not just the PPP but the business case generally. One of the issues has been not just the question of a business case but the robustness of that business case, and particularly when a government decision is made in relation to it. We have received evidence that on one project, food bowl modernisation, the decision to enter was done prior to a business case being done, and on another one, HealthSMART, there is a 14-page spreadsheet-type business case. There is a live question out there on the importance of a robust business case. Is it the case in a sense that the more the feasibility or the assumptions can be based on raw data or experience of the lead agency, the more likely it is that you will have a successful project in comparison to its business case?

Mr WEBSTER — I think the secretary's evidence on that was clear last time, and that is that the more evidence and data can be gather up-front in the business case, the more likely you are to have a successful project.

Mr HEHIR — What we try to do in assessment is basically say if you are at an early stage of the development of the business case, then the likely variation around any particular number is greater. When governments are making decisions — as I have said a few times during this inquiry — there are undoubtedly times when governments make decisions without full business cases. Because something is urgent, critical or whatever, they make the decision to do it. What we try to do is say if you are in that space, you are not talking about a range of $100 million around a possible business outcome but maybe $200 million or $300 million, because that is the nature of the information that you have. Our role is to provide the sorts of boundaries around which governments can then make a decision. Absolutely the more information you have, the more certain you can be — the more rigorous the business case, the more certain you can be about things.

Mr PAKULA — I just want to go back to a comment you made, David, and ask you to expand a bit on this notion of the market pricing of the risk and the rate the government can get. Can you just elaborate on that a bit, because it would seem to the layperson — and on these matters I consider myself to be one — that despite the fact that the market might price the risk at the rate that the private sector can borrow money, if the government can get the money at a lower rate, that will make the project cheaper. Can you just elaborate on why, in your view, that is a false economy?

Mr WEBSTER — Okay. If BHP is developing a new mine somewhere, the appropriate discount rate for it to evaluate whether or not that is a sensible economic thing to do is not the BHP cost of funds, it is what the inherent risk is in that particular project. So when they are doing their NPV analysis they will do some benchmarking around what is an appropriate discount rate for a new mine in Chile, for example. I think exactly the same level of analysis should be appropriate for the government as well. The appropriate discount rate for a project that we do should be based on what is the risk of that project. One of the advantages I see in PPPs is that the price of that risk explicitly comes from the market, and the market is telling us what it prices that risk at. The fact that we can borrow more cheaply is, in my opinion, irrelevant for deciding whether that is a sensible economic pricing for that particular risk.

Mr PAKULA — As Mr Scott alluded to before, does it become relevant when you are compiling the PSC — the relevant cost that the government and the private sector can borrow at — or do you discount that?

Mr WEBSTER — I will pass to Jason to talk about the technical discounting of PSC.

Mr LOOS — The public sector is built up based on, as I mentioned before, an analysis of an estimated construction cost of a state build, the operational maintenance component of that offering that we are going out to market over the 25-year period, and then a detailed analysis around the risks that we are anticipating transferring in the PPP contract. You then have to develop a discount rate which picks up the systemic risk associated with the transaction between the public and private sector. You then discount the PSC stream of flows at the 10 year TCV bond rate.

What the private sector comes up with is purely up to the private sector. They will have internal discussion with debt equity operational people, constructors, to come up with the best solution to deliver a package in response to the government's tender that gives them the best chance of winning. In that consortium they go through a lot of discussions around how they can shave a margin or two off their finance, how they can pull out a level of construction costs, how they can get the maintenance costs down.

In coming up with recommendations to government on PPPs when business cases are submitted, we spend a lot of time up front looking at the characteristics of the project. There is no point going with a PPP if it is a simple-type construction and you cannot get that design innovation in the actual consortium. Once the characteristics of the project show there is a detailed scope, there are risks you can transfer to the private sector; there is market appetite and commercial opportunities. They are the high-level characteristics that suggest we should probably interrogate a bit more on the PPP model.

In that you then develop the PSC. You do not specifically try to second-guess what the private sector financing is or what their construction cost is if you have the high-level characteristics that suggest you can extract value from a PPP process.

Mr PAKULA — This might be frustrating. I thank you for the answer, and I accept and understand how this might be frustrating for you because these questions might sound like we do not get it, but bear with me: I want to be indulged. I am struggling to understand, when you compile the PSC, to what extent the lower cost of borrowing that the state can attain is worked into the figures and worked into the model when you compare that to the cost of borrowing for the private sector. I am just trying to understand in very simple terms — if it can be put in simple terms — what sort of influence that has.

The CHAIR — I would suggest, naively, it is the same as a decision you might make, a private financier decision opportunity cost — that is, you might have the cash in the bank.

Mr PAKULA — That is great, Chair, but I want to hear from them.

The CHAIR — I am sorry; I am wanting to lead Jason into that sort of analogy.

Mr HEHIR — Can I just have a go? I know this is frustrating because I have been through this process and I sometimes do not know whether I have got to the end of it either. At the end of the day the answer is yes, but you have to take into account risk. If we just looked at any particular investment based upon our cost of capital without thinking about the risk that we are taking on by doing it ourselves, then we are going to underestimate the costs.

Mr PAKULA — Of course. I am not assuming it should be the only thing you consider. I just want to know what sort of an input it is.

Mr HEHIR — I will have a shot at this, and Jason can tell me if I am wrong. I would think the answer is yes, but we risk adjust it.

Mr LOOS — Yes, because your PSC discount rate is the 10-year TCV bond rate.

Mr HEHIR — When rating agencies look at us and what we do, they do not just look at your debt — they look at the process of financial management you have around the place. Part of the process of financial management is around how you value investments, for example. Similar to how you might treat a PPP, public non-financial corporations do not just get AAA-funded credit. The water sector and the port sector have risks associated with them, which the states are taking on by carrying that, so they have to pay for access to AAA. If we did not have frameworks like that around which exposed the sectors of the economy a bit to the risk framework we operate in, we would not be seen as having a rigorous approach by rating agencies. If you could just use your AAA to buy things, then you would buy it up to the point you lost your AAA.

Mr O'BRIEN — Some people do that.

Mr HEHIR — Some people do that, but that is not a prudent way of doing things. You have got to basically put a value around what access to AAA is worth for a particular investment. That is quite difficult to do with the general government sector, but once you get outside of the general government sector you can start to put value around those things not just for individual transactions but for entities as a whole.

Mr O'BRIEN — On that issue — —

The CHAIR — Briefly.

Mr O'BRIEN — This is picking up this optimism bias issue and discussions with Professor Flyvbjerg — I will leave that pronunciation to Hansard! There is one issue in relation to optimism bias. To me it is partially like if you have a golf swing hook, then you start aiming out to the right and hope that it will swing back. You might then hit it straight and it does not swing back, or you are not really correcting your hook problem. Perhaps one of the big differences that exists between the private sector and the public sector is that for very good reasons in the private sector the individual motivated within a project can retain profit. In the old discount cash rate and discount ratios, profit and risk were always the factors for constructors et cetera, and if you have high risk and you deliver a successful project, you get high profit.

In the public sector, when you have line agencies particularly, there seem to be some difficulties with that because we do not necessarily want the public sector to be motivated by profit as opposed to public good, and you have accountability issues in which Treasury plays a very important part in the base allocation of departmental expenditure. I am not going to quote the private sector always having a profit motive in making projects successful, but in that comparison issue how can we, if we are looking at the public sector delivery of projects — and this may be where PPPs have a role — properly incentivise and make government departments accountable for projects assuming we cannot have the same level of profit distribution and motivation that occurs in the private sector? Maybe it could be answered across the board. I see different nodding — —

Mr HEHIR — I think it is a very good question. One of the things that we confront is that the incentives are not the same all the way through a project. If I was to say what behaviour I observe from organisations, I would say that when you want to get something on the list to be considered, departments perceive that there is an incentive for the number to be smaller. We observe that a number of organisations think that they get a set proportion of the capital budget — they feel — and therefore if they can say that their projects have a lower cost, they might get more things into the queue. It appears to us — and this is one of the things that we try to manage by putting more rigour in — that the observed behaviour seems to be that at the front end of a process there are incentives to low ball costs.

At the delivery point the incentives reverse, because people do not want things to blow out and be seen as a failure, because within the accountability regimes that governments have there is lots of focus on, 'Did this thing cost more? Did the costs blow out?'. That has been increasingly the case over the last five or six years, not just in Victoria but across the board, so the incentives for departments once you get in the queue is to come up with a number which has large contingencies so that they do not blow out but go the opposite way, because people want to be perceived as successful.

What we try to do — and I think we observe these behaviours; that would be fair, Joe? — is build a framework of rigour of assessment which recognises that some of these things exist and give government advice which is closer to the actual, given the level of detail of the business case around it. It is a lot simpler clearly where you have got profit motives and profit incentives around those things. We do not have those things. When governments decide to do a project, it is usually for a very good social purpose, so we have got to try to build rigour around the process and some incentives for getting things right, rather than not blowing out or not underbidding to get there.

It is not a very good answer, because I think it is the eternal question that basically governments have been chasing for a long time in all of the resource allocation frameworks that have been adopted across government over lots of years, not just in infrastructure. The whole movement from input-based budgeting to outputs, to outcome-based budgeting is all around how you specify what it is and get the incentives right. We are working along that path as much as any other jurisdiction is at trying to get them right.

Mr O'BRIEN — Thank you for that answer. I do not know if Mr Webster wanted to add anything.

Mr MONFORTE — If I may, I agree with everything Grant said. Your set of incentives in the private sector are very different incentives that are at play in the public sector. No incentive mechanism is perfect, and no incentive mechanism is going to be able to avoid risk. Even in the private sector the profit incentive mechanism has not avoided cost blow-outs in project values. For example, the cost increases that beset the private contractors on the desal plant have been well documented. In the ICT space there have been numerous private companies that have gone into liquidation as a result of having entered into major ICT projects that have failed. There is no guarantee to project success irrespective of the nature of the incentive mechanism, which reinforces the importance of robust scoping and costing up-front, and putting a lot of effort and investment into that up-front scoping to minimise those risks as opposed to completely avoiding them.

Mr WEBSTER — Certainly incentives do drive behaviours, and there are different incentives in the public sector and the private sector. The best way of not making sure that the incentive structure in the public sector drives perverse behaviour is through having a very experienced project management team. If you have an experienced project director, he will have a view as to what makes a successful project and will be able to drive towards that outcome and get all the ducks lined up behind him in terms of what needs to happen. You are more likely to get perverse outcomes from the incentive regime where perhaps you have a less experienced project team who are managing different expectations or managing towards different incentives. But I do not think there is any magic bullet in this area. It is what it is.

Mr O'BRIEN — To draw upon that, I think you said 'he'. I am sure you meant to say 'they' or 'he or she'.

Mr WEBSTER — Generically, yes. Thank you.

Mr O'BRIEN — It is a very important issue. The other one is in the question of what procurement model to take for a particular project and the importance of identifying the scope of a project. We heard evidence from a previous witness about the relationship between DOT's policy or ticketing role and the procurement of an IT system for myki that perhaps was not fully identified as well as it could or should have been. Is it important that we seek to try to identify which risks are appropriate for the private sector to take on, the commercial viability risks, and what should be the public sector risk? Perhaps in explaining that you could explain how you work through some of these decision matrices in relation to procurement options.

Mr WEBSTER — Yes. The age-old adage in project finance or PPPs is that a risk should be managed by the party best able to control it. You are unlikely to get good value for money when you are asking a party to take on a risk which it has no ability to influence, manage or, in some circumstances, if they do, where the outcome is so massive that they are unable to bear the financial consequences. So in terms of the risk matrices, when PPPs first started out there was that process which was gone through to work out which risks the private sector could take and which risks should remain in the public sector. Very quickly standard documentation in Australia, the UK and Canada developed, because that path was pretty well trodden.

When you get to some of the alliancing contracts, some of the D and C contracts, which have not been done on a serial basis, you do have to go back when you are negotiating a contract to who can manage and control that risk and am I going to get value for money, in asking the private sector to take that particular risk. Often when you are negotiating these things at the death you will have that explicit conversation in terms of how much money is the private sector putting into their bid to actually take that particular risk, and you can have the conversation around, 'Well, I will that retain that and take it myself'. But that seems to be where you are not using the standard form contracts or it is a unique type of project. That would be my starting point for best practice for procurement and negotiation of risk.

Mr O'BRIEN — Very well. Thank you.

Mr MORRIS — Good afternoon, gentlemen. Can I apologise for arriving late? I had my own little ICT project blow-out, both financially and in terms of the time budget. Before you ask, Mr Angus, there was not a business case done first, so I only have myself to blame.

Mr Hehir, I would like to look at some of the issues around your most recent letter to the committee in terms of advice. As you know, we sought further advice and you have written back and said on the basis of your review of the document that we received on 3 August you were not going to provide any further information. I would like to explore some of the issues around that, if I may. I will list them off and then go to the specifics. It appears to me that in response to the further information we were seeking with regard to question 3, you indicated DTF provided advice on the desal project and the final decisions were made by government.

Presumably that is a cabinet situation. Question 4 was about work done around risk exposure, and presumably that has commercial sensitivity, and I think that is entirely reasonable. Question 5 was about the desal plant and referred to the gateway reviews. There is a comment in there that that information is provided to the senior responsible officer, not to the DTF — they go to the agency. That is fair enough. But with regard to question 8, there is a suggestion there that that information is confidential. With regard to the myki project in question 6, the response indicates that there was no formal assessment done but it appears there was sufficient assessment done to provide advice to government. Presumably that is cabinet in confidence.

Question 8 was about the ALCO consulting report and the audit review, which presumably were cabinet in confidence, and the gateway project had a confidential aspect again. Question 10 was about the Ombudsman's recommendations on the post-implementation review. I gather the response there indicates that the work will in fact be done as part of gate 6, but that confidentiality arrangements will apply. With regard to HealthSMART, a similar situation to myki applies where no formal assessment was done but sufficient advice was provided to government. Question 13 was about the gateways issues.

I think that pretty much summarises the information that the committee was seeking. There may be other documents in there as well. I will not ask you to elaborate on that. But I want to turn to the document that you quoted from entitled, *Guidelines for Appearing before State Parliamentary Committees*, which indicates that in part:

> The duty of officials is to assist ministers to fulfil their accountability obligations by providing full and accurate information to the Parliament about the factual and technical background to polices and their administration.

Paragraph 26 of the guidelines refers to select committees but I think would apply equally well to a committee like this one in terms of considering the terms of reference from the Parliament. Essentially what I am seeking to establish is the basis upon which you relied in your letter of 5 October. Paragraph 57, which refers to the Freedom of Information Act, notes that:

> In some cases, it may be in the public interest to provide to the committee a document or information for which exemption would normally be claimed under the act. The exemptions in the act should therefore be viewed from the perspective of the proper role and functions of the Parliament.

Further on that, in paragraph 72 the guidelines state that:

> … the public interest in providing information to a parliamentary inquiry may override any particular ground for not disclosing information.

We go to the options for withholding information, to paraphrase it, or not providing information — I am not saying that in a pejorative sense. That clause identifies, firstly, matters of policy, which is fair enough, secondly, the matter of public interest, and thirdly, when material is confidential, and then suggests that perhaps a private hearing might be a more appropriate course. Certainly in the questionnaire I can see one area of policy, the size of the desalination plant, and I do not quibble with that; that is fair enough. I do not think there are any confidential matters in the sense that a private hearing of the committee would elicit more information than we are able to elicit in a public hearing. I can only conclude that the information is not being provided to the committee on the basis of public interest immunity. Is that the basis of your decision?

Mr HEHIR — I think, as was discussed at the last hearing, the framework which I operate under is the set of guidelines, some of which you quoted from, which basically constrain the extent to which an official can operate. What I have tried to do in providing evidence to the committee is to operate within that framework. Based on that framework and the guidance provided to me, my understanding is that it is not my role to claim or not claim public interest immunity with respect to documents, and I think the chair pointed that out quite clearly at the last hearing when talking about how the framework operates.

Mr MORRIS — The framework says under the heading ‘When should evidence be withheld?’:

> There are three main areas in which officials need to be alert to the possibility that they may not be able to provide committees with all the information they seek, or may need to request restrictions on the provision of such information. These are:
>
> matters of policy;
>
> public interest immunity; and
>
> confidential material …

Mr HEHIR — That is right.

Mr MORRIS — My question is: which of those three?

Mr HEHIR — It is my view with respect to the information that we have provided, the reason is that the information may relate to cabinet and related conventions and the stuff that you have talked about there, and that the provision of that information, including the latest information — where you requested the titles of documents — would compromise the government’s ability to claim relevant exemptions. I think at the last hearing the chair summarised the position in that context. It is a subtle difference, but it is related to the government’s ability to claim public interest.

Mr O’BRIEN — Can I just clarify — —

Mr MORRIS — But you are not able to indicate to us on what basis? Rather than the detail that was requested in the subsequent letter, to which you responded on 5 October, you have clearly identified in the initial questionnaire where information cannot be provided — and I have basically summarised that in the preamble — are you able to tell us on a case-by-case basis why you have decided it is not appropriate?

Mr HEHIR — My interpretation of the request that you made, on the advice that I got, led me to the conclusion that if I did that, it may compromise the ability of the government to claim the relevant exemptions.

Mr MORRIS — That is fair enough; I accept that. I do not necessarily disagree with that, but in terms of the information that has already been provided to the committee, where the department has stated the information will not be provided, are you not able, perhaps subsequent to today’s hearing, to provide us with advice for each of those instances on what basis the information is being withheld?

Mr HEHIR — I might seek some clarification. Largely what our submission or evidence indicated was that in a number of areas — and you referred to them at the last hearing — we said information could not be provided because it was largely cabinet in confidence; that was one lump of things. The other bit that you referred to is the gateway reports. Can I just confer with my colleague for a second?

Mr MORRIS — Sure.

Mr HEHIR — I think in our answer what we have put in the document was basically saying, 'There are these things, they are not ours'. I do not believe we have gone any further than that. As we have said when talking about the gateway process, we facilitate a gateway review process for departments. Departments may have issues with respect to the exemption process around the gateway reports. We are just saying that — —

Mr MORRIS — So on the suggestion that they may be confidential, it is more accurate to say the information is not available to DTF and that we can make our inquiries with the agencies concerned?

Mr HEHIR — 'Not available' is probably an exaggeration, because I have a gateway unit that coordinates it, but the senior responsible officer is the person who looks after these things. It is more that.

Mr MONFORTE — Historically, for administrative reasons, we have held a copy of gateway reports. We are not able to read them; they are not our reports. So although we have a copy, it does not belong to us for us to release.

Mr MORRIS — Yes, I appreciate that, but I guess the gist is that it may or may not be confidential.

Mr MONFORTE — It is up to the department's judgement.

Mr MORRIS — And we should refer to the relevant agencies?

Mr HEHIR — We are not making comment one way or another with respect to them.

Mr MORRIS — And just to cover off on the final point, I am sure I do not need to say it to you and you probably do not need to say it to me, but for the benefit of the transcript, of course the same rules apply to cabinet records, whether they be of the former government or the current government.

Mr HEHIR — Yes. The only difference is that DTF does not have any records of the previous government.

Mr MORRIS — It is even harder.

Mr HEHIR — It is even harder from that perspective, yes.

Mr O'BRIEN — The same convention applies in relation to cabinet in confidence.

Mr HEHIR — The same convention applies, yes.

Mr MORRIS — Thank you for that.

The CHAIR — We are now out of time. Thank you very much.

Mr HEHIR — I will say with respect to one of our pieces of evidence, it has come to my attention today that on one of the issues there we said it was a document that went to cabinet. I will write to you and clarify that, but there is a particular thing which was prepared for cabinet but did not end up going into that process. It still falls in the same bucket, but the evidence there is inaccurate. I will come back to you and clarify that.

The CHAIR — Thank you. I thank the witnesses from DTF: Mr Hehir, Mr Webster, Mr Loos and Mr Monforte. Thank you for your evidence today. I am not quite clear if we left anything hanging by way of a question on notice, but we may write to you on a couple of follow-up issues shortly. We would be keen for you to promptly review the transcript so that we can finalise our evidence because we are on a deadline to report on this inquiry. Thank you very much once again, and I do not imagine we will be seeking to call you as witnesses a further time.

Mr HEHIR — Thank you.

Committee adjourned.