

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2002–03 budget estimates

Melbourne – 5 July 2002

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Witnesses

Mr P. Batchelor, Minister for Major Projects;

Mr J. Cain, Executive Director, Major Projects Victoria;

Mr B. McDonald, Chief Finance Officer, Corporate Finance Division; and

Ms G. Moody, Executive Director, Infrastructure Projects, Department of Infrastructure.

The CHAIRMAN — I declare open the Public Accounts and Estimates Committees hearing on the budget estimates for the portfolios of major projects and transport. I welcome the Honourable Peter Batchelor, Minister for Major Projects, Mr James Cain, executive director, Major Projects Victoria, Mr Bob McDonald, chief finance officer, and Ms Gail Moody, executive director, infrastructure projects, Department of Infrastructure, other departmental officers, members of the public and the media.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act 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 being recorded. Witnesses will be provided with proof versions of the transcript early next week.

Before I invite the minister to give a brief presentation on the more complex financial and performance information that relates to the budget estimates for the portfolio of major projects, I ask all present to ensure their mobile telephones are turned off.

Minister, would you care to give an overview to the committee of the portfolio area of major projects?

Mr BATCHELOR — Thank you, Chairman. I will be dealing with the major projects area first up and then transport subsequently.

Overheads shown.

Mr BATCHELOR — Major projects refers to a range of strategic property and economic infrastructure projects which are of a scale and degree of complexity that warrant specialist project management, advice and supervision. Within this portfolio these tasks and the service is provided by Major Projects Victoria and by specifically established statutory bodies which have been put in place to deal with Federation Square and Docklands.

The combined projects currently under way or in the pipeline within this portfolio area amount to some \$4.27 billion worth of public and private capital investment. This is a major component of the overall \$8.2 billion worth of major infrastructure projects that are currently in place in Victoria under the Bracks government. A lot of major projects activity both within the purview of Major Projects Victoria and in the broader context almost double that — around \$8 billion — is currently under way.

In most cases the capital funding for these major projects comes under a different portfolio or department. For example, the funding for the national gallery or the state library comes within the arts portfolio. Major projects provides a project development and management service for which it is paid. In some cases, however, such as the Melbourne Exhibition and Convention Centre feasibility study — a \$2 million commitment in the budget which will be carried out this year — and the siting of the soil recycling project, the funding is provided directly to my portfolio via Major Projects Victoria, which is now located within the Department of Infrastructure.

You will not find a complete list of major projects that we were working on under a single output group within the department or in the department budget papers, but they will be included in other portfolio budget papers. For example, the Australian synchrotron will be in Department of Innovation, Industry and Regional Development and the showgrounds will be in Department of Natural Resources and Environment, and so forth, depending on who is the lead agent. In essence, Major Projects Victoria acts as a client for these other government departments. What was achieved with the transfer of major projects division into the Department of Infrastructure in March of this year was the consolidation of the state's primary capability for strategic planning and delivery of major infrastructure and capital development projects within the one department here in Victoria. We believe it is a sensible realignment of the major project activity within the Department of Infrastructure — the one department.

The vast majority of the \$8.2 billion worth of projects currently taking place are really being managed through that process within the Department of Infrastructure. These projects have been chosen, worked up, developed and delivered in the context of the Growing Victoria framework. These are set out to provide more jobs and provide sound financial and project management thereby promoting sustainable development and building of communities. Examples of these have been the royal Melbourne showgrounds and the Australian synchrotron, which have been provided for in this year's budget.

During the past year projects within the Major Projects Victoria division have turned over about \$153 million worth of construction activity, and the Federation Square project has recorded \$122 million in construction expenditure; \$300 million of construction work took place at the Docklands, and of that \$275 million was provided by the private sector — that is MAB, Mirvac and Lend Lease primarily — and the other \$25 million was a public investment, primarily the Collins Street extension. This commitment by the government to extend Collins Street down to the waterfront has been crucial and fundamental in accelerating private development in the Docklands. It is our estimate that this \$25 million investment has triggered some \$4 billion worth of private sector activity. This generates a lot of jobs — about 3000 each year — and this has, as the committee would understand, a tremendous multiplier effect. It is potentially generating an extra \$1 billion worth of demand and an extra 13 000 jobs each year. The interesting thing about this is that the Australian Bureau of Statistics calculates that the investment in the construction industry can be multiplied by 2.9 to provide an estimate of the broader economic benefit that accrues to the community. Recently the Victorian Building Commission reported that public sector investment during 2001 was 30 per cent higher than in the previous year, so you can see a lot of activity is being undertaken.

I turn to the major projects division of the Department of Infrastructure and to some of the major projects that are on the books for 2002–03. As I indicated, either we will be fully project managing those projects or we will have a supervisory brief. This year they total about \$4.27 billion.

I will quickly run through where that \$153 million construction turnover has come from. We have completed the Sidney Myer Music Bowl at \$18.5 million; we have completed the construction of the Malthouse precinct at \$11.6 million, and the landscaping there is now under way; work on the State Library of Victoria is under way at the moment, and there was a terrific public response to the recent sneak preview of the dome, which will be fantastic when it is finished; we have completed the refurbishment of heritage buildings at Mont Park, which will be used to house the Environment Protection Authority research laboratories; we have completed a study which examined the options for redeveloping the Melbourne showgrounds, funding for which was successful in the budget, and I will talk about that more in a moment; and we are part way through the tender process for the Commonwealth Games athletes village. I will quickly mention the showgrounds, which I am sure will be of some interest to people.

Ms BARKER — Don't say too much.

Mr BATCHELOR — I will wait for later, then. The showgrounds are important, and that redevelopment will cost \$101 million. Equally important is the Australian synchrotron out at Monash. This is a humungous giant molecular microscope which will cost \$157 million. It is expected to bring about \$65 million into the Australian economy and generate up to 700 new jobs.

We are undertaking a second-stage refurbishment of the Melbourne Sports and Aquatic Centre. This \$53 million refurbishment is currently in the design process and it will be, of course, the centrepiece of Commonwealth Games aquatic activity.

Another component of the Commonwealth Games will be the athletes village. The originally designated site is the former psychiatric hospital site out at Parkville, but a final decision has not yet been made as to whether the Commonwealth Games village is to be located there or at the Docklands.

Some \$2 million will be spent this year on an in-depth feasibility study into the proposed plenary hall which will be designed to complement the existing facilities of the Melbourne Convention and Exhibition Centre. We announced in February this year that over the next four years \$60 million will be spent in the arts precinct to provide for a 1000-seat recital hall and a permanent home for the Melbourne Theatre Company, as well as various pedestrian infrastructure components of that Southbank area. Other major projects currently under way are listed on that slide.

The Docklands Authority is a separate specific-purpose agency which is responsible for promoting and facilitating development of the former port and railway land that is now referred to as the Melbourne Docklands. It covers an area of 200 hectares and at this stage nearly \$2 billion worth of construction work has either been completed or is under way at multiple sites all around the precinct. In fact, almost \$6 billion worth of work has been contracted and signed up for in the Docklands, the majority of which has been secured by this government. An average of 3000 on-site and off-site construction jobs are generated each year by Docklands-related activity.

The work of the Docklands Authority continues to chalk up an impressive list of achievements. Since June 1999 the amount of construction work completed or under way has more than tripled, and between \$300 million and \$400 million worth of activity is currently taking place in the Docklands in any one year.

The impact of this has been that \$5.9 billion worth of development agreements have been committed to date, and we expect that the final figure for Docklands will be in the order of \$7 billion in today's dollar values. The Docklands population is growing; a small community has already been established, and it has its first convenience food store there. About 3500 office workers and 3000 live-in residents are expected to be at the Docklands daily by the end of next year.

The significant thing, however, is that this development has already achieved a ratio of 10 to 1 in private investment over public investment for this project, but amazingly by 2015 this ratio is expected to increase to 70 to 1 — that is, \$70 private investment to \$1 public investment. This compares favourably with other major international and national waterfront renewals such as Darling Harbour or the London Docklands. Research has shown that these other developments have been able to achieve ratios of only 3 to 1. Clearly Melbourne is leading the world, and it is providing an enormous amount of interest to international visitors.

The CHAIRMAN — I am conscious of the time, so I ask you to conclude shortly.

Mr BATCHELOR — I want to make some comments about Federation Square, the other single-purpose joint venture company that has been set up to deal with this issue. That facility includes the Centre for the Moving Image, the National Gallery of Victoria's Ian Potter Centre for Australian Art, the headquarters of SBS television, a visitor information centre and a number of retail and food outlets. We are expecting it to have a spring opening.

The cost of Federation Square is a fairly important issue. The project costs are expected to arrive at between \$412 million as the lower estimate and \$428 million as the upper estimate, and they are made up of the figures that you see up on the screen. Essentially, \$394 million is public funding going to the construction of the project. Additional money will come from a loan capacity of the Federation Square management company and some \$9.6 million is to be obtained by sponsorships and other revenues — a requirement on the Federation Square management company. The state government contribution is \$280 million. If you want me to finish, I can finish there.

The CHAIRMAN — Can I take you to page 107 of budget paper 3, which has the 2002–03 outlook for Major Projects Victoria. Under the second dot point it lists the Spencer Street station redevelopment, which was announced earlier this week, and states:

... construction is scheduled to begin later in 2002 ... will be complete in 2005.

Given the announcement earlier this week, can you provide details to this committee of the funding arrangements for the new Spencer Street station upgrade and what the anticipated benefits to Victorians are?

Mr BATCHELOR — The redevelopment of the Spencer Street station is the biggest public–private partnership arrangement in Australia thus far. It certainly is the biggest here in Victoria. To understand how this will work you need to have a look at the funding to absolutely understand the concept of net present value (NPV), because you cannot understand the funding arrangements if you get confused by that accounting concept; it is also important to look at the risk allocation and who will bear the risk as a result of these contracts; and it is important to understand whether this is publicly owned or privately owned. Over the years there has been a series of different models developed by successive governments here in Victoria, in other jurisdictions around Australia and overseas to find the most efficient way of funding very large projects, particularly projects that have an operational or construction time frame over a long period of time. It is important to get an understanding of all of those elements to understand the process.

As part of the arrangement that forms the centre of the Spencer Street station redevelopment we went through a competitive process involving expressions of interest and a tender, where competing bidders were asked to provide the best value for the state of Victoria to win the right to: firstly, build; secondly, maintain; and thirdly, operate the station for a period of time. In this instance it was 30 years. At the end of the 30 years the station facility will be handed back to the state.

It is important to understand that it is not just a construction contract, and with that goes the financing arrangements, but it is also an operational requirement. That is an important aspect of it because it is an asset that will be built by the private sector. However, at the end of an agreed period of time this asset will be handed back to the state. So in order to make sure that we get an asset back in 30 years time that is still of value and still of use we have put in the bidding process a requirement that the winning tenderer operates and maintains the asset during that period of time.

Why is that important? It is important so that when they design it they will look at the whole-of-life costs to operate this facility, because they will be responsible for bearing the cost of those over the 30 years. In essence, when they are designing the project now it will be designed from the point of view of having an efficient whole-of-life operating cost. The operating and maintenance cost to the consortium that won, Civic Nexus, in net present value terms is expected to be some \$100 million.

We have got an arrangement where a capital facility will be provided and used by the people of Victoria and the public transport network. Not only is the cost of building it part of the deal, but also the cost of maintaining it, keeping it in a good condition and not letting it deteriorate as the current facility has been allowed to do by successive governments over the years. This is about establishing a community asset and then maintaining it over time. That is a critical element of this PPP, which is the Partnerships Victoria method.

You have to understand and appreciate that because it is an arrangement that occurs over time — that is, over 30 years — the value of money changes over time. The experience of recent history is that the value of money goes down. The value of our dollar today or when the project is finished in 2005 will be very different to the value of a dollar in 2035. So when working out the financial underpinnings of this contract everybody has to have an understanding that the value of money will change over time and factor that into the equation. Why do you have to do that? As you know, money does change its value. We can look at an everyday example. To buy, say, a Toyota Corolla in 1967 cost about \$1750, but if you buy that same car, in effect, today it costs some \$30 000. The value of money has changed over that period of time. Also, if you buy a house today you know that in accordance with history it will go up in value, and when you have it valued it in 30 years time it will be valued in the dollars of the day. For example, if you buy a house today valued at, say, \$250 000 — —

Ms BARKER — If you're lucky!

Mr BATCHELOR — You can get them in Thomastown for less than that.

The CHAIRMAN — In Geelong also.

Mr BATCHELOR — Not everyone lives in Oakleigh, let alone Kew. If you buy a house today for \$250 000, in 30 years time you know that if you were to sell it you would not sell it for \$250 000; you would sell it for its worth at that time. Again this is because money changes in value over time.

Understanding this concept of NPV was an important element in understanding the structure of the City Link project. When that project was developed it was always measured in the dollars of the day — they were 1995 dollars — and the value of it was recorded at that stage. The cost of that project went up because of the problems inside the tunnel, but when it was first developed the concept was valued at \$1.7 billion.

Of course, that will be closer to, I don't know, \$7 billion or \$8 billion in value by the end of the concession period. That is a concept the previous government understood — that the value of money changes over time. If you have any doubt about that you only need go to the 1994–95 annual report of the Melbourne City Link Authority where it makes the explicit point that in measuring the cost of the project you should be doing it in the value of the dollars of the day, not in the value of the dollars in 34 years time. This concept of how money changes needs to be understood as far as Spencer Street goes because we will be paying for this project over the next 30 years. The value of what that will bring to the developers needs to be measured in accordance with how the value of money will change over that period of time.

Another component of this project was to attribute the risks of the project to those who are best able to bear them. It is a common feature of contracts at the moment. Again going back to the City Link one, the construction risk was assigned to the builders. You will recall the problems with the Burnley Tunnel — it was the builders who had to pay for the repairs of that, not the state government. Although a commercial deal was arranged, much of the cost was borne by the builder rather than the operator, Transurban. The allocation of risk is very crucial. It is in contrast to the Federation Square contract where the previous government did not allocate the risks appropriately. Therefore, when problems have arisen during the course of the contract, the misallocation of those risks at the commencement of the process means that — —

Mr DAVIS — It is because you changed the shards.

Mr BATCHELOR — What was that?

Mr DAVIS — I said, 'Because you changed the shards'.

Mr BATCHELOR — That is absolutely false. That is not the cause of the blow-out at Federation Square, and I will come back to that. I invite you to ask a question later on as to why — —

The CHAIRMAN — If we can stick to Spencer Street at the moment, Mr Davis will get a question shortly and he may wish to pursue Federation Square.

Mr DAVIS — Just to be provocative.

Mr BATCHELOR — Unlike Federation Square, in this project, like City Link, the allocation of the risk has been determined before the contracts have been signed and they are well set out in the contract. In essence, the construction costs are a risk that will be carried by the builders who build this. The risks that the state can best manage are risks that will be borne by the state. All of the risks have been identified and allocated to the appropriate party, and that has been included in the contract — they have not been left to wander around and end up being handballed or passed back to the state as they have in the contract for Federation Square. We will not be negligent like the Kennett government; we have set out very strict parameters defining what the risks are, attributing them and signing them up.

Mr DAVIS — Can I just ask a question on the net present value of the concept?

Mr BATCHELOR — I will come to that. The other thing I wanted to note was the question, ‘Is this privatisation?’. Some people have misunderstood it as privatisation. It is not privatisation. It is a 30-year contract where the station will be leased to Civic Nexus but owned by the state of Victoria — the Spencer Street Station Authority will remain the owner. The only thing that will be different is after 30 years the building will be handed back to us for the state of Victoria to operate. What is the asset? The asset is a transport interchange. It has construction costs of some \$350 million. During the 30-year life of the project it will cost Civic Nexus some \$100 million to operate and maintain. That is \$100 million the state will not have to pay during the life of this 30-year concession period. Therefore, we are getting a much greater valued asset than the contribution we have to make. In net present value (NPV) terms this project to have a new state-of-the-art transport interchange will cost the state of Victoria some \$300 million, where in actual fact just the physical construction costs will be \$350 million in NPV terms to Civic Nexus and in addition it will have to pay \$100 million in NPV terms over the life of the concession period. In 30 years time, valued in nominal dollars of the day, an asset probably in the order of \$1 billion will be handed back to the state.

The CHAIRMAN — Mr Davis is seeking clarification in relation to net present value.

Mr DAVIS — Just to understand, your estimate for the net present value at the end of the construction period — 2005, according to the budget papers — was — —

Mr BATCHELOR — Sorry?

Mr DAVIS — Your estimate for the net present value at the end of the construction period was — —

Mr BATCHELOR — The net present value at that time will be the amount it has increased from 2002 dollars to 2005.

Mr DAVIS — What?

Mr BATCHELOR — The net present value is a concept of the value of the dollars — —

The CHAIRMAN — In 2002.

Mr BATCHELOR — Yes. The contract provides for the construction period to mid-2005 and we do not start paying our money until the facility has been completed, meets the standard and is made available. Then we commence our annual payments of \$34 million.

Mr DAVIS — Do you have an estimate for the value at the point of transition when the project is completed?

Mr BATCHELOR — We would have that; I do not have it here. Gail Moody might be able to help.

The CHAIRMAN — Could you provide your name and title for Hansard, please?

Ms MOODY — Gail Moody. I am the executive director of the infrastructure projects division of the Department of Infrastructure. I am also the deputy executive director of the rail projects group.

Mr DAVIS — That 2005 time line for the completion — it seems to me that a lot of other things will be coming on stream in and around the area and in Docklands, which is nearby. I want to know whether in the calculations that were part of the contract the department and you in particular made estimates of the spillover advantages to Spencer Street in terms of having greater population and other facilities in and around that are, in effect, being subsidised by the government in part.

Mr BATCHELOR — We have always seen this project, because of its strategic location between the Hoddle grid and the Docklands, as providing not only a transport benefit but also an economic benefit to the site itself. It is more than just the transport interchange: there are office, retail and accommodation developments that will take place. The current value of those in total is about \$700 million, all on the development costs on that footprint. However, it will also add value to the area, particularly the west end of the existing central business district, and encourage development there. The value of that will depend on how other developers consider that. Already a number of development proposals are being considered to redevelop that pretty shabby end of Melbourne. I cannot pre-empt what the value of those will be, but the value of that will be captured by Melbourne City Council through increased land values and in rates.

Mr DAVIS — The reason I ask that is to understand whether there is a further windfall to the people who have successfully tendered for Spencer Street, given the government subsidy of some other activities adjacent. Would you concede that?

Mr BATCHELOR — Which government subsidies are you referring to?

Mr DAVIS — Into some of Docklands, for example.

Mr BATCHELOR — The most important one, of course — to help you out — is the government paying for the cost of the Collins Street extension. That is a proposal that has led to enormous development taking place down in Docklands. With the design of the station itself, the transport interchange and the commercial high-rise office towers that I think are called Collins Rise, which will front Collins Street, they are being encouraged to make sure their design fits in with the new extension of Collins Street. But there aren't other government subsidies there.

I understand — and you can ask me about this again later — that the Leader of the Opposition today made an announcement about giving away, without going to tender, some Docklands land. We are very rigorous in our dealings with the Docklands asset and with making them put it out to tender. I understand it is your policy to provide an infrastructure subsidy to the developers there without going out to tender. So you have not learnt the old lessons. Haven't you heard about the proposal? I hope someone else asks me about the development in the Docklands later.

Mr DAVIS — On an entirely different matter, this government claims to be open and accountable but has forced the opposition to go to the Victorian Civil and Administrative Tribunal to find out how much James Cain, the executive director of major projects, is being paid. We have been given a salary range of \$170 000 to \$210 000. Would you at this point be prepared to detail that salary precisely? I also want to ask you about any bonuses that are associated with it.

Mr BATCHELOR — You are kept in the dark, really, aren't you? It is a bit of a tragic figure that you are projecting here, because that information on the salary of James Cain has already been made available under FOI.

Mr DAVIS — I am taking that figure from there, but the FOI is incomplete.

Mr BATCHELOR — In what respect?

Mr DAVIS — Well, the figure would be a good start.

Mr BATCHELOR — We provided the figure.

Mr DAVIS — That is the point.

Mr BATCHELOR — As I understand it, this was a request of the Department of State and Regional Development, now the Department of Innovation, Industry and Regional Development, and the information was provided. You know that yourself, because I understood you were the beneficiary of that information. If you are

not, you could get a copy of it from your colleagues. If you are uncertain, and if they will not give you the information, you could get it from — —

Mr DAVIS — I have all the information on this topic from my various colleagues, but the information is incomplete. That is why I am asking for the figure for Mr Cain.

Mr BATCHELOR — If you are worried about it and you cannot get it from your colleagues, just go to the annual reports of the department and you will find that it is contained there.

Mrs MADDIGAN — Just to help Mr Davis, because we did not get back to the earlier issue he raised in relation to the shards and the contract for Federation Square, there are a couple of points you could elucidate for us. Initially you could elucidate the differences in the contracts for Federation Square and, of course, the Spencer Street station; but there was also an assertion in the media that the government was planning to spend \$7.5 million for an opening of Federation Square. Could you give us some elucidation on both those points?

Mr BATCHELOR — Thank you for the question. Federation Square has been a cost blow-out. It comes about because the previous Kennett government commenced the project without finalising the contracts. It was set up in such a way that the levers that are normally available to control contracts are not available to the government on this one. What they should have done was novated the architectural arrangements into a fixed price contract and had that administered by the builder. That is the normal way that these sorts of design risks are kept in control. They did not do that. They kept that risk to be borne by the state, and as a consequence it is costing the state dearly to try to get this project finished. What do you do? You cannot, when having come into government with a project already under way and with very badly structured contractual settings — reckless in the extreme, these settings are — —

Mr DAVIS — You altered the settings and the contract.

Mr BATCHELOR — You have an asset that needs to be finished. We have done a number of things to try to rein in those problems. We have set in place a special purpose vehicle to do that — the Federation Square Management Committee — and we are trying to monitor things on almost a daily basis. Any discretionary design elements that are available to us are being curtailed, and we are trying to bring the budget in. If this had not happened, the cost of the project might have been \$600 million or \$700 million. That is not to say that Federation Square is not a wonderfully designed project — it certainly is, and when it is opened it will be an asset to Melbourne. But it will have been an expensive one, and I guess it will be remembered as a monument to the Kennett government not organising the contractual arrangements properly. As part of the mythology that surrounded that, there have been some assertions made that a \$7.5 million opening ceremony was going to occur. Nothing could be further — —

Mr DAVIS — It was in the report on ministerial portfolios.

Mrs MADDIGAN — I was actually asking the minister, not you, David, but thank you, anyway.

Mr BATCHELOR — In the Auditor-General's report there is a line item that refers to associated costs and the opening. It is a line item that refers to a whole host of matters; it is not just the opening. The opening details have not been finalised. We are putting our energies and efforts, firstly, into bringing the project under budget control to get it finished and to set it up for the long term. But when it is open it will be an asset that I think people will appreciate and will like.

Ms BARKER — Could I just get some further details on the suggested blow-out costs of Federation Square? The government has indicated that the \$31.1 million in the fit-out cost included by the Auditor-General in the Federation Square estimated completion is actually a separate cost to the construction cost, has been budgeted for separately and is again not a budget blow-out. I was just wondering if you could provide us with the details about where those costs appear in previous budgets, how the provisions appear in previous budgets and whether this indication that the \$31.1 million in fit-out costs is not a blow-out?

Mr BATCHELOR — In this year's Auditor-General's report the Auditor-General decided for the first time to include the fit-out costs in the construction budget. There is no doubt that the construction costs have increased. I have referred to that here and put the information up on the screen for you. We are hopeful that we have that under control, but we will only know that at the end of the project. Where a lot of confusion has arisen and deliberate mischief has been created by the opposition is that an additional item has been attributed to the Federation Square construction costs, and that is of the tenant fit-out costs. Previously the tenant fit-out costs were

reported on — where they were public sector costs — in the appropriate departmental reporting procedures, not within the major projects reporting procedures.

We do not spend those. By way of example, the art gallery is being built by Arts Victoria and the fit-out costs for the Ian Potter centre would have been reported in its budgets previously. We do not report some of the retail fit-out costs which are being built for the private sector because they are not costs to any government agency — and they are certainly not costs to the project. When you build a shopping centre the fit-out costs of the individual shops are borne by the tenants. That is the normal commercial practice and arrangement. The tenants pay for them even if the builder does them. In some instances a builder on a site such as Multiplex may be doing the work, but they are not doing it for major projects; they are doing it for the private builder or the other tenants who are on site. There has been a bit of confusion. I am sure the Auditor-General in his report detailed and identified that there were fit-out costs. When the Auditor-General has reported on those previously it has been in the context of other departmental line items and has not been contained within the costs of Federation Square.

Mr HOLDING — I share my colleague David Davis's concerns about openness, transparency and accountability. My attention has been drawn to a statement made this morning by the Leader of the Opposition. He announced that if the opposition were elected to government it would have \$55 million in pledged private sector funds for the development of an ice-skating rink in the Docklands precinct. I would be very concerned about that, given that it is obvious that the pledging of those funds has not been the result of any open, transparent and accountable tender process.

I seek an assurance from you that if the present government were to consider a proposal to develop a winter Olympic ice sports facility at the Docklands, or anywhere else for that matter, it would only proceed following a proper and open tender process. I would be seeking an assurance from you that the present government would conduct such an open tender process and that it would ensure that proper practices of public accountability would take place before any such project was to proceed.

Mr BATCHELOR — In its administration of the Docklands project this government resolves who gets access to these assets by an open tender process. Expressions of interests are called for, short lists are undertaken and then individual consortia compete against one another for the right to develop a particular area. During our term of government we have concluded a number of these. By involving these decisions and making them through a competitive tender process we are able to ensure that you get appropriately designed and properly functioning facilities that meet the high standards that are set for the Docklands. They have required a higher standard, but interestingly they also require a developer contribution, if I can use that phrase, where the trunk infrastructure of the Docklands area has to be paid in part by contributions by the developers or the successful tenderers.

Irrespective of when a development takes place, whether it is early on in the life of the Docklands project or later on, they are all expected to contribute their share of the overall trunk infrastructure costs, and this lowers the burden to the taxpayer. I referred earlier on in my overview to the benefit of the returns to the state from private-sector investment and the ratio of private-sector investment to government investment. It is much, much higher in the Docklands and elsewhere, but you would only maintain that benefit, and you can only maintain probity and successful and proper outcomes, if you go through a proper tender process.

At the end of the tender process, even if there is only one person left, you still have to go through an open and competitive process. I was appalled to think that the Leader of the Opposition would have said that, presumably after having had representations made to him by a group of developers who sought an assurance that they would get privileged access to this asset. We know there are people around who have a proposal to develop an ice-skating facility at the Docklands. Whether or not that is a good idea as a general concept —

Mr DAVIS — So you do not support it?

Mr BATCHELOR — Irrespective of whether their proposal is good or not, it must go —

Mr DAVIS — You are not opposed to it, though?

Mr BATCHELOR — It must be tested by the market. You just cannot have the political process predetermine the tender process.

Mr DAVIS — You are not opposed to it, though?

Mr BATCHELOR — It is the sort of mistake that the Kennett government made in the past. They got themselves and the state of Victoria into a lot of trouble. It was expensive, and I thought they would have learnt the lessons from that, but clearly they have not — and they do not deserve the right to be put back into government.

Mr HOLDING — I am very pleased to receive that assurance, Minister.

The CHAIRMAN — In your presentation you talked about the ratio of private-sector investment to public investment in the Docklands and how that was going. I want to take you to a particular part, and that is the Collins Street extension. I note that recently the federal government announced that it would be putting the Bureau of Meteorology in the Docklands area, and in a press release about that the property consultant Jones Lang LaSalle said the Bracks government's decision to fund the Collins Street extension was a major factor in that decision. Could you explain for us how much of that investment in the Collins Street extension will be private-sector investment? What do you expect to generate out of that in return for the stance that the government has taken on putting money into ensuring that the Collins Street extension takes place?

Mr BATCHELOR — The Collins Street extension is a project that essentially allows Collins Street, if you are heading down towards the Docklands from the top end of the city, to commence rising from where that old freight parcel pick-up and stables yard used to be, go over the railway lines and come down on the other side of Wurundjeri Way. In trying to manage this project, one of the impediments to private investors putting their proposals forward was the fact that there had been no decision taken as to when this piece of infrastructure would be completed. The government made a deliberate decision to fund this piece of infrastructure following advice that if it did that it was likely to trigger an investment response and a much quicker take-up. It is under way now. The last section of the roadway — that is, the bridging component of it — is about to be put in place and will be finished later this year. I advise you that even before it has been completed it has triggered an investment boom adjacent to it. The mystique of having a Collins Street address, the full knowledge that it will be adjacent to the proposed extension of tram services and its proximity to the new Southern Cross Station — that is, the redevelopment of Spencer Street — have all worked in its favour to trigger a whole host of development proposals there, which probably amount to something in excess of \$4 billion.

You referred to the Bureau of Meteorology deciding to go to a \$130 million development that is being undertaken by Folkestone and Leighton. The bureau will be just one of its tenants. It is a bigger proposal than just housing the Bureau of Meteorology, but already they are describing its location as 700 Collins Street, even before Collins Street is actually extended into Docklands.

The CHAIRMAN — And before it has allocated numbers?

Mr BATCHELOR — That is right. Nearby we have seen the Panurban development, another plaza with the intriguing name of the Watgate Plaza, at a cost of \$150 million. There is also the recently announced Village Docklands being developed by Kwok at a cost of some \$700 million. This again indicates the international interest that is being shown in developments at Docklands. Also, the locally backed Victoria Point residential tower will be adjacent to Colonial Stadium at a cost of some \$290 million. If you ask any of these developers about their proposals and the reason they have been brought forward or why they have been commenced, you will find it is because we were prepared to extend Collins Street at a cost of some \$25 million. It will produce a huge return in terms of not just the construction jobs and the associated economic activity but also the use those buildings will be put to as an integrated component of the Docklands area.

Mr DAVIS — Following on from the minister's initial presentation he talked about the consolidation of major projects into one department, which he called a sensible realignment of major projects activity. In that context I note that there was a cost incurred in moving the Office of Major Projects from the Department of Infrastructure to the Department of State and Regional Development on 1 January 2001, and then a further cost incurred in moving the Office of Major Projects, now Major Projects Victoria, from the Department of State and Regional Development back to the Department of Infrastructure in February 2002, as the minister indicated. What were the costs of both moves, and are there further costs in this financial year that relate to the move that has just been completed?

Mr BATCHELOR — The costs are not as you describe them, because the people all stayed within the same physical building, the same office address.

Mr DAVIS — There must have been some costs.

Mr BATCHELOR — Very limited costs. Costs were mostly associated with expanding roles and activities, but when it was originally located within the Department of Infrastructure the Office of Major Projects, now called Major Projects Victoria, was housed in Nauru House, and it remained there when it was under the administration of the Department of State and Regional Development. It is now under the administration of the Department of Infrastructure, but it still remains in the same office location. People are essentially the same and there is little additional cost — the phone numbers are the same, the address is the same, the desks are the same.

Mr DAVIS — What about the paper?

Mr BATCHELOR — It is still A4.

Mr DAVIS — Is there a different letterhead? Can you detail the costs?

Mr BATCHELOR — It has not got a different letterhead. There is a new name, but there are not many additional costs.

Mr DAVIS — It is a simple question.

Mr McDONALD — To clarify what the minister has indicated, there is very little cost, because the major costs associated with relocations usually relate to people moving and the requirement for fit-out costs to be adjusted to meet the changes under normal administrative arrangements.

Mr DAVIS — Rebadging costs and such things?

Mr McDONALD — In normal situations old stationery is usually utilised until such time as new stationery is ordered. You would be placing orders for new stationery into the future, and costs are usually incurred when you replenish that. Normally old stationery is run down until new stationery is provided. The costs would be minimal.

Mr DAVIS — Can you detail those?

Mr McDONALD — If our accounting records go to that level we certainly would provide that information. There was reference to a Treasurer's advance in relation to costs associated with major projects, which related to a timing matter because the budget had been transferred across to the Department of State and Regional Development, but because the legislation to change the powers under the secretary of the Department of State and Regional Development had not occurred, a Treasurer's advance was provided in the last financial year that related to the fact that those costs still had to be incurred within the Department of Infrastructure's annual report. Those details were included in the annual report for that financial year.

Mr DAVIS — So we can look forward to receiving those estimates?

Mr McDONALD — For the first part.

Mr DAVIS — And the second part?

Mr McDONALD — And the second part — we can provide that information.

The CHAIRMAN — That concludes the time allocated for consideration of the estimates under the major projects portfolio.

Witnesses withdrew.