

CHAPTER 8: DEPARTMENT OF INFRASTRUCTURE

Key Findings of the Committee:

- 8.1** The Department of Infrastructure's budget allocation for 2004-05 is \$3,062.9 million, a decrease of \$48.1 million from the 2003-04 estimated actual expenditure.
- 8.2** Up to a maximum of \$40.3 million in Asset Investment and \$21 million in output funding, as well as \$30 million of road funding from the Commonwealth, will be carried over for the Transport portfolio. Output funding of \$4.6 million and funding for additions to the net asset base of \$7.6 million will be carried over for the Information and Technology portfolio and the Energy Industries portfolio will carry forward \$805,000.
- 8.3** In comparison to the level of Commonwealth Government revenue derived from the fuel tax collected in Victoria (25 per cent), this state receives 15 per cent of national road funding from the Commonwealth Government.
- 8.4** The Committee was unable to determine the purposes to which unspent appropriation funding held in the Better Roads Victoria Trust Account and Public Transport Fund at 30 June 2003 has been applied.
- 8.5** While the Government would not disclose to the Committee the nature and amount of claims lodged by two contractors in relation to delays with the Regional Fast Rail Projects on the grounds that this information is commercial in confidence and any disclosure could compromise the Government's negotiations, the Minister for Transport advised that the total amount certified to be paid to contractors for approved claims and variations amounted to \$29 million excluding GST at 31 May 2004.
- 8.6** As a consequence of the withdrawal of the National Express Group from Victorian rail operations in December 2002, anticipated savings relating to maintenance were not realised. In relation to the Regional Fast Rail Project, the Government included a provision for \$25.2 million for this unexpected development over a number of budgets.
- 8.7** The 2004-05 Budget provides funding of \$1.1 billion over five years for the additional cost of the new rail partnerships with Connex and Yarra Trams for operating Melbourne's suburban train and tram networks. These services were not re-tendered before the new partnership agreements were announced in February 2004.

- 8.8** The Government's decision to assume control of the operation of country/interstate rail services resulted in an additional cost of \$28.9 million in 2003-04.
- 8.9** The time required to prepare for, and have the Environmental Effects Statement concluded for the Port of Melbourne channel deepening project was not factored into the early estimate, which resulted in the timeline for progressing the detailed investigations to an agreed stage being extended from August 2003 to June 2004.
- 8.10** It cost \$3.5 million to identify the initial three potential sites for the hazardous industrial waste long-term containment facility. However, the early environmental assessments which took into account issues raised by local communities meant that the sites at Baddaginnie and Pitlong were no longer a consideration. After considering issues raised by the local community, the Tiega site was also subsequently withdrawn.
- 8.11** Although the target for statutory approval to be given for the hazardous industrial waste long-term containment facility is shown as May 2005, the Government now expects this will be the deadline for completion of the Environmental Effects Statement that is needed before the Nowingi site can be made available for statutory approval.
- 8.12** The estimated actual expenditure for 2003-04 for the Melbourne Showgrounds Redevelopment amounted to only \$6 million compared with the budget allocation of \$70.3 million. The completion date for the project has been extended from June 2004 to 2006-07.
- 8.13** The Telecommunications Purchasing and Management Strategy (TPAMS) and Project Rosetta were on schedule to be delivered within the total cost of \$47.7 million as originally announced in the 2002-03 Budget. However, funding has been carried over to 2005-06 because more complex consultation, design specification, tendering and extended negotiation phases are required.
- 8.14** In terms of unmet demand, 18,835 Victorian households and 17,285 businesses located predominantly in rural and regional Victoria could not obtain an Asymmetric Digital Subscriber Line (ADSL) or cable broadband in 2003.
- 8.15** Work is continuing to identify the critical energy infrastructure to be declared under the requirements of the Terrorism (Community Protection) Act 2003.

Departmental review

8.1 Departmental overview

The Department of Infrastructure has the lead responsibility for the policy, strategic planning and delivery of Victoria's energy, transport, major projects and communication technology infrastructure. It supports the four ministerial portfolios of Transport, Major Projects, Energy Industries and Information and Communications Technology.

8.1.1 Key risks for the department in 2004-05 and strategies developed to address these risks

The department's corporate plan for 2003-06 identifies the key risks for the department and its agencies and outlines strategies and actions.¹

As a result of the threat of terrorism, the department faces emerging risks in relation to:²

- developing its capacity to assess security risk management practices within the transport and energy sectors; and
- maintaining and developing its capacity to respond to any emergency incident rapidly and flexibly.

Key VicRoads risk mitigating strategies, include:³

- strengthening computer systems and audit programs as well as identifying validation and staff ethics to minimise organised crime in vehicle registration and driver licensing activities, particularly in the areas of stolen and illegally imported vehicles and identity fraud;
- reviewing the risk assessment methodology and site inspection procedures for high risk landslip sites to identify priority works;
- allocating resources to ensure road asset management plans are ready for adoption to enable the proposed Road Management Bill 2004 to be fully operational by January 2005; and

¹ Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, p.7

² *ibid.*

³ *ibid.*, p.8

- continuing negotiations with the Commonwealth Government at both the Australian Transport Council and the Workplace Relations Ministerial Council to ensure the Commonwealth's decision to require the National Code of Conduct on all federally funded road projects does not result in these projects being delayed.

8.1.2 Key factors influencing the budget estimates

The department advised of the following factors that influenced the development of the 2004-05 budget estimates:⁴

- outputs have been developed to drive economic growth, strengthen Victoria's competitiveness, create jobs and opportunities for Victorians, provide a safe living and working environment and shape Victoria's future prosperity;
- efforts are being directed towards ensuring that Melbourne's critical economic infrastructure and services function effectively and efficiently, future needs are understood and infrastructure is appropriate for economic and transport needs. This will drive new investment, stimulate the creation of new jobs, lower costs for business and increase exports of goods and services;
- over the next 20 years, the population of Melbourne is expected to grow by about 20 per cent, employment by 25 to 30 per cent, vehicular travel by 30 to 40 per cent and traffic congestion at a much greater rate;
- freight activity is also increasing, with the volume of freight expected to grow by 70 per cent by 2020 and the freight task (tonne-kilometres) by some 80 per cent over the same period. The bulk of freight movements around Melbourne and a high proportion of regional and interstate freight movement are by road. As a consequence, the size of the freight task on Victoria's road network is expected to grow significantly. The biggest growth will be in light commercial vehicles;
- as part of continuing improvements to rail safety, additional safety measures including vigilance and monitoring systems and brake modification will be installed on metropolitan trains, and train protection warning systems will be installed on trains travelling on the Regional Fast Rail corridors to improve the interface between regional and metropolitan services;
- road safety outputs are focused on reducing serious injuries (as well as fatalities) to achieve the *arrive alive!* targets. Specific measures, such as the introduction of random roadside saliva testing for drugs and safer road infrastructure, are being targeted to achieve these outcomes;

⁴ Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, pp.5-6

- as an inevitable consequence of outer metropolitan growth, arterials throughout the middle-to-outer suburbs require upgrading. A program of road improvements has been developed, with projects targeted to address high priority deficiencies in the arterial road network and provide for adequate traffic conditions, reduced road congestion, better asset management and essential road safety. Emphasis is also placed on making better use of existing road infrastructure. Carefully selected infrastructure improvements will be introduced to encourage a shift to high occupancy vehicles. Person and freight throughput will be maximised by initiatives to manage freeway traffic flow, and avoid or delay flow breakdown. Outputs also reflect the Government's commitments for bicycle facilities and compliance with the Disability Discrimination Act;
- road and rail systems provide complementary strategic links between Melbourne, the ports and regional areas and connect to national networks. Improving these links is essential to promote regional economic growth through better access to markets, increased transport efficiencies and improved safety;
- significant effort has been undertaken in finalising agreements with Connex and Yarra Trams to stabilise train and tram funding arrangements on a commercially viable basis and achieve the Government's financial and quality of performance criteria, in order to obtain improved services and value for money;
- delivering the Government's infrastructure investment commitments by continuing to complete or significantly progress the major capital projects underway, especially Regional Fast Rail services, the Mitcham Frankston Freeway and Major Projects Victoria projects;
- progressing design and procurement of a new public transport ticketing system;
- advancing analysis, development and planning work for the proposed Port of Melbourne channel deepening project; and
- examining improved access to, and connections between, the Port of Melbourne and rail freight terminals.

8.2 Output management framework

Four Ministers have responsibility for the department's output groups and outputs (refer to exhibit 8.1).

**Exhibit 8.1: Department of Infrastructure
Ministerial responsibilities and 2004-05 budget**

Output Group	Output	Responsible Minister	Portfolio Budget (\$ million)
Infrastructure Planning and Policy	Port Development Strategies	Minister for Transport	1.7
	Infrastructure Strategies	Minister for Transport	1.0
	Travel Management Initiatives	Minister for Transport	8.3
	Energy Policy Services	Minister for Energy Industries	7.6
Sub total			18.6
ICT and MultiMedia	ICT Industry and Community Development	Minister for Information and Communication Technology	17.1
	e-Government and ICT Policy		32.5
Sub total			49.6
Ports and Intermodal Gateways	Ports and Intermodal Freight	Minister for Transport	2.1
	Passenger Interchange Development		17.3
Sub total			19.4
Regional and Rural Transport Services	Country/Interstate Rail Services	Minister for Transport	171.4
	Country Bus Services		51.4
	School Bus Services		152.8
Sub total			375.6
Regional and Rural Transport Infrastructure	Regional Public Transport Passenger and Freight Development	Minister for Transport	68.4
	Regional Road Network Maintenance		161.5
	Regional Road Projects		146.1
Sub total			376.0
Metropolitan Transport Services	Metropolitan Train Services	Minister for Transport	783.2
	Metropolitan Tram Services		369.8
	Metropolitan Bus Services		330.1
Sub total			1,483.1

Exhibit 8.1 – continued

Metropolitan Transport Infrastructure and Public Development Projects	Metropolitan Public Transport Development	Minister for Transport	18.3
	Major Metropolitan Road Projects	Minister for Transport	117.0
	Metropolitan Arterial Road Links	Minister for Transport	157.4
	Metropolitan Road Network Maintenance	Minister for Transport	161.7
	Major Public Construction and Land Development	Minister for Major Projects	1.6
Sub total			456.0
Transport Safety and Accessibility	Taxi, Hire Car and Tow Truck Regulation	Minister for Transport	3.3
	Accessible Transport Initiatives		59.1
	Accident Blackspots and Safer Road Infrastructure		2.1
	Traffic and Road Use Management Improvements		29.7
	Vehicle and Driver Regulation		103.0
	Road Safety Initiatives and Regulation		61.1
	Public Transport Safety Initiatives and Regulation		11.7
	Marine Safety Initiatives and Regulation		14.6
Sub total		284.6	
Total			3,062.9

Source: Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, pp.2-3

8.3 Budget summary/financial analysis

Exhibit 8.2 shows the output groups for the Department of Infrastructure. Departmental output costs are expected to be \$3,062.9 million in 2004-05, \$48.1 million or 1.5 per cent less than the estimated actual outcome for 2003-04.

**Exhibit 8.2: Department of Infrastructure
Output group costs**

	Column 1	Column 2	Column 3	Column (3-2)/2
Output group	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Infrastructure Planning and Policy	13.5	15.8	18.6	17.7
ICT and MultiMedia	43.5	50.0	49.6	-0.8
Ports and Intermodal Gateways	24.5	23.7	19.4	-18.1
Regional and Rural Transport Services	334.0	363.3	375.6	3.4
Regional and Rural Transport Infrastructure	324.1	361.9	376.0	3.9
Metropolitan Transport Services	1,128.1	1,526.4	1,483.1	-2.8
Metropolitan Transport Infrastructure and Public Development Projects	436.9	472.0	456.0	-3.4
Transport Safety and Accessibility	262.4	297.9	284.6	-4.4
Total	2,567.0	3,111.0	3,062.9	-1.5

Note: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

Source: Budget Paper No. 3, 2004-05 Service Delivery, pp.111-138

In relation to variances that exceeded 10 per cent, the department provided the following explanations for the forecast change in expenditure between 2003-04 and 2004-05:

- with regard to one of the outputs within the Infrastructure Planning and Policy output group, the 2004-05 Budget for the Travel Management Initiatives output exceeds the estimated actual expenditure for 2003-04 by \$5.1 million due to new funding by the Expenditure Review Committee for TravelSMART Community Program - Demonstration Project funding;⁵ and
- with regard to the Ports and Intermodal Gateways output group, the 2004-05 budget for the Passenger Interchange Development output is less than the estimated actual expenditure for 2003-04 by \$4.1 million largely due to the change in the cashflow for the Spencer Street Station Redevelopment.⁶

⁵ *ibid.*, p.30

⁶ *ibid.*, p.31

8.3.1 Operating performance

**Exhibit 8.3: Department of Infrastructure
Statement of Financial Performance**

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Operating revenue	2,679.6	3,142.8	3,380.4	7.6
Operating expenses	2,567.0	2,787.0	(b) 3,063.0	9.9
Net result	112.6	355.8	317.4	-10.8
Administered items				
Administered revenue	1,404.9	1,428.0	1,649.6	15.5
Administered expenses	1,373.9	1,395.7	1,613.7	15.6
Surplus/Deficit	31.0	32.3	35.9	11.1

Notes: (a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

(b) The difference between the Operating expense budget of \$3,063.0 million for 2004-05 (Budget Paper No. 4) and the Output group budget for 2004-05 of \$3,062.9 million shown in exhibit 8.2 (Budget Paper No. 3) is due to rounding

Sources: Budget Paper No. 4, 2004-05 Statement of Finances, pp.60 and 63

The main reasons for the expected increase in operating revenue in 2004-05 compared to the 2003-04 budget are as follows:⁷

- additional funding of \$225 million was provided for the new public transport partnership agreements; and
- additional funding of \$114 million was provided by the Commonwealth Government for road projects.

Operating expenses have increased from the 2003-04 Budget, primarily reflecting the additional funding identified above, while the major items impacting on the 2003-04 revised budget surplus are the transfer of assets and liabilities under the new public transport partnership agreement and VicRoads unfunded superannuation entitlements transferred to the Department of Treasury and Finance.⁸

⁷ Budget Paper No.4, 2004-05 Statement of Finances, p.58

⁸ ibid.

8.3.2 Balance sheet performance

Exhibit 8.4: Department of Infrastructure Statement of Financial Position

	Column 1	Column 2	Column 3	Column (3-2)/2
	2003-04 Budget	2003-04 Estimated Actual	2004-05 Budget	Variation (a)
	(\$ million)	(\$ million)	(\$ million)	(%)
Controlled items				
Controlled assets	18,066.1	17,849.3	18,240.6	2.2
Controlled liabilities	914.5	611.7	602.8	-1.4
Net assets	17,151.5	17,237.7	17,637.8	2.3
Administered items				
Administered assets	226.6	226.9	261.8	15.4
Administered liabilities	107.4	106.5	105.6	-0.8

Notes: Some figures do not add up due to rounding

(a) A negative variance indicates that the 2004-05 budget has decreased compared with the 2003-04 estimated actual outcome

Source: Budget Paper No. 4, 2004-05 Statement of Finances, pp.62-63

The increase in controlled assets includes the construction of new roads and other infrastructure, while the decrease in the department's controlled liabilities is principally due to the transfer in 2003-04 of unfunded superannuation liabilities of \$472 million to the Department of Treasury and Finance.⁹

8.3.3 Carry over funding

The department anticipates it will carry forward to 2004-05 the following funding:

- Transport portfolio - up to a maximum of \$40.3 million in asset investment and \$21 million in output funding (in addition, the department is required to carry over in output funding an estimated \$30 million in Commonwealth funds for roads that was not spent in 2003-04);¹⁰
- Information and Communication Technology portfolio - funds relating to provision of outputs (\$4.6 million) and additions to net asset base (\$7.6 million);¹¹ and
- Energy Industries portfolio - \$805,000 relating to various projects.¹²

⁹ *ibid.*, p.59

¹⁰ Minister for Transport's response to the Committee's follow-up questions, p.5

¹¹ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.11

8.4 Human resources issues

8.4.1 Departmental workforce

Exhibit 8.5 shows the actual number of staff in the department and VicRoads as at June 2003, and estimated numbers as at June 2004 and June 2005.

**Exhibit 8.5: Department of Infrastructure
Equivalent Full Time Staff**

	June 2003 Actual	June 2004 Estimate	June 2005 Estimate
Department of Infrastructure			
Secretary and Executive Officers	63.6	61.6	69.6
Other staff	672.7	759.6	783.3
Sub-total	736.3	821.2	852.9
VicRoads	2,282.0	2,354.0	2,434.0
Total staff	3,018.3	3,175.2	3,286.9

Source: Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, pp.18-20

In analysing the movements in workforce numbers, the Committee was advised that:¹³

- as a consequence of machinery of government changes in 2003-04, there was a decrease in Executive Officer-3 positions which were transferred to the Department of Sustainability and Environment and the Department for Victorian Communities;
- the growth in Executive Officer positions between June 2004 and June 2005 is due to the following factors:
 - the filling of vacancies that existed in prior estimates;
 - growth in the number of divisions;
 - increasing complexities of public transport issues and major state infrastructure projects; and
 - the need to ensure the department attracts and retains suitability qualified and experienced managers.
- the anticipated increase in senior technical specialists reflects the increased complexities of major state infrastructure projects, which require the attraction

¹² Minister for Energy Industries' response to the Committee's follow-up questions, p.12

¹³ Department of Infrastructure response to the Committee's additional follow-up questions

of highly specialised skill sets, e.g. highly qualified engineers and scientific staff for various complex projects; and

- the estimated increase in staff numbers from 2002-03 to 2004-05 can be partly attributed to machinery of government changes, with staff transferring out of the department in 2002-03 and new staff transferring into the department in 2003-04. Increases in 2004-05 relate to an increase in contract management requirements, especially in the areas of rail franchising, legal services, infrastructure asset management, public transport safety and Government ICT (Connecting Victoria and associated projects).

Workforce numbers at VicRoads have increased mainly due to the following reasons:¹⁴

- an increase at the ASO-1 level relates to a move from the use of agency staff to permanent VicRoads positions, which was part of VicRoads Enterprise Agreement;
- the increased ASO-4 recruitment of seven over the three year period related to the increased need for TAFE qualified staff at the Surveillance Manager level, due to the increased size of VicRoads program in road areas; and
- the increase in SRCO-I and II positions related to an increased works program, including an additional \$130 million Road Safety Works Program to be funded by the Transport Accident Commission in 2004-05. SRCO I and II classifications are professional engineers and other professionals needed to deliver the increased program in rural and metropolitan areas.

Review of Portfolios

8.5 Transport portfolio

8.5.1 2004-05 outlook for the portfolio

In looking ahead, the Minister for Transport brought to the Committee's notice that the Transport portfolio has to deal with issues that relate to the safe and efficient movement of people and, increasingly, the efficient movement of freight, particularly recognising that Melbourne's population is expected to grow by 20 per cent over the next 20 years and that vehicle travel will rise by some 30 to 40 per cent.¹⁵ These factors, according to the Minister, raise the potential for traffic congestion because the ability to increase road capacity in much of Melbourne to meet these demands is

¹⁴ VicRoads, response to the Committee's additional follow-up questions

¹⁵ Hon. P.Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.2

restricted.¹⁶ Freight activity is expected to grow by 70 per cent during that same period.¹⁷

Some of the major initiatives planned for the Transport portfolio for 2004-05 include:¹⁸

- new public transport partnership agreements - refer below at Section 8.5.4(d), for further comments (\$1,137.1 million over five years commencing in 2003-04);
- V/Line Passenger Pty Ltd operating subsidy (\$149.9 million over five years commencing in 2003-04);
- Southern and Eastern Integrated Transport Authority (\$57.8 million over five years commencing in 2003-04);
- Geelong Western Bypass (Total Estimated Investment (TEI) of \$185.9 million over four years from 2004-05);
- Outer metropolitan road program (TEI of \$163.6 million over four years from 2004-05);
- Road safety infrastructure program (TEI of \$130 million covering 2004-05 and 2005-06); and
- Rural roads package (TEI of \$73.2 million over four years from 2004-05).

As part of its commitment to restore stability in the public transport system and improve service to customers, the Government announced new five year public transport agreements with Yarra Trams and Connex.¹⁹ Funding is provided in the 2004-05 Budget for initiatives in the new partnership agreements that include additional customer service staff, additional services and increased security patrols on night trains.²⁰ This includes funding for the “Tram to It” program and New Year’s Eve public transport coverage.²¹

8.5.2 Analysis of the budget

The Minister for Transport has sole responsibility for 26 outputs. Exhibit 8.6 shows that these outputs account for \$3,004.1 million (or 98.1 per cent) of the department’s 2004-05 Budget.

¹⁶ *ibid.*

¹⁷ *ibid.*

¹⁸ Budget Paper No.3, *2004-05 Service Delivery*, pp.285, 287

¹⁹ *ibid.*, p.286

²⁰ *ibid.*

²¹ *ibid.*

**Exhibit 8.6: Transport Portfolio
Output costs**

Output Group	Outputs under the responsibility of the Minister for Transport	2004-05 Budget (\$ million)
Infrastructure Planning and Policy	Port Development Strategies	1.7
	Infrastructure Strategies	1.0
	Travel Management Initiatives	8.3
	Sub total	11.0
Ports and Intermodal Gateways	Ports and Intermodal Freight	2.1
	Passenger Interchange Development	17.3
	Sub total	19.4
Regional and Rural Transport Services	Country/Interstate Rail Services	171.4
	Country Bus Services	51.4
	School Bus Services	152.8
	Sub total	375.6
Regional and Rural Transport Infrastructure	Regional Public Transport Passenger and Freight Development	68.4
	Regional Road Network Maintenance	161.5
	Regional Road projects	146.1
	Sub total	376.0
Metropolitan Transport Services	Metropolitan Train Services	783.2
	Metropolitan Tram Services	369.8
	Metropolitan Bus Services	330.1
	Sub total	1,483.1
Metropolitan Transport Infrastructure and Public Development Projects	Metropolitan Public Transport Development	18.3
	Major Metropolitan Road Projects	117.0
	Metropolitan Arterial Road Links	157.4
	Metropolitan Road Network Maintenance	161.7
	Sub total	454.4

Exhibit 8.6 – continued

Transport Safety and Accessibility	Taxi, Hire Car and Tow Truck Regulation	3.3
	Accessible Transport Initiatives	59.1
	Accident Blackspots and Safer Road Infrastructure	2.1
	Traffic and Road Use Management Improvements	29.7
	Vehicle and Driver Regulation	103.0
	Road Safety Initiatives and Regulation	61.1
	Public Transport Safety Initiatives and Regulation	11.7
	Marine Safety Initiatives and Regulation	14.6
Sub total		284.6
Total		3,004.1

Sources: *Budget Paper No. 3, 2004-05 Service Delivery*, pp.112–138 and *Department of Infrastructure response to the Committee’s 2004-05 Budget Estimates questionnaire*, pp.2–3

8.5.3 Performance measures

The department has introduced 36 new performance measures²² and discontinued 31 in relation to the Transport portfolio.²³ Most of the discontinued indicators relate to projects, or stages of projects, that have been completed.

The Budget Papers reveal that output performance measures relating to the former public transport franchise agreements have been reviewed and amended to reflect the new public transport partnership agreements that came into effect in April 2004.²⁴ These five quality performance measures are contained within the Metropolitan Public Transport Development output.²⁵

With regard to measuring the quality of services delivered by country bus services, the performance measures only cover the proportion of air conditioned buses in service and the number of passengers carried.²⁶ In terms of examining issues connected with quality of service delivery, the department advised that:²⁷

²² Budget Paper No.3, *2004-05 Service Delivery*, pp.112–137

²³ *ibid.*, pp. 338–340

²⁴ *ibid.*, pp.111, 128–129, 132

²⁵ *ibid.*, pp. 128–129, 132

²⁶ Budget Paper No.3, *2004-05 Service Delivery*, p.121

²⁷ Hon. P.Batchelor, MP, Minister for Transport, response to the Committee’s follow-up questions, pp.13–14

With regard to 'routes in the right place', the department's regional staff and regional operators work together to ensure that local services meet the greatest need in an area. Some areas have greater potential to generate revenue due to population density and growth patterns than others.

The department's regional staff are in close contact with councils, schools and local community groups to identify bus service issues. This gives accurate and updated knowledge of how well buses are meeting community needs.

Regional services also take into consideration community service obligations where there may be less ability to generate strong revenue streams by an operator. These types of services typically are provided to ensure that local people are able to access medical or legal appointments in larger regional centres.

The Committee believes additional information should be reported in the Budget Papers to enable an informed assessment of the quality of service provided by country bus services. The department should apply the same monthly process for surveying users and non-users of country/interstate rail services to its country bus operation.²⁸

The Committee recommends that:

Recommendation 72: **The Department of Infrastructure develop a performance measure relating to customer satisfaction with country bus services and report this information in the Budget Papers.**

8.5.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Transport identified the following key issues that will impact on the portfolio and the budget estimates for 2004-05.

²⁸ Budget Paper No.3, 2004-05 Service Delivery, p.120

(a) Commonwealth funding for major Victorian road projects

At the estimates hearing, the Minister outlined various examples of major road projects where the Victorian Government was awaiting the outcome of funding decisions by the Commonwealth. Major road projects in this category included the following:

- the Mitcham-Frankston freeway (the Scoresby Freeway);²⁹
- the Geelong Western Bypass;³⁰
- the Calder Highway;³¹
- the Deer Park bypass on the Western Highway;
- the Goulburn Valley Highway; and
- the Pakenham bypass.

The Minister indicated his view that Victoria does not receive a fair share of funding from the Commonwealth commensurate with federal revenue derived from Victoria.³² The Minister advised Victoria only receives 15 per cent of taxes that Victorian motorists pay to the Commonwealth, even though Victorians pay 25 per cent of the fuel tax collected by the Commonwealth and undertakes 28 per cent of the national road freight task.³³

Subsequent to the estimates hearing, the Commonwealth released its new land transport plan, AusLink, which sets out \$11.8 billion in land transport spending.³⁴ Major projects in the plan for Victoria include the following funding commitments:³⁵

- \$422 million for the Scoresby Freeway, provided the Victorian Government reverses its decision to impose tolls;
- \$186 million for the Geelong Bypass;
- \$114 million for the Calder Highway; and
- \$80 million to commence work on the Deer Park Bypass and Leakes Road interchange.

²⁹ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, pp.8 and 15

³⁰ *ibid.*, pp.3 and 8

³¹ *ibid.*, p.8

³² *ibid.*, p.7

³³ *ibid.*

³⁴ www.dotars.gov.au/auslink

³⁵ *ibid.*

The Committee understands the Government is continuing its negotiations with the Commonwealth to secure additional national road funding for Victoria.³⁶

(b) Application of parliamentary appropriations

In the Auditor-General's November 2003 *Report on Public Sector Agencies*, the Auditor-General reported that:³⁷

- during 2002-03 the Department of Infrastructure received output appropriation funding of \$207 million ahead of service delivery, with the amount subsequently transferred into two trust accounts within the Trust Fund;
- this funding comprised \$151 million that was transferred into the Better Roads Victoria Trust Account and \$56 million that was transferred into the Public Transport Fund Account;
- this funding remained unspent at 30 June 2003;
- the Department of Infrastructure expected to spend these appropriated funds in future years for purposes consistent with the trust accounts, that is, towards the construction and maintenance of roads (the Better Roads Victoria Trust Account) and public transport purposes (the Public Transport Fund Account); and
- the effect of the above transactions was to increase the value of Consolidated Fund payments (and the Consolidated Fund cash deficit) during 2002-03, and to provide funding for future years towards roads and other transport expenditure without impacting on the Consolidated Fund reported result for those years.

The Auditor-General recommended that, given the Victorian parliamentary appropriation framework is based on a purchaser/provider model and a key principle embodied in this framework is that appropriation revenue is only made available to departments once outputs are delivered, any amounts standing to the credit of trust accounts within the Trust Fund at the end of the financial year, which represent funds drawn-down from the Consolidated Fund for services not yet delivered, should be repaid to the Consolidated Fund.³⁸

This recommendation reiterated an earlier recommendation made by the Auditor-General in his April 2003 *Report on Parliamentary control and management of appropriations*, in relation to similar practices at other departments.³⁹

³⁶ Government Response to the Recommendations of the Public Accounts and Estimates Committee's *Report on the 2003-2004 Budget Estimates*, recommendation No.25

³⁷ Victorian Auditor-General's Office, *Report on Public Sector Agencies*, November 2003, p.100

³⁸ *ibid.*

³⁹ *ibid.*

In responding to these findings, the Secretary of the Department of Infrastructure indicated that:⁴⁰

- the department met all the requirements agreed between the department and the Treasurer to receive output funding in accordance with the *Financial Management Act 1994*;
- the Treasurer had certified the outputs and provided the funding to the department;
- funding received related to committed projects, which was held in the Better Roads Victoria Trust Fund and the Public Transport Fund until the cash was required to meet commitments; and
- the Auditor-General's recommendation would be discussed with the Department of Treasury and Finance.

The Committee notes the recommendation made by the Auditor-General concerning the need for funds, drawn down from the Consolidated Fund and credited at year end to trust accounts for services not yet delivered, to be repaid to the Consolidated Fund.

The Committee intends examining, as part of its Report on the 2003-2004 Budget Outcomes, the following matters:

- the purposes for which unspent output appropriation funding held in these accounts within the Trust Fund at 30 June 2003 were applied; and
- the extent to which unspent output appropriation funding held in these trust accounts at 30 June 2004 relate to committed and relevant projects.

(c) Regional Fast Rail Project

On 5 September 2000 the State Government announced the Regional Fast Rail Project to introduce high quality and faster rail services between Melbourne and Ballarat, Bendigo, Geelong and the Latrobe Valley.⁴¹ The project will involve upgrading over 500 kilometres of rail track, the installation of modern signalling systems and the introduction of new trains with a maximum speed of 160 km/hour.⁴² Thirty eight new trains will progressively come into service from mid 2005.⁴³

In the 2003-04 Budget Update, funding amounting to \$23.4 million (\$3.4 million in 2003-04 and \$20 million in 2004-05) was provided to:⁴⁴

⁴⁰ *ibid.*, pp.100–101

⁴¹ Department of Infrastructure internet site

⁴² Hon. P. Batchelor, MP, Minister for Transport, media release, *Local business and jobs to benefit from fast rail project*, 16 August 2001

⁴³ Department of Infrastructure internet site

⁴⁴ Budget Paper No.3, 2004-05 Service Delivery, p.288

- meet the cost of building passing loops on the Bendigo line north of Kyneton;
- improve track at stations along the Bendigo and Latrobe Valley lines;
- shorten the construction shutdown period on the Bendigo line;
- improve the power supply along the Latrobe Valley; and
- cover some higher land acquisition costs on the Ballarat line.

Given the level of funding which has been committed to these projects and the delays that have been experienced, the Committee intends to review the progress of these projects as part of its report on Government outcomes for 2003-04.

(i) Settlement of claims for delays

The Committee was interested to determine what settlements have been reached in relation to delay claims lodged by two contractors, the Thiess ALSTOM Joint Venture and the John Holland Group Pty. Ltd.

The Minister advised the Committee that, while it is normal practice for companies to lodge claims on projects the size of Regional Fast Rail, the nature and amount of these claims cannot be disclosed as they are commercial in confidence and any disclosure could compromise the Government's negotiations.⁴⁵ All claims made by contractors are managed contractually and commercially to protect the Government's position.⁴⁶ The Minister assured the Committee that the Government will not be meeting any claims where delays have been caused by the contractors.⁴⁷

However, in relation to settlements reached, the Minister disclosed that at 31 May 2004, the total amount certified to be paid to contractors for approved claims and variations amounted to \$29 million excluding GST.⁴⁸ The actual amount that will be paid can only be determined once the works on each line have been completed and all claims settled.⁴⁹

The Committee is concerned that ongoing delays to the Regional Fast Rail Project, which have given rise to additional cost claims by contractors, may reflect on the standard of planning and project management within the Department of Infrastructure.

⁴⁵ Minister for Transport's response to the Committee's follow-up questions, p.3

⁴⁶ *ibid.*

⁴⁷ *ibid.*

⁴⁸ *ibid.*

⁴⁹ *ibid.*

The Committee recommends that:

Recommendation 73: **The Department of Infrastructure investigate the reasons for the delays to the Regional Fast Rail Project with a view to minimising the extent of any future contractor claims involving additional costs, which may be attributed to delays beyond the control of contractors.**

(ii) Non-realisation of savings

The Budget Papers for 2004-05 disclose that the total estimated investment for the regional fast rail project is \$616.8 million as a result of additional funding of \$23.4 million, increased project insurance costs of \$11.3 million and the non-realisation of offsetting savings of \$25.2 million.⁵⁰ Given the impact on the budget, the Committee was interested in the composition of the anticipated savings that were now not going to be realised. The Minister explained to the Committee that when the fast rail project was originally announced, the Government expected to achieve certain cost savings because the track would have been recently upgraded.⁵¹ However, following the withdrawal of the National Express Group from Victorian rail operations in December 2002, it became evident that those expected savings, essentially relating to maintenance, would not be delivered and accordingly the Government had to make a budget provision for this unexpected development.⁵²

(iii) Rolling stock contracts

In November 2001 the Government announced a contract for the construction of 29 trains at a cost of \$410 million and, a year later, an additional nine trains at a further cost of \$125 million for the provision of additional services to country Victoria.⁵³ The Minister advised that the cost of the rolling stock upgrade is in addition to the construction costs of \$617 million.⁵⁴

The Committee was interested to determine the cost to the state of the rolling stock contracts in terms of capital contribution and lease cost. Information supplied by the department revealed the following:⁵⁵

⁵⁰ Budget Paper No. 3, *2004-05 Service Delivery*, p.287, Note (a)

⁵¹ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.4

⁵² *ibid.*

⁵³ *ibid.*, p.11

⁵⁴ *ibid.*

⁵⁵ Minister for Transport's response to the Committee's follow-up questions, p.1, question 2

- V/Line Passenger has contracted Bombardier Transportation Australia Pty Ltd. to manufacture 38 two-car VLocity diesel multiple units (DMUs) (29 under the base contract and nine under the option contract) as part of the Regional Fast Rail (RFR) Program; and
- the total investment in the DMUs (the construction cost) is \$274 million. Lease payments for each two car DMU will be \$1,007,757 per annum.

(iv) Local content requirement

In response to the Committee's inquiry concerning the local content requirement in relation to the rolling stock contracts for the regional fast rail project, the Minister advised that local content was not a mandated requirement when the original contracts were entered into by the former Government.⁵⁶ However a minimum requirement of 55 per cent was built into the renegotiated contracts when moving to the faster trains.⁵⁷ Since then, the Department of Innovation, Industry and Regional Development has worked with the contractor, engaged to manufacture and maintain the 38 trains, and local suppliers to achieve 70 per cent local content in the trains' construction.⁵⁸

(v) Standard of fencing

The Committee sought information on whether an additional standard for fencing is going to apply to those sections of track where trains will operate at higher speeds. If this was the case, the Committee was interested to ascertain the fencing requirements outlined in the standard, the costs involved and associated cost sharing arrangements and the location of track where additional costs will apply.⁵⁹ The Minister, in advising that this matter is currently being addressed, indicated that the issue is not so much about speed, as the maximum speed will often occur in the open spaces of the countryside, but is more of an issue in areas adjacent to some of the towns because there will be people nearby.⁶⁰ The Minister indicated that the Government is concerned and will ensure that the system is as safe as possible for those who are using it and in the immediate environment.⁶¹ The Committee will monitor future developments in this important area of public interest.

⁵⁶ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.11

⁵⁷ *ibid.*, p.18

⁵⁸ Hon. T. Holding, MP, Minister for Manufacturing and Export and Hon. P. Batchelor, MP, Minister for Transport, media release, *Victoria's First Fast Train Ready for Testing*, 28 May 2004

⁵⁹ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.17

⁶⁰ *ibid.*

⁶¹ *ibid.*

(d) New public transport partnership agreements

Information setting out a chronological list of public transport arrangements for Victoria's train and tram services since they were franchised in 1999 is shown in exhibit 8.7.

Exhibit 8.7: Public transport agreements for Victoria's train and tram services – 1999-2004

18 April 2004	The new partnership agreements with Connex and Yarra Trams commence.
February 2004	The State Government enters into new partnership agreements with Connex and Yarra Trams for the operation of Melbourne's train and tram services.
May 2003	The State Government announces the establishment of TrainCo and TramCo, which would respectively be responsible for the operation of Melbourne's complete suburban rail and tram networks. Negotiation with Connex and Yarra Trams in relation to operating these entities commence.
December 2002	The State Government assumed responsibility for operating the M>Train, M>Tram and V/Line Passenger businesses following National Express Group's withdrawal from Victoria.
October 2001	National Express replaces the Bayside Trains brand with M>Train and the Swanston Trams brand with M>Tram.
July 2000	Melbourne Transport Enterprises replaces the Hillside Trains brand with Connex.
29 August 1999	Melbourne's tram and suburban train system was privatised along with Victoria's regional rail service: National Express Group Australia takes over Bayside Trains, Swanston Trams and V/Line Passenger Melbourne Transport Enterprises (Connex) takes over Hillside Trains Metlink takes over Yarra Trams

Source: Department of Infrastructure's internet site/transport/managing public transport/the new partnership agreements

The Government, in outlining the new five year public transport partnership agreements with Connex and Yarra Trams in February 2004 for Melbourne's suburban train and tram networks, indicated that *'the new agreements have been based on more conservative passenger growth and cost assumptions, in contrast to the*

previous unsustainable contracts in 1999 that resulted in the withdrawal of National Express from its franchises in December 2002.⁶²

Initiatives secured from these new partnership arrangements include:⁶³

- 100 additional customer service staff, including Safe Travel service staff to travel on all trains after 9pm for at least 80 per cent of the journeys;
- the continued delivery of 46 new trains to be operating by 2005;
- the introduction of the 'Tram to It' tram priority program to target 'red spots' that cause delays to tram travel times;
- 50 additional customer service staff; and
- an additional 25 new trams to be operating by 2005.

Funding of \$1.1 billion over five years commencing 2003-04 has been provided for the additional cost of the new rail partnerships, which includes payments to the new operators, funding requirements of Metlink as well as termination payments associated with the end of the original franchise contract.⁶⁴

The Committee understands that a direct offer approach was adopted by the Government and a competitive process was not applied by the Government before it entered into the partnership arrangements with Connex and Yarra Trams in February 2004 on the basis that:

- these companies were familiar with the Melbourne transport environment; and
- the decision to negotiate directly would avoid the situation experienced in 1999, whereby the Government had to deliberate on bids that proved to be too optimistic and unrealistic.

Given that these rail services were not re-tendered prior to announcing the new partnership agreements, the Committee strongly believes that the Parliament and the community need to be assured that entering into a partnership arrangement with the selected parties has resulted in a cost effective outcome for Victoria. It is essential that arrangements entered into for the operation of Melbourne's suburban train and tram networks have resulted in the acquisition of these services at a competitive price. The Committee also believes that a high standard needs to be achieved in the provision of these services, particularly in terms of safety and reliability and appropriate risk sharing between the various parties involved in the partnering arrangement.

Various matters dealing with the new public transport partnership agreements will be reviewed by the Committee as part of its examination of the 2003-04 budget outcomes.

⁶² Budget Paper No.3, *2004-05 Service Delivery*, p.26

⁶³ *ibid.*, pp.26-27

⁶⁴ *ibid.*, pp.27 and 285

The Committee is aware that the Auditor-General is considering undertaking a review of selected aspects of public transport franchising arrangements.⁶⁵ The proposed review will assess the effectiveness of the oversight of the contractual arrangements by the Government, and the overall costs/benefits and the sustainability of a selected service.⁶⁶

(e) Country/interstate rail services - 2003-04 budget overrun

The Minister advised the Committee that, apart from the two metropolitan train and tram passenger services formerly operated by National Express and now governed by the new partnership arrangements, V/Line passenger services, which were also operated by National Express, has reverted to Government control until such time as the fast rail project has been concluded.⁶⁷

The Minister explained that:⁶⁸

- of the three passenger services formerly operated by National Express, V/Line was the area of business that was losing the most amount of money during that period; and
- the Government is providing financial stability to V/Line under Government management for the continuation of country passenger services in the same way that it is endeavouring to place metropolitan passenger services on a firm financial footing.

Basically, the additional costs to the Government of operating V/Line equates to the shortfall previously borne by National Express between the cost of operating V/Line and the two metropolitan services, as compared to the revenue received by National Express under the franchise agreement, subsidies and passenger revenue. The absorption of these additional costs by Government has necessitated the provision of additional budget capacity for the provision of country/interstate rail services.⁶⁹ The Committee was advised that these developments have contributed to the expected total output cost for country/interstate rail services of \$162.8 million in 2003-04 exceeding the target of \$133.9 million by \$28.9 million.⁷⁰

⁶⁵ Auditor-General Victoria, *2004-05 Annual Plan*, p.46

⁶⁶ *ibid.*

⁶⁷ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.6

⁶⁸ *ibid.*

⁶⁹ *ibid.*

⁷⁰ *ibid.*, and Budget Paper No.3, *2004-05 Service Delivery*, p.120

The Committee recommends that:

Recommendation 74: **The Government ensure that the level of subsidy provided to V/Line is based on sound costing structures and realistic estimates of growth in patronage.**

(f) *New public transport ticketing system - project development*

The budget allocates \$12.9 million in 2004-05 (\$4.5 million, 2003-04) to continue the development of system design and procurement arrangements for extending/renewing the public transport ticketing system beyond 2007 when the current contract expires.⁷¹

The Committee was informed by the Minister that the funds will be used by the Transport Ticketing Authority (TTA) throughout the contract specification and award phase to:⁷²

- develop a strategy for the new ticketing solution's procurement and financing and prepare the commercial and technical business requirements contract documentation for this complex system, including a comprehensive and robust risk management strategy and plan, and an open architecture reference model;
- undertake essential consultation and extensive market research with customers and transport operators to design a new ticketing system that meets their needs;
- evaluate tenders and finalise contract negotiations; and
- develop comprehensive test plans, and monitor and ensure quality assurance compliance to be assured that the Authority's specified requirements are being met at every stage of the process.

In addition, the Committee was advised that the Authority is actively working with the transport operators and the new Metlink organisation to continuously improve the existing Metcard system.

The Committee stresses the importance that key budget initiatives, such as the introduction of the new public transport ticketing system, be delivered to the Victorian community on schedule and in a cost effective manner.

⁷¹ Budget Paper No.3, *2004-05 Service Delivery*, pp.285-286

⁷² Minister for Transport's response to the Committee's follow-up questions, pp.10-11, question 10

(g) Channel deepening for the Port of Melbourne

The Committee, in its *Report on the 2002-2003 Budget Estimates*, acknowledged that the Port of Melbourne is a vital component of the infrastructure in the Victorian economy, facilitating significant movement of cargo and contributing to around six per cent of state domestic product.⁷³ The Committee noted that the channel deepening proposal for the Port of Melbourne has a long lead time that could be from two to three and a half years.⁷⁴

The significance of this project to Victoria is evidenced by the following comment made by the Minister at the estimates hearing:⁷⁵

There is a lot riding on the Environmental Effects Statement because the Port of Melbourne is the key engine for economic activity for Victoria. If we want our farmers and our industry to produce more than we need locally, we have got to provide that to the rest of the world through trade, and 98 per cent of export trade is undertaken through shipping.

Recognising the potential significant economic benefits of the project, the Government has committed funding of \$14.9 million in 2004-05 for the acceleration and completion of detailed design studies for deepening the shipping channels at the Port of Melbourne.⁷⁶

The Channel Deepening Environmental Effects Statement, which the Minister described as '*probably the biggest, most complex and comprehensive ever undertaken in Victoria*',⁷⁷ was made public on 5 July 2004.⁷⁸ Its key findings indicate that the environmental impacts on Port Phillip Bay will be temporary and can be managed sustainably.⁷⁹

The Minister advised the Committee that the reason for extending the timeline for progressing the detailed investigations involved in channel deepening to an agreed stage (from August 2003 to June 2004)⁸⁰ was that the length of time required to prepare for, and have the Environment Effects Statement concluded, was not factored into the early estimate.⁸¹

⁷³ Public Accounts and Estimates Committee, *Report on the 2002-2003 Budget Estimates*, p.286

⁷⁴ *ibid.*

⁷⁵ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.9

⁷⁶ Budget Paper No.3, *2004-05 Service Delivery*, p.264

⁷⁷ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.9

⁷⁸ *ibid.*

⁷⁹ Port of Melbourne Corporation, media release, 5 July 2004

⁸⁰ Budget Paper No.3, *2004-05 Service Delivery*, p.338

⁸¹ Hon. P. Batchelor, MP, Minister for Transport, transcript of evidence, 20 May 2004, p.10

The Committee recommends that:

Recommendation 75: **The Department of Infrastructure ensure that future major projects involving complex environmental considerations take into account the time involved in undertaking Environment Effects Statements.**

On the assumption that the outcome of the Environment Effects Statement is satisfactory, the Committee inquired about cost allocation models and anticipated completion dates for channel deepening.⁸² The Committee was interested to hear from the Minister that:⁸³

- the Government expects the channel deepening to be completed by about the middle of 2007;
- while the total end cost of the project cannot be determined until the environmental effects process is completed, it is expected it will range between \$350 million and \$450 million; and
- when the estimated end cost is determined, the Government will decide how the project will be funded and the apportionment of costs between the various potential contributors.

The Government announced on 5 July 2004 the estimated cost of the project is around \$400 million, which will be primarily recouped by the Port of Melbourne Corporation from port users.⁸⁴ The Government also signalled that it may be prepared to make a contribution to the project subject to its approval.⁸⁵ However, the Minister advised the Committee that the final funding arrangements for the Government and the Port of Melbourne Corporation can only be determined following completion of the environmental assessment and business case stages of the project's development.⁸⁶

The Committee recommends that:

Recommendation 76: **In order for the economic benefits from the channel deepening project for the Port of Melbourne to materialise in a timely manner, the Government give this project a high priority and resolve the outstanding funding arrangements as soon as practicable.**

⁸² *ibid.* p.9

⁸³ *ibid.* pp.9–10

⁸⁴ Port of Melbourne Corporation, media release, 5 July 2004

⁸⁵ *ibid.*

⁸⁶ Minister for Transport's response to the Committee's follow-up questions, p.9, question 7b

8.6 Major Projects portfolio

8.6.1 2004-05 outlook for the portfolio

The Minister for Major Projects has sole responsibility for the Major Public Construction and Land Development output within the Metropolitan Transport Infrastructure and Public Development Projects output group of the department.

Major Projects Victoria provides advice on property development and construction related issues to the Minister for Major Projects and agencies across the Victorian public sector.⁸⁷ It is involved in large scale projects that sit outside programmed capital works (eg. roads, public housing, schools) and significantly contribute to the state's cultural and economic infrastructure.⁸⁸

Projects currently handled by Major Projects Victoria include the redevelopment of arts and sports facilities such as the Victorian State Library refurbishment and the Melbourne Sports and Aquatic Centre (Stage 2); land development and realisation projects at Beacon Cove and Mont Park; and investment projects such as the Docklands Film and Television Studios.⁸⁹

Several projects managed by Major Projects Victoria are being delivered under the Partnerships Victoria policy, which involve private sector participation in the finance, design and construction of public infrastructure facilities. These projects include the redevelopment of the Royal Melbourne Showgrounds (under a joint venture with the Royal Agricultural Society), the Docklands Film and Television Studio and the Commonwealth Games Athletes' Village.⁹⁰

Major Projects Victoria is also managing the selection process for a containment facility for hazardous industrial waste,⁹¹ with a decision on the preferred location to be made in December 2004.⁹²

The 2004-05 budget included asset initiatives with a combined total estimated investment (TEI) of approximately \$2 billion.⁹³ Major projects announced in the *Victoria: Leading the Way* economic statement and 2004-05 Budget include:⁹⁴

⁸⁷ Department of Infrastructure, *2002-03 Annual Report*, p.14

⁸⁸ Department of Infrastructure, Major Projects Victoria, <http://www.majorprojects.vic.gov.au>

⁸⁹ *ibid.*

⁹⁰ Department of Infrastructure, *2002-03 Annual Report*, pp.15–17

⁹¹ *ibid.*, p.17

⁹² Department of Infrastructure, *Industrial Waste Management Community Update 1*, February 2004, p.3

⁹³ 2004-05 Victorian Budget Overview: *Growing Victoria Together*, p.11

⁹⁴ Budget Paper No. 2, *2004-05 Strategy and Outlook*, pp.8–9

- \$367 million (TEI) for the redevelopment of the Melbourne Convention Centre. The project would be developed under the Partnerships Victoria policy, so final Government funding would not be known until a tender process was completed and the contribution of the private sector finalised;⁹⁵
- \$15 million (TEI) for the completion and acceleration of detailed feasibility studies and design plans for the channel deepening project development proposal, with a total project value of between \$350 million and \$450 million; and
- \$4.7 million over two years towards final site analysis and site design for the relocation and redevelopment of the Melbourne Wholesale Markets.

8.6.2 Analysis of the budget

The Minister for Major Projects has responsibility for the major Public Construction and Land Development output within the Metropolitan Transport Infrastructure and Public Development Projects output group. The cost of the output was estimated to be \$1.6 million in 2004-05, a decrease of \$100,000 (5.9 per cent) compared to the 2003-04 expected outcome.⁹⁶ The output accounts for less than one per cent of the Department of Infrastructure's budget for 2004-05.⁹⁷

8.6.3 Performance measures

The Department of Infrastructure advised they continued to refine performance measures in the 2004-05 Budget Papers relating to the Metropolitan Transport Infrastructure and Public Development Projects output. Three of the five new performance measures under this output were quantity measures and related to new improvement works being undertaken through Major Projects Victoria,⁹⁸ whereas performance measures deleted (two timeliness measures and one quantity measure) invariably related to projects completed in prior years.⁹⁹ Most performance measures were either of a timeliness nature reflecting project completion within specified dates or of a quantitative nature reflecting the number of project management assignments to be commenced within the period.¹⁰⁰

Three new quantity performance measures introduced in 2004-05 specify a target of 'per cent complete'.¹⁰¹ This approach to targeting construction schedules where projects extend over more than one year is extremely useful, as is the former approach used – based on a timeliness measure that specified the project end date. However, it

⁹⁵ Hon. S. Bracks, MP, Premier of Victoria, media release, *Convention Centre to spark Southbank redevelopment*, 21 April 2004

⁹⁶ Budget Paper No. 3, *2004-05 Service Delivery*, pp.131–32

⁹⁷ *ibid.*, pp.112–138

⁹⁸ Budget Paper No. 3, *2004-05 Service Delivery*, pp.131–132

⁹⁹ *ibid.*, p.340

¹⁰⁰ *ibid.*, pp.131–132

¹⁰¹ *ibid.*

is unclear on what basis progress for these projects is being assessed (for example, expenditure paid to contractors, project milestones achieved or elapsed time).

The Committee recommends that:

Recommendation 77: **The Department of Infrastructure ensure that performance measures contained in the Budget Papers to supplement project end dates, which relate to the percentage completion of projects, specify on what basis completion is being assessed.**

8.6.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Major Projects identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05.

(a) Hazardous industrial waste - long-term containment facility

In November 2003 the Government announced that, given the existing waste management facilities at the Tullamarine and Lyndhurst sites will reach maximum capacity within the next five to ten years, three areas would be considered for the establishment of a containment facility for residual industrial waste in Victoria.¹⁰² Following a rigorous statewide examination undertaken by Major Projects Victoria involving the use of independent experts, the following three areas would be the focus of an Environmental Effects Statement to determine their suitability as a waste management facility.¹⁰³

- Baddaginnie (180 kilometres north-east of Melbourne);
- Pittong (170 kilometres south-west of Melbourne); and
- Tiega (450 kilometres north-west of Melbourne).

While these three sites best met the selection criteria that involved soil type, water resources, buffer zones and transport, the Minister for Major Projects indicated that the final site would be decided by the Government once all environmental, social and economic factors had been considered.¹⁰⁴ The Environment Effects Statement was expected to take about 12 months to complete with local communities having the opportunity to be involved and assist in evaluating the sites.¹⁰⁵

¹⁰² Hon. P. Batchelor, Minister for Major Projects and Hon. T. Holding, Minister for Manufacturing and Export, media release, *Victoria Leads Environmental Management of Waste*, 12 November 2003

¹⁰³ *ibid.*

¹⁰⁴ *ibid.*

¹⁰⁵ *ibid.*

Despite the extensive investigation to identify the potential sites, the Government subsequently announced that early environmental assessments and concerns expressed by local communities had meant that the sites at Baddaginnie and Pittong were no longer a consideration.¹⁰⁶ The Minister then announced withdrawal of the study area at Tiega, after the local community requested that the site for the facility be located in a sparsely populated part of the state and on Crown land.¹⁰⁷ The Government announced that the preferred site for the location of the waste containment facility is a location near Nowingi (40 kilometres from the Tiega study area and 30 kilometres north of Ouyen)¹⁰⁸, which will be the subject of a full Environment Effects Statement to assess the environmental, social and economic effects of the proposal.¹⁰⁹

Inquiries by the Committee revealed that \$3.55 million had been incurred by the Government in identifying the three potential sites, which were subsequently withdrawn from consideration after issues had been raised by the local communities:¹¹⁰

- \$890,000 - siting investigations (consultancies, research, studies and subsequent publicity and other promotional efforts);
- \$660,000 - long-term containment facility project team expenses; and
- \$2 million - cost of the soil recycling project including committee costs, community consultation activities, communications, site studies, research and technical advice.

The Budget Papers reveal that, as part of the Government's commitment to phase out the disposal of hazardous waste to landfill, \$8.5 million (\$1 million, 2003-04; \$6.5 million in 2004-05 and \$1 million in 2005-06)¹¹¹ was allocated to complete the final phase of the hazardous waste siting project. This final stage includes identification, assessment and acquisition of a site.¹¹² The Minister advised the Committee that the Government believes the budget allocation will be sufficient to finalise the Environment Effects Statement on Nowingi and resolve related issues, however the total cost of the project will be dependent on the outcomes of the Environment Effects Statement.¹¹³

The Budget Papers show that the target for lodgement of an application for statutory approval for the long-term containment facility has moved from December 2003 to August 2004, while design and Environment Effects Statement investigations and

¹⁰⁶ Office of the Premier, media release, *Premier announces next step for hazardous waste facility*, 19 May 2004

¹⁰⁷ Hon. P. Batchelor, Minister for Major Projects, media release, *Minister visits Mildura region to discuss containment facility*, 4 June 2004

¹⁰⁸ Office of the Premier, media release, *Premier announces next step for hazardous waste facility*, 19 May 2004

¹⁰⁹ Hon. P. Batchelor, Minister for Major Projects, media release, *Minister visits Mildura region to discuss containment facility*, 4 June 2004

¹¹⁰ Minister for Major Projects' response to the Committee's follow-up questions, question 1, page 1

¹¹¹ Budget Paper No.3, *2004-05 Service Delivery*, p.287

¹¹² *ibid.*, p.288

¹¹³ Hon. P. Batchelor, MP, Minister for Major Projects, transcript of evidence, 20 May 2004, p.6

community consultations are continuing.¹¹⁴ The target in the Budget Papers for statutory approval to be given for the long-term containment facility is shown as May 2005.¹¹⁵ At the estimates hearing the Minister informed the Committee that the Government expects it will take another 12 months from May 2004 for the Environment Effects Statement process to be completed, before it can be made available for statutory approval.¹¹⁶

The Committee is aware that the Government has indicated that there is an urgent need to establish a new hazardous industrial waste site to accommodate the increased needs of industry.

(b) Project management and financial evaluation skills

The Committee was also interested to determine whether contracting arrangements with project feasibility panel firms include arrangements for skills transfer to the staff of Major Projects Victoria.

The Minister informed the Committee that the acquisition of project management skills is a key and important issue.¹¹⁷ It is an issue that the Government has recognised that needs to be upgraded, particularly to accommodate the changed requirements of a Partnerships Victoria approach to the financing of projects.¹¹⁸ According to the Minister, teams that operate in Major Projects Victoria are structured with project directors leading projects, and with other team members supporting different aspects of the project.¹¹⁹ Consultants work closely with the project director or the project manager and, on some occasions, are physically located with the Major Projects Victoria team.¹²⁰

Generally as part of these arrangements involving external consultants, certain skills are transferred on the job to members of the Major Projects Victoria team.¹²¹ For example, if an expert is engaged to undertake project management or conduct commercial arrangements or deal with legal documentation, every effort is made to transfer those skills to project teams where such skills are lacking.¹²²

In addition, the Minister explained that contracts are constructed to ensure that intellectual property developed during a project, through people working with

¹¹⁴ Budget Paper No.3, *2004-05 Service Delivery*, p.132

¹¹⁵ *ibid.*

¹¹⁶ Hon. P. Batchelor, MP, Minister for Major Projects, transcript of evidence, 20 May 2004, p.8

¹¹⁷ *ibid.*, p.7

¹¹⁸ *ibid.*

¹¹⁹ *ibid.*

¹²⁰ *ibid.*, p.8

¹²¹ *ibid.*

¹²² *ibid.*

Government, is able to be used by all agencies, and not just by Major Projects Victoria.¹²³

The Committee was also advised by the Minister that, as part of a strategy to enhance the department's skills and resources in managing large and complex projects, a Project Review Committee (chaired by the Deputy Secretary-Capital) was established to oversee all project and planning processes.¹²⁴ The Project Review Committee contributes to the department's management of major projects by imposing a quality assurance regime on the development of major projects to ensure that projects forming part of the department's budget bid to Government have been developed to a high professional standard.¹²⁵

Through a series of formal reviews by senior executives and independent experts at key points in the development of a project proposal, the process seeks to ensure projects have demonstrable strategic and economic merit, and are accurately scoped, costed and planned, prior to formal approval.¹²⁶

In recognising the crucial role the department plays in managing large and complex infrastructure projects that involve billions of dollars, the Committee reinforces the need for the department to constantly review the project management skills of staff in order to ensure the state's major projects are delivered on time, to an appropriate standard and within budget.

The Committee recommends that:

Recommendation 78: **The Department of Infrastructure keep under review the project management skills of staff, supplemented with appropriate training where required, in order to ensure the state's major capital projects are delivered on time, to an appropriate standard and within budget.**

¹²³ *ibid.*

¹²⁴ Department of Infrastructure, *2002-03 Annual Report*, p.18

¹²⁵ Minister for Major Projects' response, received 10 August 2004, to the Committee's follow-up questions

¹²⁶ *ibid.*

(c) Royal Melbourne Showgrounds Redevelopment

The Royal Melbourne Showgrounds are being redeveloped over a three year period in a joint venture arrangement between the Government and the Royal Agricultural Society of Victoria.¹²⁷ Approval to proceed with the Partnerships Victoria approach was obtained in May 2003 and the project is expected to be completed by 2006.¹²⁸ The project is being carried out in partnership between the Department of Infrastructure and the Department of Primary Industries.

The 2004-05 Budget Papers reveal that the principal aim of the redevelopment of the site, which is currently in the market, is to transform the showgrounds land portion of the site into a high quality multipurpose venue for the staging of the annual Royal Melbourne show and other events,¹²⁹ with a focus on growing and promoting Victoria's agribusiness sector.¹³⁰ To stage a bigger and better Royal Melbourne Show, bidders needed to provide at least 63,000 metres square of both new and existing buildings which is equivalent to more than six times the size of the Melbourne Cricket Ground.¹³¹ The Government indicated that the promotion, showcasing and advancement of the Victorian agribusiness sector, a key objective of the redevelopment project, will assist in achieving the Government's \$12 billion export target for agriculture and food product by 2010.¹³²

According to information received from the Department of Primary Industries, estimated actual expenditure for 2003-04 with regard to the Melbourne Showgrounds Redevelopment amounted to only \$6 million compared to the budget of \$70.3 million.¹³³ The department advised the Committee that when funding for the project was approved as part of the 2002-03 budget, implementation details were not known and as a result of having to finalise arrangements relating to the establishment of the joint venture, expenditure in 2003-04 has been much less than budgeted.¹³⁴ The Government has contributed \$101.7 million to secure the most viable and appropriate development plan for the site.¹³⁵ During 2003-04 the Treasurer approved the re-

¹²⁷ Department of Infrastructure, *2002-03 Annual Report*, p.16

¹²⁸ *ibid.*

¹²⁹ Budget Paper No.2, *2004-05 Strategy and Outlook*, pp.57-58

¹³⁰ Minister for Agriculture, media release, *Roll up, roll up - bids called for showgrounds upgrade*, 2 October 2003

¹³¹ Minister for Agriculture and Minister for Major Projects, media release, *Next steps taken in historical showgrounds redevelopment*, 31 March 2004

¹³² Minister for Agriculture, media release, *Roll up, roll up - bids called for showgrounds upgrade*, 2 October 2003

¹³³ Department of Primary Industries response to the Committee's 2004-05 Budget Estimates questionnaire, p.22

¹³⁴ *ibid.*, p.23

¹³⁵ Minister for Agriculture and Minister for Major Projects, media release, *Next steps taken in historical showgrounds redevelopment*, 31 March 2004

phasing of the project and extending the project's completion date from June 2004-05 to 2006-07.¹³⁶

Although the Government announced in March 2004 that the forthcoming comprehensive tender process has meant that no decisions had yet been made on the redevelopment's final appearance,¹³⁷ the Committee was informed by the Minister for Agriculture in July 2004 that *'the project continues to be on schedule and the Joint Venture is satisfied with the progress to date in the procurement phase of the project'*.¹³⁸ The status of the project, as announced by the Government in August 2004, was that the three short-listed consortia invited to submit a proposal in response to the March 2004 'Request for Proposal' had been reduced to two parties.¹³⁹

(d) Spencer Street Station Redevelopment

In July 2002 the Premier announced that the Spencer Street Station would be redeveloped at a cost of \$700 million. The redevelopment involves construction of a new rail transport interchange, a new retail plaza and three office and apartment towers.¹⁴⁰

Features associated with the redevelopment include:¹⁴¹

- track and signalling works;
- an innovative 'wave roof' design spanning across all platforms;
- a 30-bay bus station accommodating terminating and transiting coaches and buses and secure, sheltered parking facilities for 800 cars;
- links to Docklands via the Collins and Bourke Street alignments; and
- a new footbridge that will link Lonsdale Street with Colonial Stadium and connect with a retail plaza.

Construction was planned to commence in September 2002 and be completed by mid 2005 in time for the 2006 Commonwealth Games. The redevelopment is to be delivered in line with the Partnership Victoria policy framework for the provision of public infrastructure.¹⁴² Following a public tender process lasting almost one year,¹⁴³

¹³⁶ Department of Primary Industries response to the Committee's 2004-05 Budget Estimates questionnaire, p.17

¹³⁷ Minister for Agriculture and Minister for Major Projects, media release, *Next steps taken in historical showgrounds redevelopment*, 31 March 2004

¹³⁸ Minister for Agriculture's response to the Committee's follow-up questions, p.19

¹³⁹ Minister for Agriculture and Minister for Major Projects, media release, *Ministers confirm two parties in the race for showgrounds redevelopment*, 12 August 2004

¹⁴⁰ Office of the Premier, media release, *Southern Cross Station to change the face of Melbourne*, July 2, 2002

¹⁴¹ *ibid.*

¹⁴² www.linkingvictoria.vic.gov.au, page 2

¹⁴³ *ibid.*

the winning consortium was announced as Civic Nexus, with Leighton Contractors major consortium member.¹⁴⁴

The Minister for Major Projects has indicated that the state is protected financially from time and cost overruns on the project not caused by, or the result of, Government action.¹⁴⁵

The Committee is aware that some aspects of both the redevelopment and the associated Public Private Partnership (PPP) arrangements have been the subject of critical comment by Leighton Contractors. The Committee will be tabling a report on the broader policy issues associated with Public Private Partnership arrangements later this year, including the Spencer Street Station Redevelopment.

8.7 Information and Communication Technology portfolio

8.7.1 2004-05 outlook for the portfolio

While there are no new major activities planned for 2004-05 listed as initiatives in the Budget Papers, there are a number of strategic programs to be delivered in 2004-05 in the areas of eGovernment infrastructure, industry and community development. These activities include the continued implementation of the Government's agenda as outlined in the Growing Tomorrow's Industries Today Regional Connections and Putting People at the Centre Strategies. A portfolio priority is the continued implementation of the Telecommunications Purchasing and Management Strategy and other telecommunications initiatives, including those directed at improving access to, and the uptake of, broadband.¹⁴⁶

8.7.2 Analysis of the portfolio budget

As shown in exhibit 8.8, the Minister for Information and Communication Technology has responsibility for two outputs that reside in the Department of Infrastructure and one new output in the Department of Premier and Cabinet.

¹⁴⁴ Hon. P. Batchelor, Minister for Major Projects, Minister for Transport, media release, *Victoria gets first glimpse inside Spencer Street Station Redevelopment*, 6 December 2003

¹⁴⁵ Hon. P. Batchelor, Minister for Major Projects, media release, *Taxpayers protected under Spencer Street Station project*, 7 May 2004

¹⁴⁶ Budget Paper No. 3, *2004-05 Service Delivery*, p.116

Exhibit 8.8: Information and Communication Technology Portfolio Output costs

Output Group	Outputs under the responsibility of the Minister for Information and Communication Technology	2004-05 Budget (\$ million)
ICT and Multimedia	Department of Infrastructure	
	ICT Industry and Community Development	17.1
	eGovernment Infrastructure and ICT policy	32.5
Sub total		49.6
Strategic Policy Advice and Projects	Department of Premier and Cabinet	
	ICT Strategy and Services (a)	8.4
Total		58.0

Note: (a) New output established as a result of the newly-formed Office of the Chief Information Officer

Sources: Budget Paper No.3, 2004-05 Service Delivery, pp.116–117, 183

8.7.3 Performance measures

Of the ten new performance measures for the ICT portfolio, seven relate to the new output, ICT Strategy and Services (in the Department of Premier and Cabinet).¹⁴⁷ The three other new measures relate to the ICT Industry and Community Development output and reflect either new programs or stages of program implementation.

Two performance measures discontinued in 2004-05 relate to completed projects.¹⁴⁸

8.7.4 Key issues impacting on the portfolio

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Information and Communication Technology identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05.

¹⁴⁷ *ibid.*, p.183

¹⁴⁸ *ibid.*, p.338

(a) Telecommunications Purchasing and Management Strategy

The Budget Papers reveal that a priority in 2004-05 will be the continued implementation of the Telecommunications Purchasing and Management Strategy (TPAMS) together with a number of other telecommunications initiatives, including those directed at improving access to, and the uptake of, broadband.¹⁴⁹

TPAMS has been established to provide a strategic framework for the procurement and management of telecommunications services across the whole of the Victorian Government.¹⁵⁰ TPAMS is designed to provide departments and agencies with a better range of telecommunications services, more competitive telecommunications pricing and the ability to access the latest technology to improve their operations.¹⁵¹ The Rosetta project is an associated program to develop a world-leading online directory service that will involve integrating directories for the whole of the Victorian Government.¹⁵² The initiative aims to reduce the task of managing this process, streamlining access to information on Government for staff, business and the public.¹⁵³

Given that the Government's Telecommunications Purchasing and Management Strategy (TPAMS), established in 2002-03, is a large ongoing project, the Committee was interested in following up a number of matters concerning the project's budget, timelines, depreciation and capital assets charge and monitoring arrangements.

Budget

As indicated in exhibit 8.9, the \$47.7 million capital budget reflects the Local Area Network (LAN) upgrade component and the re-scheduling of capital expenditure associated with contract negotiations on Telecommunication Carriage Services and Rosetta tenders.¹⁵⁴

¹⁴⁹ Budget Paper No.3, *2004-05 Service Delivery*, p.116

¹⁵⁰ website: [www.DepartmentofInfrastructure](http://www.DepartmentofInfrastructure.vic.gov.au) of Infrastructure, Multimedia Victoria, accessed 10 August 2004

¹⁵¹ *ibid.*

¹⁵² *ibid.*

¹⁵³ *ibid.*

¹⁵⁴ Department of Infrastructure response to Committee's 2004-05 Budget Estimates questionnaire, pp.42, 44

Exhibit 8.9: Capital Budget for TPAMS/Project Rosetta

Indicative	2002-03	2003-04	2004-05	2005-06	TEI
	(\$ million)				
TPAMS/Rosetta (a)	21.9	25.8			47.7
Approved	2002-03	2003-04	2004-05	2005-06	TEI
	(\$ million)				
TPAMS	3.9	10.7	11.8	3.7	30.1
Rosetta	1.0	1.6	6.3	4.3	13.2
Total DOI Budget					43.3
LAN Upgrade (Expenditure by other departments)					4.4
Total					(b) (c) 47.7

Notes: (a) Budget Paper No. 2, 2002-03, p.195

(b) TEI on target/unchanged

(c) Funding re-phased to meet schedules as a result of more complex consultation, design, specification, tendering and extended negotiation phases

Source: Hon. M.Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, slide no.9

The Committee was informed by the Minister that TPAMS and Project Rosetta were on schedule to be delivered within the total end cost of \$47.7 million as originally announced in the 2002-03 budget.¹⁵⁵

In terms of recurrent expenditure, actual operating expenditure for 2002-03 and the expected budget for 2003-04 to 2005-06 for TPAMS and Project Rosetta are shown in exhibit 8.10:¹⁵⁶

¹⁵⁵ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.3

¹⁵⁶ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.9

Exhibit 8.10: Operating Budget for TPAMS/Project Rosetta

	2002-03 Actual \$ million	2003-04 Expected Outturn \$ million	2004-05 Budget \$ million	2005-06 Budget \$ million
TPAMS	0.4	7.1	8.1	8.1
Rosetta	0.1	0.7	0.7	0.7
Total	0.5	7.8	8.8	8.8

Notes: Operating figures exclude depreciation and capital asset charge

The expected outturn of \$7.8 million includes carry forward funding of \$500,000¹⁵⁷

Source: Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.9, question 4 (c)

Timelines

In terms of the re-phasing of the project to 2005-06, the Minister informed the Committee that industry and departmental consultations and the design of the request for tender specifications were more complex than originally envisaged.¹⁵⁸ Given the complexity of the responses, this has meant that evaluation and negotiation tasks will also take longer to ensure the best deals are obtained for the Government and users.¹⁵⁹

In discussing the current timelines for the program, the Minister advised the project has been put into tranches in order to ensure that the Government acquires the best technology to meet the needs of Government at the best price.¹⁶⁰

Depreciation and capital assets charge

The department's eGovernment Infrastructure and ICT Policy output funds the major chief technology officer projects such as TPAMS, Project Rosetta and Victoria Online.¹⁶¹ The Budget Papers for 2004-05 reveal that the actual output cost for 2002-03 was \$14.1 million and the target for 2003-04 was \$31.3 million.¹⁶² At the estimates hearing the Minister explained that the \$17.2 million increase in output costs for 2003-04 was due to the following:¹⁶³

¹⁵⁷ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.2

¹⁵⁸ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.3

¹⁵⁹ *ibid.*

¹⁶⁰ *ibid.*, pp.5, 10-11

¹⁶¹ *ibid.*, p.3

¹⁶² Budget Paper No.3, *2004-05 Service Delivery*, p.117

¹⁶³ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, slide No.6

- TPAMS/Rosetta operating +\$6.7 million
- TPAMS/Rosetta depreciation/capital asset charge +\$12.8 million
- Victoria Online operating +\$1 million
- Office of the Chief Information Officer funding -\$700,000
- Savings identified -\$700,000
- Reduced corporate overheads -\$900,000
- Reduced carry forward -\$1 million

Given that most of the asset initiatives for TPAMS and Rosetta are not currently in place (i.e. of the total capital budget of \$47.7 million, the approved capital budget for the two projects was only \$12.3 million for 2003-04),¹⁶⁴ the Committee was interested to ascertain the rationale as to why the depreciation charge contained in the budget was so high relative to the capital expenditure incurred in 2003-04.

The Minister explained that, of the increase in the TPAMS/Rosetta depreciation/capital asset charge amounting to \$12.8 million in 2003-04, \$9.5 million relates to depreciation and \$3.3 million relates to the capital asset charge.¹⁶⁵ It was also explained to the Committee that:

- while the \$12.8 million is the relative difference between 2002-03 and 2003-04, the total allocation is \$13.1 million which was created for the 2003-04 budget;¹⁶⁶
- the depreciation and capital asset charge would have been calculated on the assumed two year time frame (2002-03 to 2003-04) associated with the \$47.7 million capital expenditure component of the budget;¹⁶⁷
- since the last budget, the timeframe associated with capital has been revised and, as such, it will be expected that actual expenditure on depreciation and the capital asset charge will be lower than originally planned;¹⁶⁸
- the Department of Treasury and Finance, in recently clarifying the capital asset charge policy in relation to intangible assets, prescribes that these assets are now exempt from the charge and, as such, there will be only minimal capital asset charges associated with the TPAMS asset project in future;¹⁶⁹ and

¹⁶⁴ *ibid.*, slide No.9

¹⁶⁵ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.2

¹⁶⁶ Mr R. Straw, Executive Director, Multimedia Victoria, Department of Infrastructure, transcript of evidence, 15 June 2004, p.12

¹⁶⁷ Mr B. McDonald, Executive Director, Corporate Resources, Department of Infrastructure, transcript of evidence, 15 June 2004, p.12

¹⁶⁸ *ibid.*

¹⁶⁹ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.3

- the depreciation rate of 25 per cent (i.e. useful life of four years) is levied on the total cost of the asset once the asset has been commissioned and is in use.¹⁷⁰

The Committee was also concerned that, while depreciation and the capital asset charge will be less in 2003-04, the budget shows a \$200,000 increase between the output cost target and expected outcome for the eGovernment Infrastructure and ICT Policy output without any note explaining the variance.¹⁷¹

The Committee believes the Budget Papers for 2004-05 should have contained a note explaining:

- that for the eGovernment Infrastructure and ICT Policy output, depreciation and the capital asset charge contained in the 2003-04 total output cost target, is based on the assumed timeframe for the TPAMS and Rosetta Projects at the time of preparing last year's budget. Since then, the re-phasing of the projects from two to four years will have the effect of reducing actual expenditure in 2003-04; and
- the projects where the outcomes for 2003-04 were expected to offset the reduced depreciation and capital asset charge relating to the TPAMS and Rosetta projects.

Monitoring and reporting - upgrading local area networks

At the hearing, the Committee was informed that \$5.6 million was transferred directly by the Department of Infrastructure in 2003-04 from the TPAMS' budget to departments to upgrade their local area networks to a set standard.¹⁷² Next financial year, a further \$4.4 million will be provided by the Department of Treasury and Finance from the Department of Infrastructure's budget to departments for the upgrade.¹⁷³ In terms of assigning responsibility for this expenditure, the Minister advised that, while the expenditure will be monitored via TPAMS, the various departments will be responsible for this expenditure and will individually report on their expenditure in 2004-05.¹⁷⁴

As the Department of Infrastructure has established a standard operating environment across Government for local area network upgrades as part of the TPAMS process¹⁷⁵ and will undertake a monitoring role via TPAMS over expenditure incurred by departments, the Committee is of the view that it would be sensible for the

¹⁷⁰ *ibid.*, p.3

¹⁷¹ Budget Paper No.3, *2004-05 Service Delivery*, p.117

¹⁷² Mr R. Straw, Executive Director, Multimedia Victoria, Department of Infrastructure, transcript of evidence, 15 June 2004, p.5

¹⁷³ *ibid.*

¹⁷⁴ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.5

¹⁷⁵ Mr R. Straw, Executive Director, Multimedia Victoria, Department of Infrastructure, transcript of evidence, 15 June 2004, p.5

Department of Infrastructure to report a consolidated summary of this activity in its annual report.

The Committee recommends that:

Recommendation 79: **The Department of Infrastructure publish in its annual report a consolidated summary of expenditure of TPAMS' funds incurred by departments for the upgrade of local area networks.**

(b) *Broadband access*

While telecommunications is a Federal Government responsibility in both a regulatory and infrastructure delivery sense, the Minister informed the Committee it is important for industry and communities to:

*...have access to what broadband will deliver them by way of access to information and knowledge and to ensure that we are managing to give Victorians an opportunity to access some broadband, but, more importantly, to encourage competition among our telecommunication companies.*¹⁷⁶

In alerting the Committee of the need to deal with the broadband infrastructure shortfall in Victoria, the Minister drew attention to the view of a technology research firm that Australia may '*continue as a broadband backwater over the next five years if uptake is not accelerated*'.¹⁷⁷ In discussing this issue the Minister stated that:¹⁷⁸

We know there are two things that affect uptake: cost and availability. We do need to get the costs down, and we have seen a bit of a war going on now with ISP providers. We also need to ensure that there is proper content on board so that as we see more and more worthwhile material go on to the Internet, there will be a greater demand for it. Having said that, there are communities that will be struggling on a business case to get access to broadband and we would hope the Federal Government would be looking at initiatives to fill the space. We as a government view telecommunications infrastructure as being as important as any major highway, and we believe that needs to be addressed.

¹⁷⁶ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004., p.6

¹⁷⁷ *ibid.*

¹⁷⁸ *ibid.*

The Committee noted that consultants commissioned by MultiMedia Victoria to examine the telecommunications market in Victoria, reported in June 2004 that unmet demand for broadband services will initially increase rapidly from 36,120 in 2003 to 68,762 by 2007 and unmet demand in the more remote areas will continue to rise until 2008.¹⁷⁹

The consultants reported that only a fraction of potential customers are likely to demand the service at current prices,¹⁸⁰ which is shown in exhibit 8.11. Research shows that the majority of unmet demand is in rural and regional Victoria.¹⁸¹

Exhibit 8.11 ADSL (asymmetric digital subscriber line) and cable unmet demand

	Total	Not covered	Unmet demand from non-covered residences/businesses
Households	1,953,561	435,194	18,835
Businesses	283,298	71,766	17,285
Total unmet demand			36,120

Source: ACIL Tasman and Multimedia Victoria, *Spend/demand - Telecommunications in Regional and Rural Victoria, June 2004, pp.33–34*

Given this background and the knowledge that improving access to, and the uptake of, broadband is a portfolio priority,¹⁸² the Committee was interested to explore what initiatives were underway to address the issue of unmet demand for these services.

The Minister advised the Committee that the Government is committed to a range of initiatives that are summarised below.¹⁸³

- developing a Broadband Framework to facilitate the delivery of enhanced telecommunications infrastructure, greater take-up, increased competition and lower prices for business and the community;
- extending the Customer Access Network Demonstrations Program, with further funding to support investment in alternative regional and rural communications services in additional locations;
- working with VicTrack to ensure commissioning of optic fibre rollout to regional areas along Regional Fast Rail routes;

¹⁷⁹ ACIL Tasman and Multimedia Victoria, *Spend/demand - Telecommunications in Regional and Rural Victoria, June 2004, p.vii*

¹⁸⁰ *ibid.*, p.33

¹⁸¹ *ibid.*, pp.38–42

¹⁸² Budget Paper No.3, *2004-05 Service Delivery*, p.116

¹⁸³ Minister for Information and Communication Technology's response to the Committee's follow-up questions, p.6

- continuing to assist small Victorian regional communities develop appropriate strategies to improve community access to telecommunications services through the Community Networks Project;
- undertaking additional Information Discovery Projects to reduce costs of information for potential regional telecommunications investors;
- supporting projects through the Broadband Innovation Fund; and
- continuing to make representations for improved regional telecommunications and participation in national broadband and regional telecommunications working groups.

The Committee is pleased that the department has taken an active role in addressing this problem.

The Committee recommends that:

Recommendation 80: **The Government keep under review the level of unmet demand for broadband services, especially in the more remote areas of Victoria, in order to assess the effectiveness of the initiatives introduced by the Department of Infrastructure to address this ongoing issue.**

(c) *Export development projects – accreditation of Australian companies*

With regard to encouraging export development projects, the Minister stressed the importance of Australian companies gaining recognised accreditation if they are to form partnerships with international and multinational companies. The Minister advised that, while the Capability Maturity Model Integration (CMMI) standards are regarded as the global standards that have to be met, not many Australian companies have attained the CMMI standards.¹⁸⁴

The Minister explained that as it is an expensive process for companies to comply with these standards the Government, in conjunction with the Software Engineers Association, has provided \$1 million to obtain a CMMI-accredited program to level 2 to assist companies attain that level of accreditation.¹⁸⁵

¹⁸⁴ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.8

¹⁸⁵ *ibid.*

(d) **Chief Information Officer and eGovernment**

In last year's estimates report, the Committee reported that funding for the Office of the Chief Information Officer (OCIO) had been appropriated through the Department of Premier and Cabinet (\$33 million over four years) to establish the office.

At the 2004-05 budget estimates hearing, the Committee enquired as to the anticipated outcomes and benefits that the Government expected from the establishment of the OCIO. The Minister explained that it is important to promote the effective use of information technology and examine where savings can be achieved by sharing and standardisation of services.¹⁸⁶

Further comment on the operations of the Office of the Chief Information Officer is included in Chapter 11 on Department of Premier and Cabinet.

8.8 Energy Industries portfolio

8.8.1 2004-05 outlook for the portfolio

The Government's energy statement, *Energy for Victoria* outlines the key objectives of Victoria's energy policy and provides a blueprint for the future. The key objectives are to:¹⁸⁷

- ensure an efficient and secure energy system;
- ensure those supplies are delivered reliably and safely;
- ensure consumers can access energy at affordable prices; and
- ensure our energy supplies and the way we use them are environmentally sustainable and in particular less greenhouse intensive.

The Energy portfolio is supported by the Energy and Security Division of the Department of Infrastructure.¹⁸⁸ The relevant output is Energy Policy Services which is responsible for the provision of policy advice to deliver Government objectives for a secure and cost effective energy supply to the state.¹⁸⁹

¹⁸⁶ Hon. M. Thomson, MLC, Minister for Information and Communication Technology, transcript of evidence, 15 June 2004, p.11

¹⁸⁷ Victoria's energy policy, www.doi.vic.gov.au, accessed 7 June 2004

¹⁸⁸ Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, Attachment 1

¹⁸⁹ Budget Paper No.3, *2004-05 Service Delivery*, p.114

The Energy and Security Division of the department works towards achieving the Government's energy policy objectives in a number of ways which include:¹⁹⁰

- taking a lead role in the National Energy Market Reform process;
- facilitating energy supply security through investment in new supplies and improved demand side responses;
- managing the Government's response to energy supply emergencies;
- facilitating effective competition in energy retailing, and maintaining a safety net of consumer protections;
- overseeing the work and governance of market institutions and economic, safety and technical regulators;
- developing integrated policies for energy sustainability with the Department of Sustainability and Environment; and
- approving grants for powerline relocation.

Major contributions in relation to energy policy are also made by the Department of Primary Industries (in facilitating exploration and production of brown coal, oil and gas, and regulating those activities) and the Sustainable Energy Authority of Victoria (in promoting renewable energy and energy efficiency).¹⁹¹

In September 2004, Victoria hosted the 2nd Carbon Sequestration Leadership Forum, which showcased new greenhouse reduction technologies.¹⁹²

8.8.2 Analysis of the budget

The Minister for Energy Industries is responsible for one output, namely Energy Policy Services, which is part of the Infrastructure Planning and Policy output group within the Department of Infrastructure.¹⁹³ The cost of the output was estimated to be 7.6 million in 2004-05, a decrease of \$1.8 million (19 per cent) compared to the 2003-04 expected outcome.¹⁹⁴

¹⁹⁰ Victoria's energy policy, www.doi.vic.gov.au, accessed 10 June 2004

¹⁹¹ Department of Infrastructure, *2002-03 Annual Report*, p.42

¹⁹² Hon. T. Theophanous, MP, Minister for Energy Industry and Resources, media release, '*Victoria to host global summit to tackle greenhouse*', 19 November 2003

¹⁹³ Budget Paper No.3, *2004-05 Service Delivery*, pp.112, 114–115; Department of Infrastructure response, received 12 May 2004, to the Committee's 2004-05 Budget Estimates questionnaire, p.2

¹⁹⁴ Budget Paper No. 3, *2004-05 Service Delivery*, pp.114–115

8.8.3 *Performance measures*

The Committee noted that there are no new performance measures for 2004-05.

The department advised that some of its internal performance indicators and targets are based on measures that would enable meaningful comparisons with similar programs and outputs in other jurisdictions. It gave as an example the Commonwealth's Mandatory Renewable Energy Target, a key driver for investment in renewable energy.¹⁹⁵

8.8.4 *Key issues impacting on the portfolio*

The department's response to the Committee's questionnaire and the estimates hearing with the Minister for Energy Industries identified the following key issues that will impact on the portfolio and its budget estimates for 2004-05.

(a) *Future obligations concerning emission and greenhouse gas reductions*

The Committee was particularly interested in exploring any factors restricting investment certainty, such as issues surrounding the non prescription of greenhouse obligations, and the potential impact on the Government of achieving its objective for a secure and cost effective energy supply.¹⁹⁶

At the hearing the Minister informed the Committee that the Government's goal is to provide low cost and environmentally responsible energy as this is fundamental to Victoria's and Australia's economic future.¹⁹⁷ The manufacturing base of Australia is in Victoria and relies on a cheap and available source of energy.¹⁹⁸ A very significant number of jobs service both directly and indirectly Victoria's energy industry and, consequently the Government is keen to ensure that investment in Victoria's energy sector continues in the future.¹⁹⁹

The Minister drew attention to a number of issues surrounding a lack of certainty among potential investors in the Victorian energy sector with regard to investing in traditional sources of energy supply such as coal and gas.²⁰⁰

According to the Minister, there is a need for investor certainty regarding future obligations in relation to emission reductions and greenhouse gas reductions.²⁰¹

¹⁹⁵ Department of Infrastructure response to the Committee's 2004-05 Budget Estimates questionnaire, p.17

¹⁹⁶ Budget Paper No.3, *2004-05 Service Delivery*, p.114

¹⁹⁷ Hon. T. Theophanous, MLC, Minister for Energy Industries, transcript of evidence, 23 June 2004, p.3

¹⁹⁸ *ibid*

¹⁹⁹ *ibid.*

²⁰⁰ *ibid.*, pp. 3-4

²⁰¹ *ibid.*, p.3

Questions that focus on issues connected with these reductions need clarification to provide a greater level of certainty among potential investors.²⁰² The Minister maintained that the ongoing refusal of Australia to be part of the Kyoto protocol adds significantly to this uncertainty.²⁰³ The Government believes disclosure of information on emission strategies would encourage organisations to invest, thereby providing a basis for a secure and cost effective energy supply for Victorians.

In response to investor uncertainty about future greenhouse gas emission obligations, the Government has initiated a Greenhouse Challenge for Energy Project and participates in an inter-jurisdictional group arising out of the Ministerial Council on Energy.²⁰⁴

The Committee was informed that the Greenhouse Challenge for Energy Project is a process developed by the Government to deliver on a series of its commitments relating to the reduction of greenhouse gases from the energy sector. As part of the project, potential energy sector greenhouse policy measures for Victoria have been subject to economic modelling and analysis by a private sector consortium, to determine their likely impact on Victoria under a range of possible scenarios (Allen Consulting Group Report). A position paper from the Government, as a response to the Allen Report, will be made publicly available in the second half of 2004.²⁰⁵

Victoria together with other states and territories in February 2004 established a inter-jurisdictional working group, to examine emissions trading.²⁰⁶ The Minister advised the Committee that the terms of reference for the inter-jurisdictional group are expected to be made public when participating governments announce decisions on the working group's recommendations.²⁰⁷ The working group is expected to report to relevant Ministers by the end of 2004.²⁰⁸

The Minister explained that a national emission trading scheme should not be seen as a restriction.²⁰⁹ It is a method whereby companies can obtain credits for reducing emissions and be able to trade these in circumstances where the company is more successful than competitors.²¹⁰ Emission trading allows companies to remit in excess of their allocation of allowances by purchasing allowances from the market.²¹¹ Similarly, a company that emits less than its allocation of allowances can sell its surplus allowances.²¹² It is, in the opinion of the Minister, a very successful scheme applied in many other countries and, while it has not resulted in the collapse of their

²⁰² *ibid.*

²⁰³ *ibid.*

²⁰⁴ *ibid.*

²⁰⁵ *ibid.*, p.2

²⁰⁶ Minister for Energy Industries' response to the Committee's follow-up questions, pp.12-13

²⁰⁷ *ibid.*, p.12

²⁰⁸ *ibid.*

²⁰⁹ Hon. T. Theophanous, MLC, Minister for Energy Industries, transcript of evidence, 23 June 2004, p.7

²¹⁰ *ibid.*

²¹¹ www.defra.gov.uk/environment/climate change/trading (Department of Environment, Food and Rural Affairs), accessed 28 July 2004

²¹² *ibid.*

energy systems, it has provided certainty for those energy supply systems around the world.²¹³

The Committee notes the policy developmental work underway at the state level surrounding emission reductions. The Committee appreciates that there are many conflicting and complex issues to be addressed in developing options for reducing the state's greenhouse gases.

(b) The Centre for Energy and Greenhouse Technologies

The Government provided funding of up to \$14.25 million over three years to the Centre for Energy and Greenhouse Technologies in the Latrobe Valley.²¹⁴ The Centre, a first of its kind in Australia, has been established as a private company to encourage industry participation and co-investment in research, development, demonstration and commercialisation of energy-specific technologies.²¹⁵ The Centre will fund energy research and development projects at the new and emerging pre-commercial stage, such as technologies that increase efficiency or reduce greenhouse gas emissions when using fossil fuels for energy supplies.²¹⁶

The Minister advised the Committee that the Centre has received 91 expressions of interest for funding to date across the research, development, demonstration and commercialisation continuum.²¹⁷

The Committee recommends that:

- Recommendation 81:** **The Department of Infrastructure, in conjunction with co-investors, develop a monitoring regime to assess the effectiveness of the Centre for Energy and Greenhouse Technologies, in terms of:**
- (a) developing new sustainable energy and greenhouse gas reduction technologies; and**
 - (b) generating commercial returns by meeting the growing and global demand for these technologies.**

²¹³ Hon. T. Theophanous, MLC, Minister for Energy Industries, transcript of evidence, 23 June 2004, p.7

²¹⁴ Hon. T. Theophanous, MLC, Minister for Energy Industries and Resources and Hon. J. Brumby, MP, Minister for Innovation, media release, *Greenhouse Technology Centre, a first for Australia*, 8 August 2003

²¹⁵ *ibid.*

²¹⁶ *ibid.*

²¹⁷ Minister for Energy Industries' response to the Committee's follow-up questions, p.10

(c) Risk management by Victoria's energy companies

Security of supply

The department initiated a review of the adequacy of security risk management by Victoria's energy companies in 2002-03.²¹⁸ The review considered security risk management in the electricity, gas and liquid fuel industries, primarily from a security of supply perspective and cost \$305,000.²¹⁹

The review found that, although facilities were below international standards in relation to one criterion, namely security risk management preparedness, many of the shortcomings in security risk management could be relatively easily and cost-effectively rectified.²²⁰ All of the owners and operators of the individual critical infrastructure facilities have provided substantive responses to the department, outlining the measures they are taking to rectify the identified deficiencies.²²¹

The Committee was further assured by the Minister that the department is reviewing these responses, as part of an ongoing dialogue with the owners and operators on the adequacy of their security risk management preparedness.²²²

The Minister also advised that a number of the Review findings are still to be implemented, as they will involve consultation with other agencies and/or jurisdictions. Work to progress these findings is being undertaken through a number of processes.²²³

Counter terrorism approach - emergency management for critical infrastructure in the energy sector

The Minister advised the Committee that ongoing work is required to identify the critical energy infrastructure to be declared as per the requirements of the *Terrorism (Community Protection) Act 2003*.²²⁴ As part of this process, declared owners/operators will need to develop a risk management plan that:²²⁵

- assesses the risks of a terrorist attack;
- sets out measures to prevent or reduce the risk of an attack;
- establishes procedures for response and recovery from an attack;

²¹⁸ Department of Infrastructure, *2002-03 Annual Report*, p.43

²¹⁹ Minister for Energy Industries' response to the Committee's follow-up questions, p.3

²²⁰ *ibid.*, p.4

²²¹ *ibid.*

²²² *ibid.*

²²³ *ibid.*, pp.4-5

²²⁴ *ibid.*

²²⁵ *ibid.*

- establishes procedures to provide for the continued safe operation of the essential service;
- requires that a self audit of the plan be conducted on an annual basis; and
- requires the department to participate in at least one exercise a year with Victoria Police to test the plan.

The Committee acknowledges that various processes are in progress for dealing with security over the supply of energy and emergency management for critical infrastructure. However, given the essential nature of services provided by the energy sector to the Victorian community, the Committee emphasises the significance of addressing these outstanding matters in a timely manner.

The Committee recommends that:

- Recommendation 82:** **That the Department of Infrastructure give priority to ensuring that:**
- (a) **the continued supply of energy provided by the electricity, gas and liquid fuel industries is adequately safeguarded; and**
 - (b) **the identification of critical energy infrastructure to be declared under the *Terrorism (Community Protection) Act 2003* and the development of risk management plans are finalised as soon as possible.**

