

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Private Sector Investment in Public Infrastructure Subcommittee

Inquiry into private sector investment in public infrastructure

Brisbane – 22 October 2002

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Witnesses

Mr S. Drabsch, Executive Director; and

Mr T. Crane, Principal Project Officer, Infrastructure Partnerships Task Force, Queensland Department of State Development.

The CHAIRMAN — I declare open this subcommittee hearing on private sector investment in public infrastructure. I welcome Mr Shaun Drabsch, director of the infrastructure partnerships task force from the Department of State Development, and Mr Tim Crane, principal project officer, infrastructure partnerships project.

All evidence taken by this subcommittee is taken under the provisions of the Victorian Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege.

All evidence given today is being recorded, and as witnesses you will be provided with proof versions of the transcript probably within a week.

Mr Drabsch, would you like to make an opening statement to the committee?

Mr DRABSCH — Thank you, Chairman, and members of the committee. I appreciate the opportunity to discuss with you what we are doing in Queensland with regard to public–private partnerships (PPPs). My name is Shaun Drabsch. My title is actually executive director of the infrastructure partnerships task force, just for the record.

Queensland has been looking actively at the public–private partnerships area for the last three years. In September of 2001 cabinet passed a PPP policy entitled Value for Money for the Delivery of Infrastructure and Related Services. Guidance material was subsequently developed in close consultation with Partnerships Victoria, who gave us access to the copyright of those documents. We refined that material, particularly in the framework which deals with the process of investigating infrastructure and investment proposals. We effectively rewrote that within our own Queensland context and put a draft out for public consultation in early May of this year. After receiving some 65 public submissions, we finalised the guidance material and took it back to cabinet in August 2002. So this framework that is now available on the web site — and I have a copy here, if the committee would like to take it back with them — is a form of government policy.

Essentially, the approach we are taking is that the government in establishing the PPP policy has identified public–private partnerships as a potential form of delivery for major infrastructure projects. It is not ideologically wedded to the PPP solution. It is simply willing to investigate the feasibility and the applicability of the model on a case-by-case basis. This is essentially a value-for-money framework, where all major infrastructure proposals with a present value over the whole of life of greater than \$50 million, or a capital value of \$30 million, must be notified to my unit — the infrastructure partnerships task force. We then work with agencies and Treasury to investigate the potential delivery options of that project with a view to delivering best value for money for the Queensland taxpayer.

There are a number of stages. Again that is very similar to the Victorian process, and that is also being developed in a number of other states. It is only after a detailed business case is developed and a direct comparison of the public sector comparator (PSC) and the partnership model is undertaken that cabinet is asked to make a decision as to which is the best value-for-money option. It is only at that point we would expect cabinet to make a commitment or otherwise to the project, provide funding, and if PPP is determined as the preferred preliminary option to go to the market through expressions of interest and binding bid processes.

Certainly the Queensland government in embracing the PPP policy and in exploring the potential of PPPs sees some advantages in the potential for more effective management of risk, a greater focus on delivery of services to the community and a greater focus on the whole-of-life elements of a particular project.

Similar principles are being embraced in other jurisdictions, both in Australia and around the world, and also in the potential for harnessing private sector innovation, particularly in a broader utilisation of assets beyond the provision of the fundamental services that the government may be seeking.

I have a number of examples which I can talk to, but I might throw it open for questions and raise those in the context of my answers.

The CHAIRMAN — Thank you. I have a few things. You said you based it on the Victorian partnerships policy but then went the Queensland way on it. Can you identify the key differences in your view in the way you have progressed and the Victorian policy? I note from what you were saying, one is probably the whole-of-life value of \$50 million, whereas Victoria is doing \$10 million, but are there other key differences?

Mr DRABSCH — The differences are mainly at the margin, and where we have rewritten it, it is targeted at a different audience, I suppose. The Queensland public sector is perhaps less familiar with the notion of private sector involvement and infrastructure than in Victoria. We just had some preferences as to how we structured the information and the process that we described. We also linked the stages of the process to the key decision points. We have a six-stage process. In Victoria I think they talk about 14. In other jurisdictions it is eight.

Our stages are essentially defined. The difference between the first and second stage is notification to the Infrastructure Partnerships Taskforce. Every other stage after that is a cabinet budget review committee (CBRC) or a cabinet decision between the preliminary assessment and the business case — cabinet considering the business case, CBRC considering expression of interest outcomes, and cabinet endorsing the final preferred bidder and having a binding bids process, so that is just a cleaner, more easy-to-follow process.

The CHAIRMAN — How many completed tenders have you had so far?

Mr DRABSCH — We are only in the early stages of the implementation of this program. While it has only been a couple of months since we have finalised the guidance material, we have been progressing a number of projects through the framework, given its general consistency with that existing in other states and the inherent logic of the process.

We have one project in the business case stage, which is the Southbank TAFE redevelopment. It is an educational precinct notion, which is just across the river next to the Brisbane convention centre near the parklands there. That is two large CBD city blocks. The TAFE facility there has been developed in a hotchpotch fashion for the last 40 years in an incremental way. The quality of the facilities is not high. There is a high level of dysfunctionality to the accessibility and potential for movement around the campus, and the facilities have been designed for specific purposes, which impedes the flexibility and the potential utilisation of those assets. We see significant potential for the application of private sector innovation in terms of delivering the educational facilities required to support the continuing and growing business that we hope to provide through the TAFE, but also to utilise what is a prime site near public transport and near the CBD for other purposes, and potential commercial functions which can spread the fixed costs of developing those educational facilities.

Ms DAVIES — Just to continue on with that TAFE notion, the concept of the private developer being able to add commercial activities to its potential for making a profit on the deal, how are you attempting to measure whether that is giving value for money to the public sector? If you allow a private developer in that TAFE example to take advantage of the good site, why is it that it would not be better value for the public sector to get the benefit of that asset? How are you measuring —

Mr DRABSCH — The ultimate measure as to whether we get value for money from the private sector's involvement is through the competitive bidding process.

Ms DAVIES — So that is the full extent of your value-for-money measure? How are you actually working out your value for money?

Mr DRABSCH — There is a complex process in the business case stage where we undertake development of the public sector comparator — how we would provide the educational facilities. We then construct a partnership model to compare that, which involves development of the educational facilities and potential other uses of the site.

The government would not be inclined to explore commercial utilisation of the site. Why would it want to risk its capital in those ventures? However, the private sector may well wish to risk its capital in not only delivering educational facilities, but delivering a number of other facilities on that site. There is substantial potential for much more effective utilisation of the space that is within the two city blocks. They are quite large blocks, including potential for higher buildings than currently exist on the site. The value that the private sector gets out of those additional commercial activities is not directly the interest of the government. To the extent that they can get those commercial benefits, they will take those into account as they structure their competitive bids and compete against other consortia who will have similar plans, and it is in that way that we can ensure that the government gets the best value in terms of the amount it has to contribute to the delivery of the educational facilities, which is really our primary objective.

Ms DAVIES — Does the Queensland government intend to let the private bidders know what the public sector comparator is? Will they be given the details of that comparator?

Mr DRABSCH — Our policy is that in most cases, except where there is a potential to inhibit a competitive process, we will provide raw data from the public sector comparator process, which is essentially our raw net present values, or NPVs, on construction and the operation without the risk adjustments that we will be making. So we do not actually hand over the benchmark that we will be applying to their bids as they come through the door. But what came out of the public consultation process we had over the last few months was that the private sector, given the amount of money they invest in constructing these bids and their risk in the investments that they might be proposing, stated a clear preference for having some access to the information that the public sector has developed in terms of how they would seek to deliver these educational facilities merely as a means of double checking that the private sector has a clear conception of what the public sector actually wants. That was the clear message that came through. In response to that we made some adjustments to the finalised guidance material.

The CHAIRMAN — Do you have any guidelines about the timing of your process? Do the stages have to be completed within set times or guideline times?

Mr DRABSCH — We have our own ideas about what are suitable times, but the reality is that projects differ substantially. Certainly in the preliminary assessment stage we would not envisage that it would take anything longer than two to three months, and that seems to be the reality of the practice that we have applied to date. When it comes to the business case, the complexity of that process may involve greater lengths of time. It is difficult to predict. We were keen not to identify preferred time lines because ideally, provided all the work is done in a thorough and comprehensive manner, the sooner it is done the better — the sooner you can get to delivering the services. We did not want to create a perception that it would be okay if it took nine months. So we have not talked about time lines within the guidance material, but as we go out as the central coordinating unit for PPPs and talk to the agencies and work with the agencies on a formal basis, we certainly help them identify ideal time lines and help them develop a detailed project plan.

The CHAIRMAN — It seems to me that two of the issues that private sector contractors raise when you talk about this are, one, bid costs, and two, the length of time that the project is in assessment. That is why I was asking about that.

Mr DRABSCH — I think just to deal with the second point, certainly we are aware of the bid costs and having a clean, transparent process. I think that is going to lead to better proposals going out to market and a reducing in bid costs overall, but it is still not going to be a cheap exercise. But in terms of time, by having a clear, progressive process where there is a progressive mandate from cabinet and CBRC, in my experience I think we will find that there are more timely decisions made in terms of major infrastructure projects. In the past projects have tended to bounce around between decision-makers as further information is sought on one aspect or another, and this process identifies the information that is required to get to each stage. It will only go forward to the decision-makers if that information is not available. So it will be a more seamless, more direct process than perhaps the experience we have had for a lot of projects in the past.

The CHAIRMAN — Are you aware of the British modification, if you like — the best-and-final offer process they use?

Mr DRABSCH — Yes.

The CHAIRMAN — Which in some senses is an attempt to both block out bid costs and delay. If you have had a look at it, do you have a view about that?

Mr DRABSCH — Certainly we have a preferred position within our guidance material — go through an expression-of-interest process, go out to binding bids and then choose one preferred bid. Where there is technological complexity or there are inadequate responses in the bidding process, we reserve the right to go through a best-and-final offer (BAFO) process. But certainly I think if the material that you present to the market and the package you put forward is adequate and comprehensive enough, the quality of the bids should be sufficient to be able to make a clear decision as to a preferred bidder and to progress on that basis. I think certainly the BAFO process, from all evidence that I have gathered in the research that I have undertaken in the last couple of years, adds significantly to the cost, and there have been some experiences within Australia.

The CHAIRMAN — Could you give us a bit more detail on that. Where you would see it adding to the cost?

Mr DRABSCH — Essentially it adds to the cost of the bidding incurred by the bidding consortium in hiring its legal advisers and constructing the further information that is required in redeveloping the bid possibly.

There was a process that was undertaken at Spencer Street station where two bidders were required to develop full legal documentation and have signed documents prepared, and then judgments were made right at the death. I understand that process cost each of those bidding parties an extra \$1 million, or in excess of \$1 million, which is a significant impost, and there is the risk.

These are major investments and there are major profits and returns to be had, so people have to expect to incur significant bidding costs to win the rights from those things. At the same time we have to be conscious, if we want a deep, competitive market, with other consortia bidding for these projects, that we minimise the imposition that we make in the process that we devise so we have that principle in mind. It is a clear message that I have been communicating throughout my consultation with the industry.

Ms DAVIES — Do you want to ask one?

Mr HOLDING — Yes. Shaun, I have a follow-up to that in terms of the question of minimising the bid costs for bidders. I notice that in your paper — and Peter alerted to this earlier — is the question of the threshold for which projects are covered by the policy, and which are not, and that you have picked the capital cost of \$30 million or the net cost over the life of the project of \$50 million. Can you provide the committee with some guidance as to how you settled on that figure and, from your feedback from the private sector in particular, whether or not you believe they feel that that is about the right level to make it worth their while to get involved in bidding for projects?

Mr DRABSCH — I think our draft guidance material nominated a \$30 million present value whole-of-life threshold. The comments we got back from a variety of sources were that that was a bit low. The private sector thought there would not be many bids and that there would not be much appetite in the market for packages that small, particularly in the early stages of the process. There tend to be greater costs at the early stages of the implementation of these policies than later on when the process is a bit more refined and when standardised documents are available.

The unions had concerns about the level of the threshold and felt that too many projects would be dragged into it. Departments also had a concern that individual projects, such as individual schools, could easily come up to the \$30 million threshold, and they would have to go through a detailed process. Without going into comments about the veracity of those positions, there was a clear signal that, certainly in the early stages, the threshold could easily be set at \$50 million without affecting too many projects we would be willing to consider, and keeping a focus on the projects that are more likely to be delivered as PPPs and have an appetite within the market.

Ms DAVIES — You have had other projects that have involved private sector capital, like the air train and St Vincent's hospital projects. Has anybody done the sums on how much the bidding process costs as part of the total cost of a project? I mean, in relation to the threshold business several of the private sector submissions we have had talk about having a \$100 million threshold because of the substantial nature of the costs involved in going through this really complicated business.

Mr DRABSCH — Yes.

Ms DAVIES — I am very interested in what sums have been done to work out just how much those complicated extra costs are and have been on previous projects?

Mr DRABSCH — You are referring to costs to the government or costs to industry as well?

Ms DAVIES — No, to costs which are a part of the total cost of these projects which have had private sector involvement, where there has been a competitive bidding process that has gone — —

Mr DRABSCH — We do not have any information on costs to industry other than the hearsay we get around the market.

Ms DAVIES — But they are substantial costs. One of the arguments for having private sector involvement has been that, theoretically, the costs are lower than they would be with just a public sector project. That is one of the justifications for doing PPPs, yes?

Mr DRABSCH — Well, one of them; but yes, the effectiveness of the service delivery is an important criterion as well.

Ms DAVIES — But one of the arguments for doing a PPP has been that it is value for money; it is cheaper than — —

Mr DRABSCH — No, value for money is not just a measure of achievement of cost savings.

Ms DAVIES — It is partly?

Mr DRABSCH — Yes, an expense process, but — —

Ms DAVIES — What I am asking is what sums have been done on the costing of this complicated bidding process? You are not aware of any costings?

Mr DRABSCH — Certainly what we are aware of is that, particularly with processes which do not follow a clear framework, the costs can climb quite rapidly. If legal advisers are kept on for a year or two years, as in some of the previous examples you mentioned that did occur, then there are substantial costs with that. That is one of the reasons we saw the desirability of having a clear framework and process for making decisions in these areas.

The private sector is exposed to substantial costs, that is true, and it has to make a judgment as to whether it can carry those costs, deliver an effective service and infrastructure facility to the government, and beat our benchmarks with the alternative for public sector delivery. They have to make that commercial judgment and take that risk.

The other point I would make is that traditional delivery is not alien and does not exclude exposure to bidding costs; there are still contracts involved, and risks involved in the management of those contracts in particular. So it is not just the development of the contracts but the actual operation of the contracts, and that is one of the key issues this government has experienced — that the adversarial contracts that have been established with major infrastructure projects in the past have resulted in substantial legal battles costing the government hundreds of millions of extra dollars. That is a risk we have directly borne through our budget soaking up capital which would otherwise have been expended on important social infrastructure — a couple of roads projects in particular; transport projects in particular have had a substantial blow-out.

So when you are looking at the cost question, there are a number of elements to it. At the end of the day we are trying to find out the most effective way of delivering the infrastructure and having a functionality to that infrastructure throughout the life of it, through an effective maintenance regime.

Ms DAVIES — Are you saying that one of the additional costs has been when contracts have not worked properly, and that in the past Queensland has had projects which have blown out in cost because of contractual disputes?

Mr DRABSCH — Yes.

Ms DAVIES — And that has effectively been a risk borne by the government?

Mr DRABSCH — The point I am making is that it is a relative thing.

Ms DAVIES — In what ways do you think the Queensland government has now learnt from those that is going to stop those contractual disputes in the future?

Mr DRABSCH — By undertaking a comprehensive and detailed business case consistent with this framework, by having a full identification and analysis of risks and notification of the best ways of managing those risks, by not going to market until we are prepared with a comprehensive project and a proposal we are prepared to commit to, and by undertaking that risk analysis and drafting contractual arrangements which form part of the package we present to market and which forms the basis of the bids which come back to us, rather than seeking a preferred developer arrangement, a preferred contract arrangement, and then sitting down and nutting out a deal. We are trying to do our homework up front to minimise the risks down the track. That is what this whole thing is about.

The CHAIRMAN — Going on from that, do you believe the required skills for that in the public sector are now better than they were and are adequate, and that there is a balance between the public and private sectors? There is an argument — and I think at one stage the Auditor-General in England advanced the argument that there was an imbalance in the relevant skills between the public and private sectors and their ability to do some of the analyses required, and that that is why some of the early first-generation PPPs in England were very one sided. What is your view on the skills base of the public sector?

Mr DRABSCH — I could make a couple of comments about that, Mr Chairman. One is that in my experience there are a lot of people within the public sector who have extensive experience with the contracting and procurement process, have an understanding of the problems and issues and have ideas about how to address those. So we have a core base of raw knowledge which we can tap into.

Secondly, we are not the first to run down the PPP path. Certainly that is the case in London in the UK. They had difficulties in the early stages as they were coming up to speed with the process. We have the luxury of having access to external advisers who have had exposure to those direct UK processes and have developed knowledge elsewhere as well. We will continue to work closely with those external advisers as we progress a number of projects.

As we go through those individual project analyses the skills level will develop within the government as well. I do not think we will get into a position where the government will be able to just do it off its own bat. I think it is wise to get in independent expertise to assist us to ensure that we are aware of what is happening in the market and that we can anticipate to the maximum possible extent where the market might come from; and to make sure that we are in a good position to analyse and assess the bids that come through the door to make sure that we choose the approach which delivers the best value for money for the government.

The CHAIRMAN — I want to follow that through. I note that within your documentation you talk about the output and say something to the effect that determining the value of the project is to be based on the output rather than the input?

Mr DRABSCH — Yes.

The CHAIRMAN — Et cetera, and, getting to the point I am asking about, central to that is very good identification of risk and the allocation of risk. Effectively the question I ask is: in your view how capable and how skilled is the public sector now at being able to do that identification and allocation of risk?

Mr DRABSCH — I think the reality is that in the past the public sector has not had a strong focus on risk analysis identification and management, and that is essentially why we are pursuing a PPP or a value-for-money framework. We have to address that issue of risk identification and analysis if we are to improve our procurement practices and minimise the exposures that the budget has been exposed to in recent times. So I can sit here and make a judgment about where we are on the skills spectrum. I would much prefer to say that what we are aware of is the need to develop our skills in that area.

The CHAIRMAN — That is really where I was going. Is there a need for a government to be conscious of the fact that it needs to be proactive in developing and procuring those skills?

Mr DRABSCH — Yes. The evidence of that recognition is the fact that we have this value-for-money framework, which is all about and is essentially a risk management tool which looks at the best delivery options, and also have a central coordinating unit — that is, the infrastructure partnerships task force — to work with individual agencies to ensure the consistent application of the framework and the principles with risk management as we go forward.

Ms DAVIES — Continuing on the risk management theme, one of the things that really worries me about the risk management idea is that the private sector will never fully accept that it will run at a loss. So if it accepts ongoing risk in the contract, in the end if it has miscalculated that risk it will walk away and write off its loss rather than continue at a loss?

Mr DRABSCH — Possibly, yes.

Ms DAVIES — The concept is that if the government and the public sector want a service to continue, the government will ultimately always bear the risk?

Mr DRABSCH — That is one risk, and there are plenty of risks that happen before that which the government avoids. The other point is that if a private sector operator does not successfully operate, in a commercial sense, the facility, then the banks step in and seek to get the maximum value out of the assets that are there. It may seek to get some other operator to come in and pick up — in fact, that would be a preferred option for the banks, rather than the government swooping in and picking up the asset at a liquidated value.

The other point to make is that under the concept of the PPPs, if there is a service payment involved the government will be making service payments only if the private party is delivering the services. If it is not

delivering the services we do not make the payment. That automatically gives us a source of revenue or a source of money which we can use to continue the operation and service through some alternate mechanism.

It is also important in the contractual arrangements we establish with any private party that we have effective step-in rights to ensure the continuity of service delivery and that we are not exposing the community to arrangements which may threaten the continuity of services in important areas, particularly in social infrastructure. That also happens in roads.

Ms DAVIES — In Victoria there have been several projects where the Victorian government has stepped in and taken over, or where it has stepped in and made additional payments to private operators in order to keep the service going. The Victorian government stepped in in the public transport area and made additional payments. It actually stepped in and took over a hospital, and likewise with a prison. What examples are there in Queensland of projects requiring some sort of additional stepping in by the government in terms of either taking over projects or making additional payments?

Mr DRABSCH — As yet there have not been any PPP projects developed under this framework in the state. There have been a number of other projects which have involved the private sector in infrastructure delivery, but I am not in the best position to comment on the operation of those.

The CHAIRMAN — There are others where a more traditional public project was carried out by the private sector.

Ms DAVIES — So you have management by the private sector in some of those projects?

Mr DRABSCH — Yes.

Ms DAVIES — Like the air train?

Mr DRABSCH — The air train was a straight commercial arrangement which did not involve any expenditure by the government, apart from the process of managing the competitive process. There have been a number of hospital arrangements where both core and non-core services have been franchised to the private sector.

Ms DAVIES — And there have been problems and the government has had to step in?

Mr DRABSCH — As I understand it.

Ms DAVIES — So under the PPPs you are intending to do, is there still going to be direct service provision by the private sector?

Mr DRABSCH — Core services are not within the bounds of this policy. When we talk about core services, that is public service positions which relate to direct interface with the community in the performance of statutory duties.

Ms DAVIES — So, capital works and maintenance contracts?

Mr DRABSCH — Yes. Essentially the focus of the policy is on the delivery of infrastructure facilities and the services which support the delivery of those facilities, so maintenance and operation.

The CHAIRMAN — Do you provide a definition of core services?

Mr DRABSCH — Yes, it is in our guidance material.

Mr HOLDING — There is an article in the *Australian Financial Review* which says that the office of state development — I think it means the Department of State Development — aims to have about 20 per cent of all infrastructure partly funded by the private sector. You are looking puzzled by that.

Mr DRABSCH — I think there is a fair bit of licence in that.

Mr HOLDING — I was just seeking your comment on whether that is a departmental view or a target, if you like, that has been set by the department. I was interested to get more feedback as to whether that to some extent undermines the PPP process by saying, ‘Well, here we are, we have this framework for assessing which projects if any should be financed through this set of guidelines’, and then someone else comes along and says, ‘Within that, though, we have a figure in our minds at the outset and we want to see 20 per cent financed in that

way'. In a sense it means you are trying to drive the policy in a particular direction to meet this target. I guess from the puzzled look on your face that that might not be the department's policy anyway; do you want to respond to that?

Mr DRABSCH — Yes. The 20 per cent figure — that was from an article by Sam Strutt, I would imagine — was as a result of a conversation she had with me in the minister's office where she was exploring the potential application of the policy. What I was saying in response to that was that in the UK, 15 per cent of their capital works activities are undertaken through the private finance initiative policy (PFI) mechanism, which means that 85 per cent of their capital works are still delivered through traditional mechanisms. I was saying that in terms of the potential breadth of application of the PPP model I could not see us going beyond that.

You are right, we are going to take an objective approach through the value-for-money framework to decide which is the best delivery option, but I would put on the record that there is evidence that public-private partnerships and PFI deals can deliver more effective services and can deliver value for money beyond what could be traditionally delivered, and there is substantial evidence around the world — not only out of the UK — to support that notion. I will be attending a PPP global conference in Amsterdam next month with some 30 or 40 nations that are actively pursuing this policy. They cannot all be wrong.

Ms DAVIES — Why not?

Mr DRABSCH — Why not?

Ms DAVIES — Which projects would you identify as being the successful ones around the world, but mainly in Australia? Of all the projects you know of, which ones would you identify as being models of successful PPPs?

Mr HOLDING — If I could just finish my line of questioning. There is no target; that is the point?

Mr DRABSCH — Yes.

Ms DAVIES — If you say there is evidence that it is successful, what projects in Australia — and, if necessary, across the world — would you identify as being successful?

Mr DRABSCH — In Queensland there is the Gold Coast Convention Centre, which is essentially a public-private partnership where the government is making a \$100 million fixed investment in equity. Jupiters casino is investing some additional capital in constructing the convention centre. It is also spending \$80 million expanding its facility.

Ms DAVIES — So it is Jupiters casino and — what is it?

Mr DRABSCH — The Gold Coast Convention Centre. Jupiters will also manage the facility and take the operational risk, so in many senses that is a PPP.

Mr HOLDING — The risk of running a casino?

Mr DRABSCH — The risk of running a convention centre.

Ms DAVIES — Topping up with gaming money! What other successful projects can you identify in Australia or around the world?

Mr DRABSCH — The UK National Audit Office surveyed 100 public authorities that had undertaken PFI deals and asked them whether they felt that they had received value for money compared with the public sector comparator. Only 4 per cent said they had poor experiences in terms of value-for-money outcomes, and 80 per cent said they had satisfactory, good or excellent value-for-money outcomes. That is a fairly significant statistic.

Ms DAVIES — It depends how they worked out the sums.

Mr DRABSCH — You are getting into the issue of risk adjustments, PSCs and so forth.

Ms DAVIES — I am just asking because I really do want a list of projects that you have identified as being successful.

Mr DRABSCH — It is early days in Australia. There is no question of that. Victoria put its policy out only last year. These things can take 12 months or two years to put in place.

Ms DAVIES — What about overseas, then?

Mr DRABSCH — I am just going through the evidence of that. There is also the Mott MacDonald study — are you familiar with that? — commissioned by the UK treasury which found there was an optimism bias in the estimates made for traditionally procured contracts such that the original estimates were underestimated by some average — was the figure about 20 per cent, or 17 per cent?

Mr CRANE — It was a significant sum.

Mr DRABSCH — Yes, compared with deals which were delivered under the PFI model, where the original estimate was made and it was kept to within a range of 1 per cent, on average. They undertook that analysis across a range of different projects — standard building projects, complex building projects, engineering and IT — and there were varying results, but there was no doubt whatsoever and it was very clear in the analysis that was undertaken that there were substantial benefits in delivering projects closer to the original estimates than had been the experience under traditional procurement.

The UK experience in traditional procurement is probably worse than the experience in Australia, but the differences are so stark and significant that it is evidence that cannot be ignored, and when combined with the National Audit Office analysis that has been undertaken, which shows that not only do they keep to their estimates but there is value for money at the end of the day, there is good evidence around that this thing can work. Time will tell.

If we did not think that, we would not be bothering with the process of exploring PPPs as an option, but we are bothering, so there is some information to suggest that there might be some value in this approach.

Ms DAVIES — But there was a worldwide movement to privatise in the 1980s that went right across the world, too, and everybody was advocating how wonderful it would be, and now that everybody is looking at PPPs you are saying that lessons were learnt from past failures.

Mr DRABSCH — You can make those historical comparisons, but I see public–private partnerships as being diametrically opposed to privatisation. If people are familiar with my background they will understand my particular views about privatisation.

The thing about public–private partnerships is that you get the best of both worlds. You get your private sector innovation, you get the private sector to carry a lot of the risk, but you get the government still having a strategic input into the service outcomes it wants to be delivered and effective management of the performance of those services and infrastructure facilities throughout the life of the facilities. Privatisation is flogging it off, getting some capital, paying off some debt and forgetting about it; public–private partnerships are government maintaining an interest in the delivery of service outcomes throughout the life of the asset. They are completely different, so the comparison is irrelevant.

The CHAIRMAN — We are at the end of the allocated time so I will put a couple of quick questions to you. One is on the public sector comparator: do you include within that — and it was one of the criticisms of the National Audit Office — the internal costs of assessing the project? Is that included as part of the cost of the private sector bid when you are working out the project cost?

Mr DRABSCH — That is not a position we have taken in the guidance material as something we will do. There are problems in doing that because essentially what you would be doing there, by passing the cost on to the private sector they will then seek to recover that cost through the service payments — —

The CHAIRMAN — No, I not actually passing it in your assessment; not an actual passing over of the cost, but including it within the comparator.

Mr DRABSCH — A lot of the cost of the analysis would be undertaken irrespective of whether you ended up going down the PSC path or the partnership path, so it is just a cost that the government needs to bear to ensure it makes effective decisions.

The CHAIRMAN — One of the examples the National Audit Office gave was a £75 million project in Britain that was assessed after the public sector comparator as being of value to go ahead with a PPP. When the

auditor did the audit of it he asked what was the assessed public benefit and he was told it was £100 000, which, in a £75 million project is not a huge amount anyway. But he then found that the costs of assessing the project for the purposes of the exercise were about six times that.

Mr DRABSCH — Six hundred thousand pounds?

The CHAIRMAN — Yes, so what he was saying was in that particular case was there actually a public benefit. That is essentially why I was asking the question. I was asking not whether the cost is actually transferred but whether it is taken into account in the assessment.

The other issue I wanted to ask you about quickly was accountability and the Queensland view of accountability of PPPs. Can you quickly give us a thumbnail sketch of the accountability arrangements for a PPP in Queensland, including whether the contracts are publicly available after they are finalised and all those sorts of issues, and what information the Parliament gets?

Mr DRABSCH — Once the contract has been finalised a summary is developed and the Auditor-General is asked to attest to the accuracy of that summary. It is then tabled in Parliament.

The CHAIRMAN — It is a summary contract?

Mr DRABSCH — Yes.

The CHAIRMAN — Maybe there has not been a decision on this, but at the conclusion of a project — at the time of ultimate conclusion — is it intended that the full contract will be available?

Mr DRABSCH — No, it is a summary of the contract. The reason for that is the potential for commercial-in-confidence information to be contained within the contract.

The CHAIRMAN — You may have misunderstood what I was saying. I understand — —

Mr DRABSCH — The full contract will not be available.

The CHAIRMAN — At any time at all?

Mr DRABSCH — No. A summary of the contract will be made available. It is also worth noting that material put out as packages to bidding parties would be available through freedom of information processes and probably available off the Web if there was an expression of interest in the bidding documentation.

The CHAIRMAN — I thank you for your appearance here today. It has been a very useful session for the subcommittee.

Mr DRABSCH — Thank you for the opportunity.

The CHAIRMAN — Thank you for your time. We would hope if we have some follow-up later we might be able to write to you and seek some clarification.

Witnesses withdrew.

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Private Sector Investment in Public Infrastructure Subcommittee

Inquiry into private sector investment in public infrastructure

Brisbane – 22 October 2002

Members

Mr R. W. Clark

Ms S. M. Davies

Mr T. J. Holding

Mr P. J. Loney

Mr G. K. Rich-Phillips

Mr T. C. Theophanous

Chairman: Mr P. J. Loney

Staff

Executive Officer: Ms M. Cornwell

Research Officer: Ms C. Williams

Witnesses

Mr L. Scanlan, Auditor-General;

Mr P. Shipperley, Assistant Auditor-General; and

Ms K. Cossart, Executive Officer to the Auditor-General, Office of the Auditor-General of Queensland.

The CHAIRMAN — I welcome Mr Len Scanlan, Queensland Auditor-General, Mr Paul Shipperley, Assistant Auditor-General, and Ms Kaylene Cossart, Executive Officer to the Auditor-General, to this public hearing on private sector investment in public infrastructure. All evidence taken by this subcommittee is taken under the provisions of the Victorian Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. As witnesses you will be provided with proof versions of the transcript within about a week. Mr Scanlan, would you care to make an opening statement to the committee?

Mr SCANLAN — Thank you, Mr Chairman. Len Scanlan, Auditor-General for Queensland, for the record. I would just like to make the point firstly that the issue of public-private partnerships (PPPs) is a matter first and foremost for government policy and as Auditor-General it is not something I have a policy view on. Nevertheless as Auditor-General I have a keen interest in the subject and its implementation as it proceeds here in Queensland. My overriding concern is that government does its homework well in terms of assessing the full costs and benefits of each particular project, that the appropriate risks are fully considered as are all the benefits to the community of each individual public partnership proposal, and that the best decisions are made in terms of the community at the end of the day. Above all it is important that consideration is given to the long-term implications of a particular proposal and it is important that there be appropriate transparency and checks and balances built in as part of this process. At the end of the day it is important that the community will be the beneficiaries of these proposals.

The CHAIRMAN — Thank you. Can I ask you firstly, do you have a formal role in the conduct or assessment of a PPP in Queensland?

Mr SCANLAN — It is fair to say that the policy framework here in Queensland is still being formalised, if I could put it in those words. While a role has been referred to in a general way, no such role has actually been defined to date. I have made submissions and representations to government in relation to what I believe could be a potential role for the Auditor-General. It seems to me that there would be value in a probity-type function but not necessarily performed by the Auditor-General. I think an effective probity role makes good sense as well as the appropriate use of internal audit resources within agencies. However, at the end of the day as auditor for the Parliament here in Queensland I believe I have at least a retrospective role to be able to look back and offer some view should I exercise my discretion as Auditor-General to be involved in specific audits of particular projects. It would seem to me at the very least that the projects ought to be subject to my audit jurisdiction and it should be quite clearly enunciated, in my view, as part of the framework that I would have full free access to records and information in the same way that I do for the records and persons, in terms of their information, of all public sector agencies that currently exist in this state.

Mr HOLDING — Is there any doubt about that?

Mr SCANLAN — I cannot say that there is any doubt as such, but until the policy framework is formally settled I do not want to provide any conjecture in terms of what may or may not happen. My expectation and anticipation is there would be no difficulty, that that would be part of the framework. I am not anticipating that that will be a difficulty; I just do not want to pre-empt what may or may not happen.

The CHAIRMAN — Wouldn't your current legislation allow you to do that? Are you saying that you may need some legislative change in order to do that?

Mr SCANLAN — The current legislation is quite clear in terms of my right of access to information held by public sector agencies, but given the size and scale of the projects envisaged with PPPs I think as a measure of some additional protection and comfort for the community it would be useful if it was clearly enunciated somewhere that I could have at least potential access to some records that could be held by private sector interests as well.

At the end of the day I believe it is important to be able to foster as high a level of public trust and confidence as we can in the process and outcomes of PPPs and the issue of clear access is one of those fundamentals that is necessary.

The CHAIRMAN — Can I ask you, going down that track, what records may be held by a private contractor in relation to a PPP that would not or should not be held by the department, for example, that is oversighting that contract?

Mr SCANLAN — I would say by and large that I would expect that the records would be duplicated between what was held within the public sector agency and what would be held by a private operator. However, having said that, of course I would be doing as much work as I possibly could with the public sector entity. It would only be an issue should a public sector entity declare that there is information it does not have to hand or information that, if I could just suggest this, is not confined to a documentary form in terms of judgments or assumptions or views or beliefs held — information that might reside in real persons that could also be useful.

I see this as being potentially very helpful in terms of the very nature and difficulty of these projects in so far as they require a great deal of solid, rigorous analysis in the first instance and they rely on projections and assumptions. The proof of the pudding is in the eating, but the reality may not bear any resemblance to the projections or the assumptions that were made. As a proposal proceeds I envisage that there could be situations where there could be value in having access to the persons involved in the private sector, whether it be from an audit perspective or the access through a parliamentary committee, for instance, to answer questions.

The CHAIRMAN — Would it be fair to summarise that as saying that a public–private partnership for accountability purposes should be treated as a public activity?

Mr SCANLAN — I believe so, because essentially that is the nature of the business that is being pursued by the private sector operator. I think it is reasonable for a private sector operator to assume a higher level of accountability, if in fact that is what is required, by virtue of doing business with the public sector.

The CHAIRMAN — The other area I quickly want to pick up on before I hand over to others is we were told that you will have a role — I am not sure if you have actually done one yet — in the preparation of summary contracts for public release. Could you give us a little bit of clarification of what your role will be there? Would you have the full contract and prepare the summary or would the summary be prepared by the department, for example, and presented to you? If there is disagreement between what should be in or out, how will that be resolved?

Mr SCANLAN — I have to say, Mr Chairman, that at this point I have not been formally in communication with the department directly on that subject. However, in the first instance, as with any other audit matter that arises, I would take up any issue of variation directly within the agency concerned with a view to resolving that issue. Generally speaking, based on others we deal with, I expect that they would be satisfactorily resolved.

The CHAIRMAN — Is it your practice to report that?

Mr SCANLAN — Depending on the difference of view and the importance of the particular issue. If it were a matter of significance I would like to leave the door open in relation to the possibility of reporting but in the first instance I would be seeking resolution, I would have to say.

The CHAIRMAN — Thank you.

Mr HOLDING — In your opening remarks you mentioned that you saw the Auditor-General's role — or a possible role that was yet to be properly identified within the current policy framework — as being that of a probity role. I take it you mean a probity role in terms of ensuring that the bidding process cannot be tainted, or do you mean more than that?

Mr SCANLAN — I think there ought to be the opportunity for the Auditor-General of the state to at least exercise some discretion as to the type of involvement, when to become involved and what is to be done, but I would not envisage a mandatory, compulsory involvement from an Auditor-General. I think that would fly in the face, if I could use that expression, of the current legislation where I am given complete autonomy and discretion in terms of audit priorities. To have superimposed over me some legislative obligation that I would have to be necessarily a probity auditor or any other type of auditor would be an intrusion on my independence as Auditor-General. I believe I ought to have the discretion.

We have had cases where we have exercised a probity role in relation to contracts for projects that are not PPPs, where in my judgment it has been necessary in some case for my office to be involved to protect the public interest — for example, in situations where all other persons involved in the probity work had a vested or potential conflict of interest by having been involved previously with those organisations in a number of business relationships. That is one clear case where if we judge that the magnitude or significance of a particular project warrants, if I could use the expression, the blue ribbon certificate of an Auditor-General to provide trust and confidence, I think that is an obligation I would have to assume.

It has been my experience that when we have performed the role of probity auditor in this state — and I do it on a discretionary selection basis — the response from private sector participants has been to accept the results. That has been very gratifying for myself and my officers. Nonetheless I do not have unlimited resources to be involved in all types of probity-type activity and I fundamentally have a view that the system by and large should be able to stand on its own two feet. In other words, we should have a good system of robust processes and public servants who are capable and doing their job well in terms of assessing from the public sector perspective all of these projects and then administering them to a very high standard of public administration excellence. My role ought to be independent and separate and the project should not rely entirely on my direct involvement for assurance for the community's purposes. My role should be discretionary and considered on an as-needed basis in terms of total auditor mandate and priority.

Mr HOLDING — So you are saying that there is a probity role there, it is just not necessarily a role for the Auditor-General. Does the current document which I understand has now been adopted as policy by the Queensland government adequately envisage processes for safeguarding those probity requirements? Are you satisfied that it does?

Mr SCANLAN — I think broadly the answer is yes, but there are some specific issues where we have made particular recommendations to government and where it is still a little clouded in my view, if I could put it that way. I still need to explore those directly with government to satisfy myself that everything is going to be in a desired state, if I could put it that way. But broadly, yes.

Ms DAVIES — One of the issues that keeps coming up all the time is the management of risk with these projects, and the Queensland government's document talks about it being inappropriate to seek private-sector involvement in public infrastructure provision unless all significant project risks are identified and quantified. Do you think it is realistic to expect that to happen in practice? Is it possible for people to sit down in one particular year and identify, quantify and then properly allocate all the risks of something which may be a 30-year project?

Mr SCANLAN — I agree that it is not an easy project, in fact it is quite difficult. I think the longer term projections are the more difficult it is to make accurate assumptions in terms of risk assessment. I would like to answer in this way: we have been conducting governance and risk-management reviews of the Queensland public sector since 1998–99. It has been my experience that in our follow-up since 1999, as I have reported to the Queensland Parliament, the public service is doing reasonably well in terms of governance and has come a long way in terms of its understanding of the concepts and applications. But it is also fair to say, as I have reported to Parliament, that they are not doing as well in terms of risk management.

That is a real concern generically. While we are encouraging and fostering that greater interest in this particular area, and I believe internal audit has a key role here in fostering that greater level of education and understanding of risk management, policy considerations such as PPPs provide a particularly tough challenge for the public sector. This is not an absolute science, far from it; and perhaps it does not need to be absolute. At the end of the day protecting the public interest and servicing the public's needs is what it is all about. So long as the best judgments are made based on the best decision making and thorough robust consideration objectively with the public interest as the major consideration then, yes, we can come up with a reasonable result. I believe that it is quite possible, but it is a formidable and difficult task.

Ms DAVIES — One of the major risks in a long-term project is always going to be that government policy and public demand change.

Mr SCANLAN — Yes.

Ms DAVIES — That is a risk. Queensland, like other governments, is saying that you allocate the risk to the body that is most capable of managing that risk. That is the mantra. That would mean that in any of these commercial arrangements the management of the risk that government policy might change or that public demand might change always stays with the public sector?

Mr SCANLAN — Yes.

Ms DAVIES — Does not that necessarily mean that either the public is locked into arrangements which over 30 years might become completely inappropriate, or if a future government decides to do something because it is in the interest of the whole society, that then there is a huge extra cost to the public than there would have been if it had just been a public sector project in the first place? I use the local example of City Link in Victoria. Should some future government decide to do a socially responsible thing and really increase public transport availability

then there is an impost to compensate the private proponents of City Link. Is that not a risk which is always going to be there and which is not necessarily in the public interest, or not ever in the public interest?

Mr SCANLAN — The risk is always going to be there, but I think in that particular instance there is the conflict between what is a contractual commercial arrangement in place and what may be viewed as being the public interest itself, which may change over time. From my perspective I think the public interest should always override whatever contractual arrangements that exist at a point in time. The reality is that the people who will be negotiating these arrangements are not likely to be around in 30 years in terms of the time of that type of projection.

At the end of the day the public interest has to be the overriding consideration. It emphasises the point that when a proposal is initially being assessed there should not be an issue of philosophy favouring a PPP-type formula. It should be assessed for its viability and its public worth as independently and objectively as possible, in the manner in which that project is put together. Where it is put together, for instance, with a traditional building type of contractual arrangement or some other type of arrangement, they should be really doing their homework at that first point to determine which is the best way to proceed with that project. I do not think PPPs are a panacea for all types of projects. They lend themselves more to some than others. Essentially I think the public interest has to override the contractual interest.

Ms DAVIES — But a commercial enterprise cannot sign a contract acknowledging that the public interest has to come first. It has to sign a contract that looks after its own financial interests. Do you believe it is possible to have a contract that puts a priority on the public interest?

Mr SCANLAN — It would be very difficult in a legislative or formal sense, but essentially it is a case of doing the homework well. A robust process in the initial assessment of the project is the best and is all that we can really do, and that there be proper monitoring of the implementation of that PPP, appropriate transparency and reporting. After all, it is also in the public sector's interest that the operation is commercially successful as well. When the risk assessment is initially performed a range of factors need to be considered. If it is not commercially successful, that is not in the public interest either in my view.

Taking account of the risk needs to take account of the risk of all the various stakeholders. If the homework is done well that should go a long way towards mitigating those problems. But like it or not, government also incurs risk in entering into these arrangements. No amount of preparation or legal preparedness will obviate those risks. Government has to accept its share of the risks as well.

Ms DAVIES — So we are really being asked to accept something on faith again? You said before that risk management is not an exact science.

Mr SCANLAN — No, it is not, it is more of a relative science than an exact science.

Ms DAVIES — Do you know of examples where that risk management has been done well and that people can use as models, if you like?

Mr SCANLAN — It is certainly early days here in Queensland because we have not had much experience with this type of project. There has been some early experience. It is still too early to call in terms of Queensland's examples at this stage. I am pursuing some audit issues at the moment, but I am not in a position to be able to report in this forum or in any forum until the issues are resolved. Should any issues emerge from my point of view, I will be reporting them to Parliament, and that would not be a long way out in terms of the future. I know we have had some poor examples in other jurisdictions of which I am sure the committee is well aware. I cannot say offhand that I am necessarily across the concept so well that I can point to a number of best practice examples at this stage.

The CHAIRMAN — Just going through that, that is not simply a factor of PPP, is it? It also applies to a straight public project?

Mr SCANLAN — Yes, it does.

The CHAIRMAN — In the past governments have built roads in the wrong places.

Mr SCANLAN — Yes.

The CHAIRMAN — They have built hospitals in areas where there is no need, et cetera. There is a great case in Victoria of a police station that was meant to go into suburban Melbourne but ended up in a country town with a similar name.

Ms DAVIES — We have a railway station that did that.

The CHAIRMAN — So they have this great you-beaut, 24-hour police station in a small country town. Even decisions that at the time they are made appear right are not so good 10 or 15 years down the track because of changes of the type that Ms Davies was talking about. I use the example of the closure of the hospital that was in St Kilda Road — I cannot think of its name. It was closed some years ago because there was no demand; no-one lived in that area. Now with the huge growth in inner city apartments and so on there has been a flood of people back into that area and at some time shortly the area may well require a hospital. Those sorts of considerations are always being dealt with regardless of the delivery of infrastructure. They may be emphasised more in a PPP, but they are present in a straight public project.

Mr SCANLAN — Yes, I would certainly agree with that. Particularly what came to my mind was events management, which this state has done and has had a fair degree of success — for instance, the Commonwealth Games in 1982, Expo in 1988, and more recently the Goodwill Games which actually turned a profit at the end of the day. If you do your homework well it is possible for the result to be successful, and I believe judged successful from a public perspective as well.

In terms of infrastructure, development and so forth, yes, there is a range of considerations. The best use of public resources obviously is a policy determination, but the homework needs to be done well in terms of the many choices that are available. Perhaps this is an opportunity for the public sector as well in that I think where the public sector has focused a great deal on defining a particular problem and then inviting expressions of interest such as tenders from the private sector to build the solution, there may be more scope for the private sector to be involved in the actual defining of the problem itself.

For instance, traffic congestion could be cited as a problem and the private sector could be invited to make submissions about the solution of that particular problem, rather than the public sector investing its own resources and coming up with a range of solutions, perhaps the best but after doing a great deal of its own work, and then calling for expressions of interest in the building of the freeway, or whatever the particular solution may be. Potentially there could be benefits in looking to the private sector to invest in the problem and the solution together, if there is any benefit at all in this concept and if the private sector does have an eye towards efficiency, this will be highlighted. There may be some value in further utilising this type of concept as well.

Ms DAVIES — Except that the private sector might not be the best body to actually judge what is politically acceptable to the community. It might be the most efficient way of doing something but it does not necessarily mean that they are the best judge of what is acceptable to the community.

Mr SCANLAN — That is so; I would agree with that. The private sector will be focusing on the e-efficiency and perhaps not as much on the equity considerations or the effectiveness to some extent or the economy from the public sector perspective. Nonetheless, it is still a useful ingredient in terms of policy formulation that efficiency is important, particularly from a public sector manager's perspective, but at the more critical issue of making determinations about the usage of funds it should not be the prime consideration.

Mr HOLDING — The guidance material that the Queensland government has released makes a reference to the role of the Auditor-General's office. In the section entitled 'Safeguarding the public interest' it poses the question under the heading 'Accountability and transparency' whether or not the relationship between the government and the private sector proponent can be appropriately oversights by the Auditor-General. I presume by that it means appropriate information is made available and appropriate access is provided to the auditor.

To what extent do you feel that your role in that regard is best done through them providing you with information which you then assess — whatever — but there will always be information that is either withheld from the public but provided to you because of its commercial nature or perhaps that you have trouble accessing at all? Where do you see the balance lying? Do you feel that the sorts of arrangements we are talking about can be properly oversights by the Auditor-General, and is there conflict between your role in accessing commercially sensitive information and your role in providing the public with a window into those relationships?

Mr SCANLAN — First and foremost I believe the government and the public sector agencies need to have elbow room to move when making determinations about projects. I see no role in terms of making public choices, if I could put it that way. I believe I have a role potentially as a probity auditor and certainly at a discretionary level and also in terms of a retrospective function — looking at what has transpired from the perspective of accountability reporting back to Parliament. In so doing I anticipate there will be a fair degree of commercial-in-confidence classified material along the way.

My experience in this jurisdiction has been that for the purpose of an audit I have never been denied any information, whether that information is held by cabinet or by any other place, so I do not anticipate that there would be any change in my ability to access any information for the purpose of my audit. I have a facility in my legislation that if a number of criteria here needed to be addressed, section 104 of the Financial Administration and Audit Act provides a facility for me to report to the Public Accounts Committee in Queensland if I judge that the disclosure of that information could be prejudicial for a whole range of considerations — commonwealth-state relations is one of them, and there are a number of other criteria.

I have not used that section a great deal but I can say I have used it, I have exercised the provision of the legislation where I judge that the disclosure would have potentially caused considerable harm to the state and a number of other considerations.

There is the facility to report to Parliament. The very fact that an Auditor-General does run his ruler over a project should serve to add public trust and confidence to the outcome of a particular project, and providing that insurance to Parliament is part of that process. If I believed there were insufficient transparency from the public sector agency, I would be encouraging and making recommendations for greater transparency.

I am on public record in terms of my reviews of other agreements in this state that there needs to be a higher level of public disclosure, and I note that steps have been taken to increase that level of disclosure. I do not want to pre-empt what might happen with public-private partnerships here in Queensland, I accept there is a need for a certain level of commercial-in-confidence information. My concern would be that that particular facility would be exercised unnecessarily in a way to avoid accountability, and if there was even a hint that I would not be given access to appropriate information whereby I was unable to form an opinion, I would be shouting long and loud about it.

Mr HOLDING — You mentioned those arrangements in relation to the interface between you and the Public Accounts Committee here in Queensland and that you are required to report to it if you feel — for, I assume, various statutory reasons — there is information which ought not be disclosed.

Mr SCANLAN — That is the case, yes. There are a number of particular criteria, but it is a decision the committee makes. That is a section the committee may wish to have a look at anyway — section 104.

Mr HOLDING — How does that work? Is it just sufficient for you to report to the Public Accounts Committee, and do they oversight your judgment in that area, or do you simply report on to it that for the following reasons this information has been excised from the report?

Mr SCANLAN — The most recent occasion where I did exercise that particular legislative provision I referred to the fact in the main body of my public report that I had exercised that section. It dealt with remuneration arrangements for a particular category of employees of the state, and had I disclosed the quantum I would in my view have created a grab for cash, which would have been inappropriate and unnecessary and cost the community a lot of money — unnecessarily so. That was tabled with the committee, which then followed it up at its own discretion and ensured that the appropriate action was taken by the particular public sector agency. I have to say the experience I have had in exercising that particular provision — which has been seldom used because as an advocate for more public sector accountability the last thing I want is to practise my own form of secrecy and that is certainly not what I am on about — notwithstanding that, I have exercised that provision and gone to the Public Accounts Committee, which has always followed up the issues directly with the agency, and the issues have been satisfactorily resolved. Surprisingly, it has created its own form of response of attention which has been proven to be just as effective in an accountability way.

The CHAIRMAN — Mr Scanlan, Mr Shipperley and Ms Cossart, I thank you for making your time available today to meet with the subcommittee. It has been a very interesting and useful session for us. Thank you.

Mr SCANLAN — You are very welcome, Mr Chairman. I wish you and the committee well and look forward to the result of your deliberations in due course.

Witnesses withdrew.

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Private Sector Investment in Public Infrastructure Subcommittee

Inquiry into private sector investment in public infrastructure

Brisbane – 22 October 2002

Members

Mr R. W. Clark
Ms S. M. Davies
Mr T. J. Holding

Mr P. J. Loney
Mr G. K. Rich-Phillips
Mr T. C. Theophanous

Chairman: Mr P. J. Loney

Staff

Executive Officer: Ms M. Cornwell
Research Officer: Ms C. Williams

Witness

Ms G. Grace, General Secretary, Queensland Council of Unions.

The CHAIRMAN — I welcome Ms Grace Grace, general secretary of the Queensland Council of Unions (QCU), to this public hearing on private sector investment in public infrastructure. All evidence taken by this subcommittee is taken under the provisions of the Parliamentary Committees Act of Victoria and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. As a witness you will be provided with a proof version of the transcript shortly. Before going to questions, Ms Grace, would you care to make an opening statement to the committee?

Ms GRACE — I am more than happy to do so. I can only give you the Queensland Council of Unions' views about a policy being developed by the Queensland government in relation to PPPs, or public-private partnerships. Although our submission to that framework document development by the government was brief, I think there were some really salient points that we made in that submission to the government, so maybe if I quickly go through those to give you an idea about where we are coming from.

I guess our view on PPPs is one of not supporting them. That is not to say that we do not acknowledge that there have been some major infrastructure projects in Queensland where they have used obviously private contractors to build those infrastructures. That has been going on for years, and that is not the kind of thing we are talking about when we say PPPs. We put them in a different basket. We put a project that the government decides to build — it owns, it operates, it maintains, but that it contracts out to the private sector to build it, because obviously it does not have the capacity to do that — in our view let's not blur the lines that that is a PPP. We do not see that as a PPP. We see a PPP as completely different where basically you are looking at entering a partnership with the private sector to deliver government services or government infrastructure, or whatever it is. That is where it becomes a concern because then not only do you go into who builds it, but you extend it to who maintains it, who operates it, who becomes the employer, how long is the contract and who bears the risks, and all of this kind of stuff in that project.

I do not want to blur what has happened in the past and will continue to happen. You have got the Construction, Forestry, Mining and Energy Union (CFMEU) happy. Roads are built here with private providers, and all of that kind of stuff. That is not in our view PPPs. They are completely separate.

We have a concern with what the threshold is for entering PPPs. At the moment the Queensland government is talking about a \$30 million project over the life of the project. Our view is that that is too low, but without getting into the nitty-gritty of stuff like that, I guess our opposition to PPPs is basically because there are a couple of fundamental flaws with it as we see it. If the government cannot provide the service that it needs to, what is the answer? They are saying, 'Let's get some private funds into it and let's see whether or not we can then afford to do it'. In our view it is a bit like hire purchase. 'I really cannot afford to buy that electrical equipment or plasma TV, but I will hire-purchase it and all of a sudden it is fine. I can afford it'. We all know it is false economy. At the end of the day someone has to pay for it. If you cannot afford to buy it back then, you probably cannot afford to buy it over the life of the hire purchase.

Governments at the moment can borrow funds much more cheaply than the private sector and are free of many of the tax obligations faced by the private sector, so how on earth somehow it is deemed you can all of a sudden afford something because the private sector is coming in partnership I think has some fundamental flaws to it. At the end of the day someone has to pay for that additional expense and the additional expense is going to come from either the taxpayers or the workers that are going to be employed eventually on what this private public partnership is going to be. So there are a few threshold issues in relation to that that we have made. If, for example, the PPP then fails, who has to pick up the tab? In our view there is no doubt that it will be the government that has to step in. More so if the service is an essential service and more so if it is one that becomes very embarrassing, politically sensitive, and at the end of the day once again the government picks up this unbudgeted service that it has to maintain.

I think they have the situation in England, although I am not an expert on this. I must apologise. My assistant secretary actually has this area in his portfolio, but he is in Moscow at the moment on holiday and was not able to make it today so I am picking up the briefings that I have had, and my understanding. I am fairly au fait with this as well, but he really is what I would class the expert on it. But you then have the situation where in England my understanding is there have been absolutely billions of dollars spent under these circumstances to the point where the commitment of the government to fund these things the way they have been done is exactly like hire purchase. You have spent all this money, you have committed yourself long term to pay the rent, to pay the fee — whatever it is that you have to pay for the provision of that service — and there is a long-term commitment on government for

many, many years to come to fund the payment of these rents, payments, whatever they may be. And then if one of them fails, they then have the added burden of obviously having to pick it up.

We have had the Robina Hospital here in Queensland as an example. It has gone done. Who has had to step in? Health — a very sensitive issue in the public. The government has to come and pick it up.

Ms DAVIES — Which hospital is it? The Austin?

Ms GRACE — No, Robina. I have our submission here, and I am quite happy — —

Ms DAVIES — I would really like to have that.

Ms GRACE — I will give you a copy of this. It is very short, sharp and to the point, and I do not think it leaves you wondering at the end of it where we stand in relation to it. So Robina Hospital has gone. The government obviously has to pick it up. There is a PPP they did here, and there is a bit of a joke going around that a freight train carries freight, a passenger train carries passengers and the air train to the airport carries air. So they are kind of saying that it is about 10 years ahead of its time, but once it was again a major project, done on a PPP-type arrangement. The private sector has come in way ahead. It is not really required; wanted to be built; it is not viable. Who do you think is going to step in? The government is going to step in.

We are also concerned about some other major infrastructure that is being looked at in this way. We find this a different issue to building. This is one where the maintenance and the operating is taken over by the private sector. That is going to be where their will lies. Their loyalties are to the shareholders not to the taxpayers of the state, or any other state. They are in it to make the bucks. If it does not make the bucks, they will walk away. They have done it in the past and they will do it again. Our view is that at the end of the time it becomes more expensive and all it is is an exercise of shifting risk, and we do not believe the government should be in the exercise of necessarily shifting risk. That is how we broadly see it.

We had a problem in Queensland with the broad application of the policy, and like all these guidelines and steps I think it is a bit of a game played in a way. At the end of the day if you cannot afford to build something or the government cannot do it and the only way it is going to go ahead is by a PPP, all these guidelines and steps you are going through are just an absolute facade, aren't they — if the decision is that the only way you are going to do it is through a PPP. The steps might cement the objective and give you the credence to go ahead with it, but it is just going through the motions, because a decision has already been made that it is only going to go ahead under a PPP arrangement. The guidelines really are in our view crossing the t's dotting your i's; it is not really making a policy decision. We believe the decision has been made way before you go through the steps.

Ms DAVIES — Can I just interrupt you there?

Ms GRACE — Please.

Ms DAVIES — Do you have evidence that the attitude of the Queensland government is along the lines of, 'Well, if it is not going to be a PPP, it is not going to happen'?

Ms GRACE — There is no evidence per se. I guess it comes down to once again why are we entering a PPP. What is the reason for doing it? If the reason for doing it is because it allows a project to go ahead because somehow a government cannot fund it and the only way it is going to go ahead is by doing a PPP — —

Ms DAVIES — But that is not the logic that the government is using at the moment. In England apparently there was this, 'Either it is going to go ahead as a PPP or it is not going to happen', so everybody has to fiddle the figures to make it happen. But the Queensland and Victorian governments have said certain projects will be mooted as potential PPPs, but before any decision is made about whether a project will be a PPP or a public sector project, it will be on the basis of this best value principle.

Ms GRACE — Yes.

Ms DAVIES — Now, that is not the same thing as what you are saying, is it?

Ms GRACE — No, and I guess to a certain extent policy wise that is probably how they would like to look at it, but I guess when you look at best value, at the end of the day, what is the best value? How do you assess that? What is the objective assessment about whether a PPP is the best value to go forward with a project? Why is it so? Is there enough public scrutiny; and I know a lot of that policy does not give you a lot of that public scrutiny. If

something fails, why did it fail? Often the information contained is commercial in confidence and you never really get to the bottom of why something did not actually go ahead. I think governments' intentions are that they want to look at this and say, 'This is what we believe is the best way to go forward in doing this'. I guess what I am advocating is two things. I think a lot of times the project probably would not go ahead if it was not somehow said the only way you are really going to do it is with a PPP. I am happy to be proven wrong with that thinking; I do not think we are.

Secondly, there is not really enough scrutiny to ever be able to ascertain was it really the best value and why didn't something work? So to be really open and transparent all that commercial-in-confidence stuff in our view needs to be open and transparent or else you will never really get to the bottom of it. So I hope I am answering your question in a way. I think it is done on the basis of, 'Let's have a look and see whether this is a PPP or not', but then what is the assessment about the best value if the project fails and it is a long contract? You are talking 25 to 30 years; if something fails in that time, and I have often heard that all those clauses about delivering on time are worth nothing with some of these large corporations that go into this, at the end of the day government still has a risk if the project fails, if they do not acquiesce. So what could be best value today on paper, in 10 years time what is the assessment about best value? I just find it is all very non-transparent to be honest with you.

Just going through quickly here, I think the commitment by the private sector is to shareholders. The government really is to deliver public services in an unbiased manner, and I do not think the analysis of those conflicting interests has really been taken into account enough in this PPP proposal. One has got a commitment to shareholders, to the company, to the price. That is in direct conflict to a government that needs to provide services to the public in an unbiased way.

Mr HOLDING — And where that difference is irreconcilable — —

Ms GRACE — I do not think there has been enough analysis done about how that conflict meshes in a PPP arrangement.

The CHAIRMAN — Does that differ, for example, if the private involvement is in the provision and maintenance of a building but the public sector still delivers the services that operate out of the building — it has total responsibility for the services?

Ms GRACE — Yes, I guess you can look at that in education, where somebody builds a school and maintains and operates it but the government hires the teachers in there. I guess that is an example of it.

The thing is this: it is a long contract. What if it has been underestimated? What if it fails to maintain the building or things happen and things fall over, or whatever? At the end of the day who do you think the community will blame? At the end of the day where do you think it will go? It will go back to the government. I guess our whole ethos in this is: yes, you can do that. I mean, they can do that now; they can build a school and subcontract the maintenance and operating of it; it is done every day. But to lock yourself into a contract of that size and for that long on some basis that it is value for money and is going to be done better, I have not seen any evidence yet. I do not know whether the PPP arrangements which they highlight as being the models would have been any different had they done it in a different way. Where is the comparison? So I think a lot of justification still needs to be done in relation to that.

The CHAIRMAN — Just on the accountability issue, do you believe the public sector comparator information being made available prior to the contract so that people could see how it was assessed would be a help?

Ms GRACE — Look, I think it would be a help. But I think the government has a responsibility at the end of the day to implement policy that is open to public scrutiny and is one that delivers the best, in an unbiased way, for all sectors of the community. How that will be assessed by the community, whether or not it will have the resources to analyse what is out there — I mean, I have enough trouble going through budget papers — —

Ms DAVIES — Tell us about it.

Ms GRACE — When the budget papers come out and are supposed to be open to public scrutiny, I am flat out trying to understand what on earth is in the budget papers. I find myself as one who probably looks at these things more often than others. Look, obviously anything that is more transparent will help, but at the end of the day, whether it will save a government's bacon if things go bad, you will still get blamed for it. That is our point.

Ms DAVIES — Given that for a very long time governments have said, ‘Here is a contract; you build this building’, and have also said, ‘Here is a contract; we want you to maintain this building’ — for usually three or five years maximum, or even less time; it might be a year-by-year contract — —

Ms GRACE — Yes.

Ms DAVIES — Do you think there is no substantial difference, except the disadvantage of the length of time that the contract holds up for, between that and a PPP?

Ms GRACE — Except that the government, when it has built it, has built it out of government revenue and has borrowed at a much lesser amount, and it has done it under public sector principles and under open policy guidelines. Under the PPP it could be doing it under somebody else’s funding or assisting them to build it when it really did not have the money to do it in the first instance.

Ms DAVIES — So with somebody else providing the finance?

Ms GRACE — Yes. There are two things there. There is not much difference, if you look at it — yes, the money was there; they decided to enter this thing and it was done in a different way and the money was utilised elsewhere, or whatever. I do not know. The basic principle is: under what basis was it done in the first instance? What was the length of the contract and what things were built into it about maintaining and operating? Who would have employed these people in the first instance, had it been done by the government? Would it have been the private sector and would it have been contracted out, or would they have been public sector workers? There are all those questions as well.

But the answer is that there is a difference in how you come to the decision that it be done under a PPP. Then if it fails and the building is not maintained and things do not work out, has the government fully provided for that likelihood to happen, or has it gone and done so many of these things that the liability is so high that any one of these failing could get the government into very big financial strife? That, I guess, is the crux of it.

Where is the risk being shifted to? Is the government still taking a lot of the risk, or is it mainly shifting the risk of this somehow? The Queensland government paper — and I think it is mentioned in here — talks about shifting 35 out of the 45 risks.

Ms DAVIES — Yes.

Ms GRACE — Our view is: I am sorry, but it is very difficult to shift risk when you are an elected government, particularly if major projects do not — —

Mr HOLDING — What is that in reference to?

Ms GRACE — It is in the government framework document for public–private partnerships. It has put out a public document in which it talks about shifting; the one that would be over. It is in our submission. Yes, it is in appendix A of the risk paper in the supporting documents to the PPP stuff of the government. The government identifies 35 out of 45 areas of risk that it would prefer to be carried by the private sector. That is what it is about. It is about shifting the risk.

Mr HOLDING — Do you disagree with that?

Ms GRACE — I think at the end of the day the government has a risk. I think it is illusionary and false economy to think you will be able to shift the risk. If major public–private infrastructure fails, or if an essential services fails, or if the agreement is not upheld by the other side, or if schools are falling down around you and kids get killed because maintenance contracts were not up to scratch, or if something else happens, the risk is with the government, I am afraid. Do not be disillusioned that somehow government will be able to shift any major risk. I think it is illusionary, yes. Now I might be very naive in saying that, and the commercial business world might say, ‘Grace, it is a lot of rubbish’. My view is that at the end of the day the buck starts and stops with the elected government. If you cannot afford to do these things because of whatever reason, then you will not be able to afford them.

Look, there may be a way, like getting others to come in on a short-term basis, or whatever; I do not know all the ramifications of doing those kinds of things. But at the end of the day the risk, if they fail, is with government. If you have entered a number of these projects where you would not — I mean, if you said that every single one of them was because the government could do them, then maybe the risk would be minimised. But in England, where

projects have been done when the government could not afford them to go forward but brought them forward by 10 or 20 years, the government now has billions of dollars out there in these things which it is servicing. You are then in a hire-purchase situation, and lo and behold if you do not meet a repayment or if something goes wrong.

Mr HOLDING — Grace, would you prefer to see infrastructure in Queensland which the public is perhaps crying out for not proceed, rather than see it proceed under a public–private partnership model?

Ms GRACE — Let me put this to you: if people are screaming out for the service that much and the government cannot afford to deliver it and is saying there is not enough in the kitty, it should be looking at raising revenue to deliver the service. That is the answer to your question. It is illusionary to think you will be able to deliver it and keep everybody happy because all of a sudden you have someone in the private sector who borrows money much more, who is only concerned about shareholders, who wants to make a profit and who wants to lock you into a 25 to 30-year contract; it is illusionary to all of a sudden say, ‘Here are the answers to our prayers’. I guess what we are saying is, ‘It ain’t the answer to your prayers’.

Mr HOLDING — Excuse me for trying to paraphrase what you are saying, but you are saying that if there were projects that were required or demanded by the people of Queensland and the state government could not afford them, then rather than going down the PPP path you would rather see the government raise taxes, for example?

Ms GRACE — Exactly.

Mr HOLDING — Or perhaps increase its public sector borrowing in order to support the provision of that infrastructure?

Ms GRACE — Exactly. We should be saying, ‘What level services do you want? This is our revenue base’ — and we should be going way back to what the revenue base is of government and how it spends its money. If it is not collecting enough revenue, we should be looking at the whole debate about what the proper level of taxes is for the services that people want.

The difficulty governments often have is that people are very cynical about governments using money in a wise manner. Let’s be frank. A lot of people are very cynical about governments spending money wisely. They see a lot of largesse; they see a lot of waste. Whether or not that is true, that is their perception of governments of any ilk — local, state or federal. Maybe the public should be given some merit for their suggestion that they do not trust governments to spend money wisely all of the time, I do not know; I do not know the answer to that question. I talk to the average person in the street, and not too many of them would say there is not some cynicism about governments’ ability to spend money wisely. I do not think I am letting anything out of the bag there.

Mr HOLDING — Listening to the political debate in Queensland, it seems the Queensland government certainly prides itself on its low tax regime. In fact, in Victoria we are often a bit surprised at the extent to which it is willing to market its low-tax status in other states.

Ms GRACE — So are we, and I come from Queensland.

Mr HOLDING — My question is this: I get the impression there is a whole range of projects that would probably not proceed had this PPP policy not been enacted and were they not funded under some sort of PPP model. In that they may have members who are employed on and over the life of these projects, and in terms of staffing them, or whatever, do all your affiliates feel the same way? Do they all feel the same way about the concerns you have expressed today?

Ms GRACE — Look, to various degrees the QCU has represented all of our affiliates in relation to this document, and this has been signed off by our executive, which has every one of our affiliates on it. So it is a document on which everyone agrees. Obviously there are different ones who have different views to certain degrees about how it goes. But fundamentally I think you have hit the nail on the head. The issue here is a tax issue. It is a revenue issue. PPPs are merely a causal effect or an offshoot of there being not enough money to provide the services that governments want to provide. At the end of the day it has a revenue basis. And why is Queensland looking at PPPs? I think it is because it does market itself as a low-tax state, and you cannot provide a level of service if you do not collect the taxes that you require.

You are right; it is overmarketed and it is marketed forever. Whether that has got it into government or not — I am sure the Labor government here is a very good government in our view, and it has delivered some very good

things. But you cannot maintain a low-tax, low-revenue situation and expect to provide world-class services. They just do not go together. So what do you do? That is a symptom. How do you come across it? PPPs are just one of the ways to fix the symptoms.

In our view you have to take one step back and ask, 'Why are you looking at these?'. It is because of the revenue base, there is no doubt about it. It is a tax issue. Our view is that it is like buying things on credit, hire purchase, however you want to look at it. You cannot afford it, you keep spending, someone gives you the money, you enter these arrangements, they are long-term — you would not do it with your credit card, I do not do it with my credit card, and those who do do it with their credit cards end up in trouble somewhere in the future.

Ms DAVIES — It is not just about revenue, is it; it is about there being an ethos in government of it not wanting to have a big state debt?

Ms GRACE — Yes.

Ms DAVIES — It is a public sector debt issue; it is a way of saying, 'We are not a high-debt state because the debt is in fact held by the private sector'.

Ms GRACE — But it borrows cheaper than the private sector. So if it is about debt and about the government being able to afford it and to buy a house — I think Tim was just about to say that he would buy one house, but, Tim, are you going to go out and buy 150 000 of them? I doubt it.

Ms DAVIES — Can I just go back to that list of risks?

Ms GRACE — Are you going to go out and buy 100 homes?

Mr HOLDING — No, but I do not understand the analogy.

Ms GRACE — The government may build one infrastructure that way, but what if it builds 100 of them that way? What I am saying is that the debt mounts up.

Mr HOLDING — Is it not partly about spreading the cost of a project over the life of it? If we pay for a project by taxation then the people paying the taxes now pay for the whole cost of the project, whereas if we pay for it using other financing options — maybe by borrowing, by issuing bonds or whatever, or by involving the private sector — and the government effectively leases it back over its life and then assumes the ownership of the asset at the end of a set period of time, are we not able to spread the costs so that there is greater intergenerational equity in terms of financing that piece of infrastructure?

Ms GRACE — Yes, it makes sense on paper but it depends on to what level you spread and how far you take this. What if you have just spread it too far and some fail along the way? Where will you get the money to maintain the debt level? Someone still has to pay.

Mr HOLDING — But they are financing questions. My question is, are you saying that you object to the notion of spreading — if you say that all public infrastructure should be financed by government revenue, either by grants from other states or by — —

Ms GRACE — The way it has been done in the past, yes — —

Mr HOLDING — Well, that has not really been done in the past. In the past governments borrowed extensively as well; now they do not.

Ms GRACE — At a lower rate.

Mr HOLDING — Well, that is disputable as well, as to whether the — —

Ms GRACE — Not in Queensland; they borrow at a lower rate.

Mr HOLDING — Yes, a lower implicit rate now, but over the life of the project whether or not the rate is a lower rate is arguable, certainly according to some of the evidence the committee has received. Are you saying that the Queensland Council of Unions does not support the notion of spreading the cost of infrastructure over its life, or that it says that the cost of infrastructure should be borne essentially at the outset of the commencement of that project?

Ms GRACE — What I am saying is this: if you cannot afford to deliver a service, and somehow you believe that you can then afford it by bringing in a private partner to somehow shift the risk and minimise your exposure, we are saying that that is a policy that is flawed and is illusory, and that at the end of the day the buck stops with you guys, the government, and you cannot shift that. That is what we are saying. If you can afford to do it, then the government should do it. If you cannot, then leave it alone until you can.

Ms DAVIES — There has been a discussion about the TAFE project. Do you have specific concerns about that particular project as a PPP?

Ms GRACE — It is interesting because we are on a committee that is looking at that, and I am actually meeting with the minister this afternoon in relation to it. It is very early days at the moment. Yes, we do have some concerns about what is being looked at, and I guess we need to look at it further. We have a fundamental problem with the concept of PPPs. There might be some areas where they may work — for example, the provision of housing for students might be an area where the private sector may want to come in — but if it is a going concern the private sector would probably provide it anyway.

Ms DAVIES — The Gold Coast convention centre was mentioned when I asked for some examples of successful PPPs, and that was quoted as a successful one. Would you have the same view?

Ms GRACE — The proof has to be in the tasting and it has not even been built, so why is it successful?

Ms DAVIES — My understanding of convention centres is that they are normally totally private sector developments.

Ms GRACE — My understanding is that a convention centre is normally a total government development. They are almost known not to be moneymakers, and you build them because you bring in tourism, you bring in conferences and you bring in different people who spend money in the economy. It is one of the ways government assists businesses in the area. Very few convention centres make money.

The fact that they are saying there is a private sector person interested in building the Gold Coast convention centre is probably a success in that that they found a partner, being the casino next door, which is obviously hoping that the spill-off of people coming to the Gold Coast for conventions will be gambling in their institutions. But it has not been built yet. The government has put some major money into that centre, and it is one that may be successful because it has the elements of a gambling casino and the Gold Coast, but still the government has put in quite a bit of money. We are yet to see how successful it will be, we are yet to see what impact it will have on the Brisbane convention centre, and we are yet to see what will happen if it fails.

Mr HOLDING — How would you judge its success? What criteria would you use?

Ms GRACE — I do not know what criteria they have used. I do not know; I have not really thought about it, to tell you the truth.

Mr HOLDING — What would the Queensland Council of Unions want to see coming out of that sort of project for you to step back and say, 'Well, maybe that is an example of one that works'?

Ms GRACE — That is putting me on the spot now. I have not really looked at it. I do not know the convention market all that well, but I guess we would want to see a sustainable project that creates meaningful and well-paid jobs, and people being employed there in a sustainable manner.

Ms DAVIES — Something that does not cost too much and does not make too much of a loss?

Ms GRACE — Yes.

Mr HOLDING — Employment is an important issue.

Ms GRACE — Employment is a very important issue, of course. Obviously if they build it on the Gold Coast it may affect the Brisbane convention centre. They are saying they are different markets, but I do not know the markets of conventions that well.

Mr HOLDING — Returning to the employment question, would the QCU have a view as to whether they were public sector employees or private sector employees, or don't you mind provided there is employment?

Ms GRACE — No, our concern in a lot of these projects is that people are shifted from being public sector employees to private sector employees, particularly in maintenance and operating. In operational cleaning and all of that a lot of these skilled cleaners are still employed by the government. We have had a system of contracting these people out to the private sector, and the union movement gets no joy once they move out of the public sector into the private sector — no joy at all.

Ms DAVIES — In what sense?

Ms GRACE — In the sense that there is a reduction of wages and conditions for workers generally, security goes out the window, and you get into that whole private profit-generating type of environment. Let's not fool ourselves: there is a big difference between what happens out there in the private sector and what happens in the public sector — a big difference.

The CHAIRMAN — Can I test on you some of the claims that are made by the proponents of these partnerships?

Ms GRACE — Before we get off the convention centre on the Gold Coast, can I ask why they said it was successful? Do you mind my asking that?

Ms DAVIES — I was just trying to think what the words were that he used. Is it acceptable for me to say what was discussed?

The CHAIRMAN — In general terms.

Ms DAVIES — He talked about it generating huge amounts of capital, from memory. I will have to go back and have a look at the transcript.

Ms GRACE — It has been successful in that the money has been put in; there is no doubt about that.

Mr HOLDING — To be fair, the point was being made that in terms of public-private partnerships there was not a lot to work on in Queensland because the policy was in its infancy.

Ms GRACE — Yes. The other thing, too, is going through the guidelines and how much it costs for them to do that. The cost of meeting the guidelines is incredible. But that is another matter.

Ms DAVIES — That has been discussed as well.

The CHAIRMAN — One of the claims being made is that, firstly, government can achieve added value or something better than it could do itself. If it had done this project as a total public build or whatever, it may have spent \$X and it would have achieved a particular outcome from the project; by going to a PPP, it can get additional funds to do it and end up with something that is beyond what the public sector would have done.

Ms GRACE — And who pays for it? I go back to my point. You may achieve that, but who pays for it? You do not get nothing for nothing; that is what I am saying. You may get a bigger and better project — I take your point, and it is a good one and a very valid one — but at the end of the day someone has to pay for whatever additional thing you are gaining out of it. It might be a bigger and better project. I hope the Gold Coast Convention Centre is as successful as the Brisbane convention centre, and it is a success story and it does a very good job. Government built that and it is part of Southbank, and I am on the Southbank board and Southbank has contracted it out to somebody who runs the Brisbane convention centre, but the infrastructure and all that is owned by the government.

I trust the Gold Coast Convention Centre will be very successful, but I go back to the issue of sustainable jobs, lots of conventions and all the things that make a business case reach break-even point and above to get the profits. But there are two things that then flow from that: if it is better, that is great; but if it fails, you can bet your bottom dollar that Jupiters will go back to its little casino building over there, get its head down and not want to know about the convention centre, so the government will be left with that infrastructure.

Mr HOLDING — What about its contract, though, presuming there is a contract?

Ms GRACE — Do you honestly think for one second that if Jupiters is losing money out of that contract year after year, it will not somehow get out of that contract? Do you honestly believe it will continue on and go broke?

Ms DAVIES — The other question is, what if that convention centre is very, very successful but the calculation about it having a different market from the Brisbane convention centre is wrong?

Ms GRACE — Yes, and there is an impact.

Ms DAVIES — Then a cost that would not be directly allocated to it would be a failure in the success of the Brisbane convention centre.

Ms GRACE — That is my point, and then who is left with the Brisbane convention centre?

Ms DAVIES — Do you believe the only reduction in the cost of doing a project privately is related to these lower wages and conditions? Do you think there are other areas where the private sector can offer lower costs than the public sector?

Ms GRACE — You are asking me a philosophical question there, and it is very, very difficult to compare. Do I believe the private sector necessarily does it better in every instance? No. Do I believe the public sector does it better in every instance? No. Do I support the public service? Yes, I do — vehemently. Do I think the private sector is necessarily better equipped, or whatever? You have only to look at Ansett and HIH and some of these large corporate collapses to get the answers to that, and they make as many mistakes as government does. That one is somehow better than the other does not jell with me. There is a responsibility there, and it goes back to those threshold issues that the responsibility is with government, and at the end of the day that is where it should be.

Mr HOLDING — Really you are saying that one is better than the other, because in terms of some of the things we were talking about earlier I took you to be saying you would rather have a member employed by the public sector than have a member — or any person, whether a member or not — employed by the private sector.

Ms GRACE — I am not saying that is better, I am saying that is reality. For the members we represent, public sector conditions and wages are much better than those in the private sector in the majority of cases. I would love you to prove me wrong.

The CHAIRMAN — Does that go to construction and so on?

Ms GRACE — Construction is a bit different.

The CHAIRMAN — That is what I was getting at. Are you talking about the service delivery?

Ms GRACE — No, I am talking about direct employment, but I am talking about direct employment in the public service versus direct employment in the private sector. It is not in every area, but I am talking broadly.

The CHAIRMAN — That is right. Just to clarify that, if we take the building of the Gold Coast Convention Centre, for example, you were not suggesting that if that were done as a purely public build there would be different award conditions in the construction phase than if it were done as a private sector build?

Ms GRACE — You will probably find that large projects that are funded by government are generally done under government purchasing policy and contracting policy, so tenders have to meet those criteria, and they are different from those for building other types of infrastructure.

Mr HOLDING — I am just trying to get my mind around this, and I certainly do not support a situation where people are employed to do the same job but for lower wages. I do not support that at all.

Ms GRACE — Can I give you an example? If you look at the union that looks after contract cleaning, and if you compare the wages and conditions that are paid to school cleaners who are currently employed in the public sector with the wages and conditions that are paid to cleaners outside in the private sector, there is a big difference.

Mr HOLDING — But does that not begin to explain why there are things which the private sector can do or does do — whether or not we think it is appropriate is another question — which are cheaper than if the same thing were done from the public sector perspective?

Ms GRACE — But it is on the back of workers' wages and conditions.

Mr HOLDING — I agree with that, but are we not beginning to identify some of the cost structures that exist in the public sector that are different from those that exist in the private sector? Is it possible that in the public sector there is overstaffing? Is it possible that in the public sector there is an inability to access particular expertise

because it would not be within the realms of the public sector to retain that sort of expertise because it is not realistic? It might be technical expertise, it might be business or risk management expertise, or it might be other forms of expertise. Isn't it just possible that there are things that reside in the private sector which are inherently different from things within the public sector?

Ms GRACE — That is a very long, drawn-out, non-specific kind of question. The realm of possibility is it could be possible, but I could say exactly the same in the private sector.

Mr HOLDING — Exactly?

Ms GRACE — How long is a piece of string, I guess, is what you are asking.

Mr HOLDING — No, what I am asking is: the public sector and the private sector are different and public-private partnerships — I do not want to become an advocate of them because that is not the purpose of this committee's evidence collection — are about trying to, if you like, join together the different synergies that exist within the public sector and the private sector and say, 'Can we deliver a project using what you are good at and what we are good at so we might end up with an outcome that is better for everyone?'

Ms GRACE — That is very simplistic and very much saying that you know what you are good at and they know what they are good at and somehow it is all black and white, there are no grey areas and everything is perfect and in a perfect world we marry it all up and everything goes terrific. Realistically, from a policy perspective nothing is ever perfect, there are always grey areas, there are always variables and nothing is black and white in this whole area.

Mr HOLDING — You are coming here with a QCU view which says that you are inherently opposed to public-private partnerships as a policy model. What I am saying is we are trying to collect evidence which asks what is the way through this and what is the appropriate thing for government to be doing. I guess we are saying that here is a framework for assessing on a case-by-case basis whether or not there is a benefit to the public in proceeding with a piece of infrastructure on the basis of these principles. What you are saying is that regardless of the principles you are not comfortable with the private sector being involved.

Ms GRACE — That is exactly right.

Mr HOLDING — I am trying to test, if you like, whether that one-size-fits-all model is appropriate.

Ms GRACE — A couple of things. Under the PPP principle, if that is how you put it, the guidelines can shift depending on who is in government at the time. While you may be much more strict on what the private sector does best and concentrate on that and its ability to deliver it, another policy model might say. 'We do not care about that, we just want to get the private sector involved; we cannot afford to do it, this is the way we are going to do it, let's go'. It is still under the policy of PPPs. What we are saying is that that policy can be manipulated and at the end of the day it comes down to can you afford to do it; what is the government responsibility; who holds the baby if it does not work out; how long are you being locked in for; what is the cost to the public; and who pays at the end of the day? When you take those fundamentals into account you can get many variables across the policy. We think government delivers it better and it is false economy.

The CHAIRMAN — We are nearly at the end of the time.

Ms GRACE — I am sure we are.

The CHAIRMAN — I was distracted from the series of questions I was asking about 10 minutes ago.

Ms DAVIES — I want another one too.

I understand your overall position, but under the guidelines you have from the Queensland government are there elements that should be there but are not; are there elements that you believe should be stronger, better worded, more specific?

Ms GRACE — Yes. We have concerns listed in dot points on the last page of our submission you have in front of you. We think the application of the policy is too broad — anything valued over \$30 million. We think you can probably price a shed in the middle of Queensland somewhere at over \$30 million. We think the application of the policy is too broad.

The CHAIRMAN — Do you suggest a different figure?

Ms GRACE — We do not suggest any figure, but we are saying that the policy at the moment is too broad. At the moment it is \$30 million. I think I am taking Tim's view: the next government might decide that it is \$5 million and enter into it for everything. It depends on how you manipulate the policy. The risk to the public sector regarding wages and conditions and issues and job losses and all of that kind of stuff is a real concern for us. There is no doubt about that.

Implications of PPP failures, such as escalating costs of services, including the introduction of more of a user-pays system. At the end of the day someone has to pay. You build a road in a PPP and you put on a toll. What happens in 20 or 30 years if the cost escalates, or in 5 years or 10 years? Who is going to pay for it? Who is going to maintain the costs? What if you say to the person you have contracted to, 'I am sorry, yes, I know the costs have gone up, but we cannot afford to give you more'? What do you think is going to happen? People are going to lose their jobs, maintenance will not be carried out and the risk goes back to the government. There are implications in that, and I think it needs to be a lot tighter.

Budgetary constraints on future governments — one government might decide this is the best thing since sliced bread and do every project like this. In doing that it locks in future governments for 25 to 30 years. That is where it is coming home to roost in England. I think there is enough evidence of that now.

Lack of public scrutiny due to commercial confidentiality type of stuff: 'We cannot tell you how we do our business, others will be able to see it'. You are never going to get over that barrier. Commercial confidentiality is something I do not think any government will be able to make transparent.

The CHAIRMAN — Can I ask why you say that?

Ms GRACE — Because the people who want to play see that as their competitive edge. They will never allow you to make it public.

The CHAIRMAN — I agree, if you ask them. I was asking why you say no government would ever do it.

Ms GRACE — Because the people will not come into it if they think you are going to do it.

The CHAIRMAN — Surely you can say that that is the price of doing business in the public sector?

Ms GRACE — Commercial confidentiality? Good luck.

The CHAIRMAN — It has worked elsewhere.

Ms GRACE — Give me the evidence. I have not seen it yet.

The CHAIRMAN — The USA.

Ms GRACE — No.

The CHAIRMAN — Absolutely, even defence contracts are public.

Ms GRACE — Not the commercial-in-confidence stuff. No.

The CHAIRMAN — Go to the public library. You can get defence contracts from the public library. In fact, I can give you an example in Victoria where the contract of sale for one of the electricity industries was commercial in confidence in Victoria and I got it off the Internet because it had to be filed in the USA.

Ms GRACE — What are the elements in the commercial-in-confidence stuff?

The CHAIRMAN — I am just saying that I believe it is a matter of government will.

Ms GRACE — I am happy to be proven wrong.

The CHAIRMAN — I am not arguing with you about it, I am just saying that I believe it to be a matter of government will. It may be that no government in Australia has the will to do it.

Ms DAVIES — And, mind you, the Queensland government thus far is only talking about making available summaries of contracts. The Victorian government has said it will make completed contracts available in full, is that right?

The CHAIRMAN — Yes. I am not disagreeing with your basic point. As people here know, I have a very strong position on commercial in confidence.

Ms GRACE — There might be a difference between our understanding of what we are talking about. You may have a commercial-in-confidence contract which sets out how the contract is structured between the two parties. I guess what I am saying here is there is a lack of public scrutiny on why things may or may not have failed or why things may not have worked out the way they were meant to because the company will maintain it cannot disclose why that happened because the way they did business was commercial in confidence. That is the part I am talking about.

The CHAIRMAN — What I am putting to you is that I believe that to be a legislative matter that can be addressed by a government if the government has the will to do so. It can force disclosure.

Ms GRACE — But if the private sector out there claims that that is going to hinder them applying or being involved then you be can darn sure a government will probably change its will or criteria or the policy if they squeal enough, is our view. I am being very frank here.

The CHAIRMAN — I appreciate your position.

Ms GRACE — Then of course there is the lack of ability to appeal decisions made on a PPP basis. They are the main elements of what we have put down in our brief submission.

I want to go back. In our view it is a revenue issue and our council intends next year to have a revenue submit or level of services kind of debate, to really talk about what is properly servicing by government and debate this whole issue.

The CHAIRMAN — If I can just go back to where I was and the pro-PPP propositions that are often run and put them to you. One is that governments historically may have been quite good at building things like schools, hospitals and so on but they have been absolutely pathetic at maintaining them. Many school and hospital assets have been allowed to run down because whenever a government is squeezed for money it does not carry out the necessary maintenance. Through a PPP that is negotiated whole of life you get built-in maintenance, you get an asset that at the end of, say, 30 years has been fully maintained et cetera and it goes back to the public as a fully maintained facility. That is the argument. What is the response to that?

Ms GRACE — Get better at maintaining your buildings.

The CHAIRMAN — It is a budget issue, isn't it?

Ms GRACE — But it is a budget issue in a PPP too. If you do not have the money to maintain them now, what makes you think a PPP is going to give you the money to do it then? If you enter a contract with them over 30 years, what is wrong with getting somebody else to maintain them or work into the building of that system the maintenance of the building?

Ms DAVIES — Political reality that they do not do that.

The CHAIRMAN — Also political will. It comes back to the issue we were just discussing that a government next year instead of allocating the \$50 million for maintenance of school buildings will say, 'Hang on, a much more popular thing for us to do will be to build another \$50 million project', and so they shift it across in the budget to do something else.

Mr HOLDING — Or put an efficiency dividend on it.

The CHAIRMAN — Or things of that nature. That is the argument it comes back to. I am just advancing the argument.

Ms GRACE — I know what you are saying. I guess my response to you is that I think governments should be made to look at maintaining buildings and I do not think the answer is necessarily that you lock in a cost

for the next 30 years as somehow the answer to poor management in maintaining public infrastructure and buildings.

The CHAIRMAN — The other proposition that is regularly put to us is there is a myth about how effective the public sector has been in doing projects in the past — that there are actually as many examples of catastrophic projects in the public sector, of projects that have gone over budget, over time; with massive blow-outs; of public projects that have resulted in massive contractual dispute and huge legal costs, et cetera — and that a value of PPPs is you can free yourself of those sorts of things so it actually frees money up in the public sector.

Ms GRACE — Illusionary. Just as many bad projects have been done by the private sector as well and I think a lot of the time it has been poor management of who they have got to build it and it has been mainly the private sector that has caused the industrial disputation; it has not been because the people have been directly employed by public servants. I would like you to point to any of those projects where the actual building of them was done by public sector employees.

The CHAIRMAN — Do not get me wrong, it is not my argument.

Ms DAVIES — We are also not talking about buildings so much. We are not talking about disastrous building, we are talking about the ongoing management of buildings or the choice of where the building is located.

Ms GRACE — No, this one was the building because you talked about over budget, over time, cost blow-outs, industrial disputation and all of that. The majority of those have been built by the private sector.

The CHAIRMAN — I did not mean industrial disputation. What I was saying is that the proposition put to us is that there is a myth that the public sector has been 100 per cent efficient and that that is not reality.

Ms GRACE — We build the Goodwill Bridge here and when we got the quotes they started at \$11 million and it ended up costing \$25 million and it was built by the private sector, so who is at fault? I can point to just as many the other way.

Ms DAVIES — A pox on both your houses. Everybody makes mistakes.

Ms GRACE — What about when you get renovations done to your house? I do not know any that have come in on time and on budget, and the private sector does all of those.

The CHAIRMAN — Certainly there wasn't a Kennett government project that come in under budget.

Ms DAVIES — There wasn't?

The CHAIRMAN — There was not a Kennett government project that come in under budget.

Ms DAVIES — No.

Ms GRACE — Of course not — it is the private sector that builds them; they milk you for all they can, to be honest.

The CHAIRMAN — Thank you for your time today. It has been a very useful session for us.

Witness withdrew.

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Private Sector Investment in Public Infrastructure Subcommittee

Inquiry into private sector investment in public infrastructure

Brisbane – 22 October 2002

Members

Mr R. W. Clark
Ms S. M. Davies
Mr T. J. Holding

Mr P. J. Loney
Mr G. K. Rich-Phillips
Mr T. C. Theophanous

Chairman: Mr P. J. Loney

Staff

Executive Officer: Ms M. Cornwell
Research Officer: Ms C. Williams

Witnesses

Mr R. Tooth, Manager, Project Development Unit; and
Mr D. Jay, Director, Capital Works Branch, Department of Health.

The CHAIRMAN — I welcome Mr Robert Tooth and Mr David Jay from the Department of Health to this public hearing on private sector investment in public infrastructure. All evidence taken by this subcommittee is taken under the provisions of the Victorian Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of this hearing are not protected by parliamentary privilege. All evidence given today is being recorded. As witnesses you will be provided with a proof version of the transcript sometime shortly after the hearings. Mr Tooth or Mr Jay, would you care to make an opening statement to the committee before going to questions?

Mr TOOTH — This afternoon we are certainly here to help the committee with anything we can. We have read the terms of reference and have a fair understanding of where the committee is heading. We are receptive to whatever questions you would like to put to us.

Mr JAY — To add to that, our experience with partnerships with the private sector — and I am particularly relating to Queensland Health — Bob and people who worked previously in Bob's position have been actively involved in partnerships with the private sector probably over the last six years, certainly since 1996, and I guess they operate in a variety of areas not solely to do with a hospital per se, but elements surrounding hospitals as well.

The CHAIRMAN — Can you refer to some of those and tell the committee what you believe to have been the outcomes of those projects?

Mr JAY — I will start on some of them. We will probably do a little bit of both here. The initial projects that we looked at in this PPP-type framework — remember that back in 1996 and 1997 we did not have a PPP framework; we had something called private infrastructure guidelines — came in four general categories. First, there are the very simple ones where we declare something to be a non-core service — and the easy ones were car parks of various persuasions. We have been involved in several car parks that have been owned and operated by the private sector, or in some cases just operated by. The second category involves two particular facilities which you would know as Robina and Noosa, which are the private sector providing a public health service. The third category contain what we have called centralised energy plants which are either owned or owned and operated — we have had both models — by the private sector. The fourth one, about which I will ask Bob to talk, is where we ask the private sector to provide support services, and I was thinking particularly about the Townsville example, Bob.

Mr TOOTH — Support facilities is probably a better word in that it embraces a fairly wide description of infrastructure and activities that might be undertaken in that infrastructure, all of which are deemed to support the core services and facilities that we already have, so there is really no fixed boundary around the nature of what those projects might be. Those projects are tending to arise from a recognition of a general need that we have, or an issue to satisfy, and then looking at what might be the infrastructure solution for that and what might be an appropriate basis for a private sector project.

Mr JAY — Just describe a bit about Townsville.

Mr TOOTH — In Townsville the solution was a building, but the building is tenanted by a large number of different commercial entities, as well as Queensland Health itself, for very specific purposes — for example, in one building there is a general practice clinic, which obviously has value to us but it is nonetheless run by a private provider in a building which is owned by the private sector for the time being. In that same building is a collection of retail facilities, the sorts of retail facilities you would expect to support a hospital — a newsagent, florist, that kind of thing. We have opportunities for private allied health providers: the physiotherapist and the optometrist. We have a private dentist on the site. There are a couple of other facilities of our own, so to speak. We have a major breast screening clinic; we have what we call a chronic pain clinic which is set up as a special service to treat patients in that category; there is the government medical office, those sorts of things. It is a building that has a lot of flexibility in that over the term of the agreement its use can change from time to time depending on what the hospital in particular actually thinks it needs.

At the moment on the Gold Coast we are dealing with a project which is somewhat problematical, but the idea was to provide a car park plus some accommodation for our own services and a helipad for emergency retrievals. We can pretty much package together the project and make it appeal to the private sector, but essentially it is to support us in what we do. If we can get additional benefits through commercial arrangements with the private sector in terms of providing services, or even shifting costs, then we can look at those things as well.

Ms DAVIES — Can you tell me why it is not better — for example, you talked about Townsville — just to have a normal lease so you lease space from the private sector? Why go into a partnership rather than just saying, ‘We need this at the moment; let’s just lease this building’?

Mr TOOTH — The Townsville hospital is a brand new hospital on a greenfield site, so there was no space there to do it in any way, but there was the opportunity for the private sector to provide that space as opposed to the public sector providing that space.

Ms DAVIES — What advantages are there in having the private sector do it?

Mr TOOTH — In the scheme of priorities we would not have been able to do it ourselves in the time frame that we considered desirable.

Mr HOLDING — So you had a parcel of land that the Department of Health purchased, is that right?

Mr TOOTH — Yes, we had ample land.

Mr HOLDING — You then sought expressions of interest from the private sector for the construction of a hospital?

Mr TOOTH — No, a specific defined project, which sits on the hospital ground.

Ms DAVIES — I was asking about a specific site. The Townsville one exists now, so we can talk about the actuals.

Mr TOOTH — Yes.

Mr HOLDING — What was the process?

Ms DAVIES — The advantage is that you could do it earlier than you could have done it otherwise?

Mr TOOTH — Yes, and in the context that in general — not exclusively but in general — the kinds of activities that would go on in a commercial sense in that project, once complete, traditionally would be the kinds of commercial activities that would probably take place even outside the public hospital precinct out there in the community. In the case of Townsville we shifted a hospital from a central business district right out to the fringe of the suburbs where there was no such supporting community infrastructure at the time, and that in itself posed a need that we one way or another had to satisfy.

Ms DAVIES — Was the hospital private enterprise as well?

Mr TOOTH — Was the hospital built through private enterprise?

Ms DAVIES — Yes.

Mr TOOTH — No.

Mr JAY — It was publicly funded.

Mr HOLDING — You have a piece of land owned by the government, a hospital owned by the government, an ancillary building of some sort, or whatever, that is at the moment owned by the private sector but will revert to government ownership at some stage?

Mr TOOTH — Correct.

Mr HOLDING — What is the life of the project?

Mr TOOTH — Twenty-five years with an option for a further 15.

Mr HOLDING — Then all these commercial services are then sublet by the operator of this building?

Mr TOOTH — Correct, under a controlling mechanism by us to the extent that we have a say on the types of commercial activities that go on inside those buildings, for obvious reasons.

Mr HOLDING — What was the process? Did you receive expressions of interest from the private sector?

Mr TOOTH — Correct, yes. We initially sent an information memorandum out there to the industry from which we got certain responses which we then screened and then went back to request industry-specific detailed proposals. In the case of Townsville we actually went through a two-stage proposal invitation process because we were not entirely happy with what we got back in the first instance. We went back and asked for more information and then made our choice, and then negotiated with our preferred proponent about the contract.

Ms DAVIES — When you say ‘choice’, you made a choice of preferred developers?

Mr TOOTH — Yes.

Ms DAVIES — How many?

Mr TOOTH — We made a choice out of two at that stage.

Ms DAVIES — So you chose two preferred developers?

Mr TOOTH — No, we ended up with two from whom we chose one by a process of elimination.

Ms DAVIES — You only continued — —

Mr TOOTH — With one.

Ms DAVIES — To what stage did you take the two preferred developers; how far along the path?

Mr TOOTH — To the stage immediately preceding detailed negotiations with that proponent which eventually went to contract with us.

Mr JAY — We should say that at that time of going to the single preferred proponent, the other proponent is still held in reserve, as you would expect, because if the negotiations fell over we would always reserve our rights to go back.

Ms DAVIES — I wonder about that process. It has been suggested in various information I have read on this issue that once you choose a single preferred developer, if you do not fully work out the negotiations before you get to a preferred developer stage then somebody can come in with a cheaper looking gung-ho project, and then the further on you get, to the point where everybody has invested quite a lot of time and money in it, in the final nitty-gritty negotiations suddenly things start swinging back to the private sector to give it more advantages. Do you see that is a risk in that kind of preferred developer process in that at that final crunch point there is the opportunity for the developer to say, ‘I need this and I want you to take that risk. I want this extra condition in here’?

Mr TOOTH — It is a risk that has to be managed absolutely, and both parties have to be aware of that risk, but it can be managed and we do manage it through the process, which starts at the very beginning where you define the outcomes that you want; you issue a brief to the private sector based on those outcomes; you invite detailed submissions based on those outcomes; and you agree with the preferred proponent under a risk allocation table that if the negotiations are now going to continue through to the execution of a contract, then this is the agreed risk allocation. If the private sector party wants to depart from that, then we hold the upper hand by saying, ‘Sorry, the deal is off, we will now set you aside’, and we will revert to choice no. 2 or re-tender or close it down.

Ms DAVIES — In your experience since 1996 how often has that actually happened?

Mr JAY — Reverting to somebody else?

Ms DAVIES — Yes.

Mr TOOTH — Not recently.

Mr JAY — No, I do not believe we have ever done it. I am thinking of all the options, all the times we have negotiated with the private sector. There was another group of projects which I did not mention and which you would describe as co-locations. You may not want to investigate those, but a co-location is a form of public sector–private sector partnership. We have been involved in six of those in that time. Certainly in two of those cases the negotiations went to a point where the private sector walked away and we then went back to two and three, and as it turned out at that particular time the market had changed and they did not want to go. I do not say that we actually called that off, but we held a negotiating stance and said, ‘We will only do this’, to the point where

we did not say to the private sector that negotiations had finished, but they said to us, 'If you cannot agree to that, then we cannot do it', which is a lot along the lines of what Bob is saying, that if you stick to what you actually say you are going to do, at a point somebody will pull out.

What has happened in two of the cases is that the private sector has pulled out and said, 'No, that is too hard, we are not going to do that', and in both cases we have gone back and asked the second whether they were interested, but as it turns out in neither case were they interested.

The CHAIRMAN — Would you not be at legal risk if you advertised the specifications, got a preferred tender and then went outside the parameters in order to meet them?

Mr JAY — Absolutely.

Mr TOOTH — If it is a matter of probity, yes.

Mr JAY — If it is a matter of probity. You asked me the question up front, Peter, what had been the successes? I would say yes, I have been involved in all these projects and to a greater or lesser extent one of the successes has been that we have been able to manage an ongoing process with the private sector and meet all the probity requirements. While not all the projects have got up — I acknowledge that, and in fact you asked me about one project that would appear to have a chequered history — the contractual arrangements we have entered into and all of our projects we have done with absolute probity and auditability, and I think that has been a successful outcome, because if we can continue the private sector has in a sense got confidence in dealing with us, albeit that not everything comes to a realisable built structure, if you like. Life is just not like that sometimes.

Mr TOOTH — As a matter of practice we do use what we refer to as an independent probity auditor who watches over the process, attends all meetings, attends even internal evaluation-type meetings from the point of issuing the initial information memorandum to the private sector through to the establishment of the final contract, and he signs off that to his satisfaction he is happy that the process has been conducted in accord with the probity lines of fairness, et cetera.

The CHAIRMAN — If I could for a moment just take a side track from where I was going — where do you draw your probity auditor from?

Mr TOOTH — The private sector.

Mr JAY — The particular profession?

The CHAIRMAN — Yes.

Mr TOOTH — We actually go out to tender for probity services.

The CHAIRMAN — They would come presumably from companies such as Pricewaterhousecoopers?

Mr TOOTH — For example, those sorts of places.

The CHAIRMAN — Is there potentially a conflict of interest issue there, because many of those companies would be advising, I assume, companies that are tendering for PPPs?

Mr TOOTH — Throughout the probity process it is essential that any conflict of interest or any potential for conflict of interest is identified right up front. So when we engage a probity auditor we have to be satisfied that that probity auditor is not already in some kind of relationship with anyone that we are already dealing with, or he must undertake not to be involved with anyone we subsequently deal with, and he must therefore take the risk of staying with us regardless of any opportunities that might come his way thereafter. So he must work for us, nobody else, and there must be a very clear fence around him.

The CHAIRMAN — That is the auditor and not the auditor's company?

Mr TOOTH — No, that is the auditor himself. As a general rule we would not want his company involved at all. I cannot think of where we have had that particular issue. Our first stance would be, 'Neither you nor your company'. Now, if you want to convince us that there is a Chinese wall between you and some other part, we will have a go, but I personally would feel very uncomfortable about that. I cannot think of an instance where we have had that particular issue.

Mr JAY — There is never a reason.

Mr TOOTH — There is potentially.

Mr JAY — Obviously if you are a large company — say Price Waterhouse Coopers, for the sake of the argument — you could not say that they have not advised some prospective PPP proponent in the past or in the future. We are not restricting their business. Probably the fence we are drawing about it is fairly narrow within the sense of being within our state boundaries, within a reasonable time frame of what we are talking about.

The CHAIRMAN — But you would expect your probity auditor to declare any potential conflict that he may have or anything that his company is currently involved with that may be a conflict of interest?

Mr JAY — Absolutely.

Mr TOOTH — And to warrant that he will keep away from anything like that, no matter what happens now or how long the project takes.

Mr JAY — Yes indeed.

Mr TOOTH — It is important to lock in the probity auditor or any other external advisers or monitors you might have, such as financial advisers or commercial advisers, in a similar manner. So you offer them the opportunity to provide services to you at the very beginning on the strict understanding that, no matter what happens, from then on they will not be associated with or offer services to anyone with whom you might subsequently deal, even when they do not know who those people are going to be at that point in time.

The CHAIRMAN — As I say, that was a side track from where I wanted to go. Did you want to follow that up, that Mr Holding?

Mr HOLDING — I have just a couple of things in relation to the Townsville matter, if I can return to that. Firstly, what was the cost of the project?

Mr TOOTH — About \$10 million.

Mr JAY — That is development costs.

Mr HOLDING — So that is not the sort of project that would be covered by the new partnership in terms of scales?

Mr TOOTH — Not in a mandatory sense, but nonetheless as a matter of practice in the past, pre the current guidelines we have, the processes we followed were virtually identical in any event, and we would continue to use those processes anyway because they are the appropriate processes to use.

Ms DAVIES — So are you saying that the idea of not having PPPs, according to the guidelines, that are under either a \$30 million capital cost or a \$50 million whole-of-life cost does not apply to your department, that you will just keep going and keep doing them anyway?

Mr TOOTH — It applies, it applies.

Mr JAY — It applies. As I recall them, it is mandatory that you go through a PPP process for either the \$30 million or the \$50 million figure.

Ms DAVIES — It is possible to go through it if it is less?

Mr JAY — Absolutely

Mr TOOTH — And there is nothing unusual about that in terms of past practices in any event, even though the guidelines — —

Mr JAY — And we will continue to do that where we think there is some advantage.

Mr HOLDING — Again on Townsville specifically, and not for any other reason — and you should have provided us with a bit of background so we can understand the nature of the project - what expertise resides within the Queensland health department for evaluating a project like the Townsville one, for example, where you are

talking about a 25-year project with an option for another 15 years, so you are looking at assessing the risks or the costs over a potentially protracted time frame?

Mr JAY — I will explain a little bit about the team, because I do not think you can say it is just one person. Bob has at least 20 years of experience of being involved in private sector developments in conjunction with government. You know Queensland reasonably well, and if you remember where the Sheraton Hotel is, that was a development on Queensland Railways land which Bob was responsible for in working up, firstly, the station, and secondly, the Sheraton, and all the infrastructure which goes with that, which is fairly complicated. After that I think he was involved with some of the work at Toowong as well, so Bob has a fairly large history of working through the private sector — albeit that we are now talking 20 years ago or something — and working out how the government would interrelate with the private sector to get some private sector developments going which would have some benefits for the state.

My particular background is also working in major projects, which in general have been financed by the state government, but there has been a large proportion of private sector involvement as well, so I have a fairly large experience of working personally with the private sector. I think that is one of the first things.

My experience and Bob's experience has been working very closely with the private sector to deliver commercial developments which had some benefit to the state either directly or indirectly. For example, I was project director for the Brisbane Convention and Exhibition Centre, which has a spin-off advantage to the state government — it is not a direct-paying type of commercial investment. Bob is the manager responsible for that. The other part of the team that Bob would have pulled together, and there are other people who work with Bob, but the specialist parts in that particular case — you picked on Townsville — would have been we got one particular set of commercial advice from Queensland Treasury Corporation (QTC). You are aware of what that is?

Ms DAVIES — I am not, sorry.

Mr TOOTH — It is a government agency which has a dual role. First of all it is the prime borrowing agency for the Queensland government. It also provides financial commercial advisory services to government and to many government agencies, so it can take on a consultancy role. Being very closely linked with Treasury, this obviously has been of some advantage for agencies to use it.

Mr HOLDING — Do you have to pay for that?

Mr TOOTH — Yes, we do.

Mr JAY — In this case we used the public trustee as our legal advisers, albeit they could call in the private sector lawyers to assist on certain elements. We dealt with them as the prime legal advisers, primarily because their skill is in property development and the largest part of that was a property development not a service-related type of element. But I should say that in other private sector developments we dealt directly with the private sector. It is horses for courses. We did have a probity adviser.

Mr TOOTH — We had a commercial adviser as a consultant to the QTC to provide commercial benchmarks as a means of assisting evaluation of the financial offer that came in from the private sector.

Mr HOLDING — Were you assessing that against what the public sector could have delivered if you had done it as the public sector exclusively owning it? Did you have a comparator in place like the comparator that would exist if it were under the current partnership policy?

Mr TOOTH — In the particular case of the Townsville project a fundamental criteria for that project was: if the private sector can do it at its cost and at its risk then it can happen. The government had not made any statement as to what it would do if in fact that was not achievable, so the issue for government then became whether the financial offer was reasonable and whether the developer's projections of his own financial performance were reasonable and realistic to avoid the ultimate risk of it coming back to the Crown. To do that you need an understanding of the specific commercial activities that would go on in that project over the life of the project, and they tend to be activities with which Queensland Health would not normally be familiar — we are not in the newsagency business, we are in the health service business. So that then deems that you must step outside of the government to get advice on what the realistic benchmarks are for the locality, the period of time and the types of activities concerned — and that kind of data is available out there in the private sector.

The CHAIRMAN — You mentioned earlier a period of 25 years with an option of 15. What is the outcome at the end of that? Is that a public facility then? What is the arrangement at the end?

Mr JAY — The land always resides with us.

Mr TOOTH — The land is the subject of a head lease from the state to the developer for the purposes of the development and the life of that development. At the end of that development the entire property is returned back to the state.

The CHAIRMAN — Land and buildings?

Mr TOOTH — Land and buildings refers back to the state, so at the end of the term the developer hands back the key and essentially says, ‘Goodbye’.

The CHAIRMAN — Are there contractual conditions about the state of the building through that time?

Mr TOOTH — Yes, there are. There are provisions in the contracts — they are relatively standard but they would vary depending on the nature of the project — which govern the private sector’s responsibility for the upkeep or refurbishment of the building — what they can or cannot do, what permission they need to get from the Crown, the various things it might take and the conditions under which it is returned. There will be conditions relating to a form of security which provides us with the comfort to ensure in that fact that will happen, or alternatively we are left with something which we can draw on to make it happen ourselves as a last resort.

Once again it depends very much on understanding the motives of the private sector behind the particular project. For certain projects the private sector will have a very strong motive for doing that themselves because the project itself will be the developer’s means of making his returns, not only repaying his own debts but making the profits that he is forecasting. In other cases there could be a tendency to step back from it and let the project deteriorate. It needs to be looked at on a case-by-case basis to see what the situation really is. In some types of projects maintenance will not be a major issue. For example, with a typical conventional multi-storey car park, not a lot can happen to that compared to what might happen to a hospital or something involving accommodation or a trading facility. It needs to be looked at on an individual basis, understanding where the motives are, where the risks are and assigning an appropriate mechanism in each case to ensure that the government is covered.

Ms DAVIES — Can you give me a list of what you would regard as your most successful PPPs and your least successful PPPs and what the difference is — why some have worked and why some have not worked?

Mr JAY — That is interesting because Bob and I have not discussed that, so we will see. I mean, I will see whether we get a consistent answer to that! The most successful and the least successful — I guess the ones that I put in the middle are things such as car parks because they are pretty straightforward, they really are. It is something we need, it has been a good deal, but they are a straightforward sort of enterprise. There is a modicum of risk in there, but it is a fairly predictable sort of thing. The ones that I think have been most successful are that in two cases we have had central energy plants. We have always needed a central energy plant, but we have had them brought to site, and I believe that we have achieved ongoing recurrent benefits for the state by having the private sector develop those.

Ms DAVIES — Where are they?

Mr JAY — Redcliffe, Townsville, and we just committed to one at Toowoomba. The one at Redcliffe is interesting because by dealing with the private sector as a large body we were able to encourage them through this process. They provided an additional gas supply to the Redcliffe Peninsula which effectively offered something which we did not previously have at all and lowered our unit cost. We also got a few other things as a result of that — a waste management plant and so on. We actually got a fully integrated service.

Bob was not particularly involved in that. I thought that was quite successful. We also did a similar one at Townsville. We chose to do it quite differently. In that case we said for various reasons that it looked better to us to fund it through the state government but to get the private sector to operate it, so it was a design, build, operate, but the ownership stands with us. Right now it is economic. If certain things come to pass in the future regarding gas supplies via PNG or East Timor it will become very economic. We will benefit significantly over that. I think the negotiations we had on that have been quite successful.

Even though it is small, the one that we have done at Townsville has been quite significant because we have brought together various things that the state would not necessarily have but we did want and that have been of

benefit. The reason we do it is the benefit to the patients ultimately, and to our staff. There has been great benefit in doing that. We have some opportunities there in terms of providing the GP service and a private sector pharmacy on the site, which really when you partner them with what we do in the hospital is very beneficial. The ones which we have not discussed at all are the Noosa and Robina type projects. I guess to get an assessment of whether they are successful or not you have to go back in time and work out whether you in fact would have had those projects at all.

You would be aware that we had a significant redevelopment program for our state government hospital health facility. We would not have had the Noosa or Robina projects in this time frame, and that was probably the reason why we got them. You can argue whether we got them too early or not — that is actually a decision that government makes — but we actually got facilities. They are good quality facilities. Perhaps we will discuss more about them, but they are less successful in one sense because in the case of Robina the operator has had to walk away, and you cannot say if somebody walks away from a project that that is a successful project. But in terms of the delivery of public health services they have been quite successful. In terms of the quality of the infrastructure they have been successful.

The CHAIRMAN — What was the operator doing at Robina? Was that building provision and building services or — —

Mr JAY — The whole box and dice.

The CHAIRMAN — So clinical services?

Mr JAY — Clinical services as well.

Ms DAVIES — If you were looking at it now — and again this is related to some of the other changes that have happened in Victoria — would you say projects are more likely to be successful when you actually keep the core service provision in the public sector?

Mr JAY — Yes.

Ms DAVIES — So the building and the maintenance, and perhaps allied commercial activity work all right, but not the core service provision?

Mr JAY — I will let Bob speak on that topic himself, but my personal view is that there is such significant risk associated with the delivery of core public health services that you cannot ever really transfer that readily. You can protect yourself contractually and legally, and that was done very well. The actual negotiations in terms of the contractual legal provisions were fine, but the responsibilities for delivery of public health services will always reside with the state government, and you cannot transfer the risk associated with that.

I think the private sector — and your reading would be as good as mine — now recognises that there are significant risks with delivering public health services that they did not perhaps anticipate in the mid-1990s. You do not need to just talk to Queensland about that; there are many other examples, and some in Victoria too. But to be fair, all states have their examples. You can talk about Modbury in South Australia. You can talk various other projects. The reality is that the private sector has underestimated the commercial risk associated with the delivery of public health services, and at the end of the day the state will always be responsible for that. While we can protect ourselves commercially, contractually and legally, you cannot say when somebody walks away from a project that that is a successful outcome.

The CHAIRMAN — There is a big political risk in closing a hospital when it is operating.

Mr JAY — You cannot do it.

The CHAIRMAN — That is right.

Mr JAY — Particularly one that has only been operating for two years.

The CHAIRMAN — That is right.

Mr HOLDING — Could you give us a thumbnail sketch of both? Is it Robina?

Mr JAY — Robina and Noosa. You have a broad picture of Queensland, or the south-east corner. Robina and Noosa are both located about 100-plus kilometres south and north of Brisbane. They are in what is described as growth areas, one being the Gold Coast and the other one being the Sunshine Coast. Whilst there are some significant differences in both areas, they both rate as hospitals that have a capital value of, depending on how you look at it, somewhere between \$25 million and \$40 million in both cases. Their beds in one case were — not that you measure beds solely — 110 in one case and 155 in another case. They are projects that were put into areas which were growing, and it was about deciding when was the right time to put a new hospital in if you needed to.

The existing hospitals, both Nambour and the Gold Coast, are very difficult to redevelop because they are very tight, in confined sites. You can flatten the site and start again, but that would be very expensive to do. I will not go through the political side of it, but they are clearly in areas which are growth areas which are very important to the political side of government to be shown to be doing something in those areas.

Ms DAVIES — When you have cabinet interfering in the decisions, it sometimes makes — —

Mr JAY — Interfering is not quite the word I would use. Government gives direction, and that is fine. The government gave a direction. I should say — and from your position you will be aware of this — that post the Fitzgerald area there is no cabinet or government interference in the decisions made regarding projects, but the decision to actually have a Noosa or Robina hospital is a fair call from government.

The CHAIRMAN — It is a policy?

Mr JAY — It is a policy, and I have no problem with that at all. The issue was that — just to go back to why it happened then, Tim — there had been a change in government. There had been a significant recognition that what a previous government had committed itself to did not match the dollars, and the incoming government said, ‘We need to invest A, B, C, D’, and it was an additional investment of the order of \$1.2 billion, and that was to just meet the expectation for the existing projects. The incoming government had made promises that they would deliver on these two hospitals.

When it came to actually delivering them, it was fairly difficult to find. It was very difficult to see how this was going to be done in a short time frame other than by going through this PPP process. I have taken over all that conversation, Bob.

Mr HOLDING — So those commitments drove them on, if you like?

Mr JAY — Yes, absolutely. The other thing is it was looked at at the time, and I do remember being involved in discussing that with senior people within Queensland and probably with the minister as to what was the potential of doing a private sector development within an existing hospital structure. If you are going to put a new building here, what is the potential for doing that? And the conclusion that we all came to was that it would be very difficult to do — not impossible, but very difficult to do. Would it not be easier to do it when you have a complete greenfield site where there are no constraints, either physical in terms of the actual buildings or, let’s be honest, industrially in terms of the employees, because there are no employees associated with that hospital because it is a new hospital. So you did not have the issue about people being transferred to the new facility and so on.

The government at the time said, ‘Yes, that is right. If we are going to do this anywhere, these are the sites we should do it in’. So that was the genesis of that. To be fair, what we also did at that time — and this is back in 1996, 1997 — we were looking at what had happened in other states, and I will give a Victorian example. Victoria had embarked on and appeared to have concluded a successful negotiation process with Latrobe hospital. It is all about timing.

The CHAIRMAN — That is right.

Ms DAVIES — That is a worry.

Mr JAY — I can remember being involved in that and saying Victorians have learned from New South Wales who have learnt from somebody else.

Ms DAVIES — That is a worry too.

Mr JAY — But each successive state jurisdiction said, ‘We have learnt a little bit from what other people have done’. I think the first of those real examples was probably Port Macquarie. You will have read that. It got its own sort of press through the Auditor-General’s reports. But then there was the project at Modbury, and

subsequently there were the Victorian projects, then Western Australian, Joondalup, and we were really at the end of that tale or cycle, and we thought, 'We have learned all the lessons that need to be learned. We should be able to get this right'. My personal conclusion now is that we probably gave the private sector too much credit for being able to fully understand the risks of what they were involving themselves in. I am not talking here about the building risk, I am talking about the — —

Mr TOOTH — Operation.

Mr JAY — The operational risk.

Ms DAVIES — When that particular private operator walked away, did they walk away with a loss? Did they actually wear a very considerable loss?

Mr JAY — Very considerable. Once again, I am not privy to the actual final transaction, but if you were to look inside the contract you would see where it is not possible for the private sector to walk away from that at a loss, in terms of the infrastructure to start with. What profits they may or may not have made along the way, I am not quite sure how that will stack up, but assuming that they were walking away because they were not making a high enough margin, by definition you would say, 'Yes, it is at a loss', but they have to walk away at a premium.

Ms DAVIES — We have one in Victoria that is walking away without a loss.

Mr JAY — In essence our argument, without going to the fine details, because once again I have not been involved in it, but the way the contract was structured, on default of the operator the cost to us to buy them out was in fact literally the capital cost or — —

Mr TOOTH — A percentage of the written-down cost, which reflects the premium that they must leave behind, less our costs of termination.

Mr JAY — And in particular the ones that are really high — and I know where their biggest losses were — we do not pick up any of their financing costs at all. They have had substantial financing losses and we are just picking up the direct cost of the infrastructure itself, and written down.

The CHAIRMAN — We are over our allocated time, but there are a couple of quick things, if I can. Firstly, was there pressure on their financiers to have a solution other than the government coming in?

Mr JAY — I am not privy to that directly, so I suppose all I could really say is that from what I have been told, yes, there was pressure from the financiers of the government to step in in some other way.

Mr TOOTH — Perhaps I could step in: on behalf of the financier — —

The CHAIRMAN — No, what I suggest is that obviously the outcome that you are describing would not have been a good outcome for their financiers?

Mr JAY — No.

Mr TOOTH — Not as far as we are aware.

The CHAIRMAN — And they may have wished to, say, pursue another private operator going in?

Mr TOOTH — Quite often those sorts of provisions are there. If the parties originally want the project to happen, then the parties tend to agree, 'Look, if things don't quite work out the way we are expecting, can, for example, the financier have a step-in right to try to put in on an even footing?'. The government often reserves the right to step in itself temporarily while the private sector has the chance to actually do that. You get on a path of trying to preserve your original intentions, to the point of saying, 'Look, this is hopeless; it cannot go on any longer'. Then the parties sit down and come clean.

The CHAIRMAN — So in this case, the technicality of it was that the government exercised a step-in right, or the operator simply removed themselves and left it there?

Mr JAY — The operator came to the government and said, 'We can't continue to operate this under these circumstances'. They probably — not probably, they absolutely in their first option were looking for some government contribution to make it more financially viable for them. At the end of the day the government said, 'No, we are not going to do that'.

The CHAIRMAN — And, ‘We will take it over’?

Mr JAY — ‘We will take it over’. I thought you asked me the question, ‘Was there pressure?’. Yes, there was pressure on the government to actually put money on the table. The government ultimately said, ‘No, we won’t’, rather than, ‘We’ll take it over. ‘We won’t change the original deals’, is what I am saying in simple terms.

The CHAIRMAN — Thank you. The other question I ask is: what shows on budget with these projects?

Mr TOOTH — That is a very interesting question. It depends on the nature of the project.

The CHAIRMAN — But should they not all show somewhere on budget?

Mr TOOTH — It depends whether they are purely private-sector-funded infrastructure projects or whether they involve the provisions of services to the Crown, which we are paying for, or something in between — say, for example, the Noosa — —

The CHAIRMAN — No, my question is: if it is a public–private partnership and held to be is there some public or government involvement, equity or interest in that project?

Mr TOOTH — There may not be.

The CHAIRMAN — Interest rather than equity?

Mr TOOTH — Interest.

The CHAIRMAN — Yes, should that not show somewhere?

Mr TOOTH — Even if it is a pure BOOT-type project where there is no government funding it will appear in the department’s accounts as a future asset gain, yes, and that is reported annually.

The CHAIRMAN — Obviously the reason I ask this question is that one of the projected motivations for doing these is to get things off budget.

Mr JAY — Can I just respond to that. When we first entered into doing that back in 1996–97 that was certainly seen as a relevant issue, but we did not have, nor did you have, accrual accounting at that point in time. So there has been some change in that. As you would know, under accrual accounting, as they are presented you have to bring things to account. If you have an ongoing contract with somebody for the delivery of services, as I understand it, it is incumbent in the accounting standards to bring that to account at the time that you actually commit to doing that.

Let me tell you that as much as I say that and people write about that, there are many jurisdictions where auditors have gone through it. I have just been in the United Kingdom looking at these same things, where they are much, much bigger than what we are looking at in Australia. They are still saying, ‘Yes, that seems to be what the accounting standards say, but the auditors are still saying it is off the balance sheet’. I do not know whether there is not a maturity to be developed about that topic. I can understand exactly what your question is, but when we started it that was not a consideration. Now I think it is a really serious consideration, but I think there is an open debate about it.

The CHAIRMAN — I go back to the Townsville example, where in 40 years it would become an asset. How do you account for that as an asset?

Mr TOOTH — At the moment it is being reported on in our accounts as being, if you like, a future asset that is coming, so there is no attempt to not disclose that it is coming. In terms of the accounting treatment between now and then, as David says, that is still being developed. I think it is being developed nation wide.

Mr JAY — You could argue — not rationally, but you could argue — that we should do a linear acquisition of the asset.

The CHAIRMAN — That is right; you could argue on whole-of-life ones that you should have an incremental asset value flowing through.

Mr JAY — And I think there is some validity to that.

Ms DAVIES — So at the moment it shows as a future asset that is coming but not as an expense?

Mr JAY — As a note to the account.

Mr TOOTH — As a note to our accounts.

Mr JAY — Just as we report future liabilities in relation to those where we are actually paying for services — say, for example, with the Noosa project we report those as future liabilities for the remaining life of that project as well.

The CHAIRMAN — Thank you for that. It has been a very interesting session for the committee. I thank you for your time.

Witnesses withdrew.

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Private Sector Investment in Public Infrastructure Subcommittee

Inquiry into private sector investment in public infrastructure

Brisbane – 22 October 2002

Members

Mr R. W. Clark
Ms S. M. Davies
Mr T. J. Holding

Mr P. J. Loney
Mr G. K. Rich-Phillips
Mr T. C. Theophanous

Chairman: Mr P. J. Loney

Staff

Executive Officer: Ms M. Cornwell
Research Officer: Ms C. Williams

Witnesses

Mr L. Ford, Deputy Director-General; and
Mr G. Vidas, Director, Public Private Partnerships, Department of Transport;
Mr D. Skinner, Executive Director, Project Development Office; and
Mr K. Beattie, Assistant Executive Director, Strategic Policy, Department of Main Roads.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIRMAN — I welcome Mr Les Ford and Mr George Vidas from the Department of Transport and Mr Derek Skinner and Mr Ken Beattie from the Department of Main Roads to this public hearing on private sector investment in public infrastructure. All evidence taken by this subcommittee is taken under the provisions of the Victorian Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. As witnesses you will be provided with proof versions of the transcript sometime shortly after the hearings. Before going to questions, would you care to make an opening statement to the committee?

Mr FORD — Yes, Mr Chairman. Could I just say on behalf of the department that we are very pleased to be here today and thanks for the invitation. It is a slightly unusual experience for us to appear before a parliamentary committee from another jurisdiction. We are a little bit more comfortable in this sort of context than we usually are if we are appearing before our own committees.

As a general remark, you would already have talked to Mr Shaun Drabsch to get some sort of idea of where the Queensland government's policy framework for private sector investment in public infrastructure sits. We have limited experience at this stage, but we are on the threshold of trying to turn that into some real hands-on experience. We do have some limited background in other projects that may or may not be relevant to your interests, which we can talk about, depending on how the questioning goes.

I guess we are at that threshold where we are just about to take a leap, but it will be a cautious leap when we take it into this area, because it is a fairly complex situation and public servants are not automatically as-of-right experienced in dealing with these sorts of financing initiatives.

I guess there are a number of reasons why we are interested in pursuing these options, as I suspect would also apply in Victoria. From the transport perspective we have estimated that we will have a shortfall in funding — I guess, demand versus supply of traditional sources of funds in the south-east corner of this state because of its growth, and demand for transport and travel of the order of \$12 billion over the next 25 years. If we project traditional funding sources into our infrastructure and services, that shortfall of \$12 billion pops up. Now we do not expect private sector investment to just erase that problem for us, but we expect it to be part of the solution or the tool kit that we will use to address some of that sort of shortfall. They are probably enough introductory remarks. I guess we can work out whether we have covered everything else that relates to our experience after the questioning near the end.

The CHAIRMAN — Perhaps just going straight to that, one of the lines put by critics of PPPs is that you do not move that \$12 billion shortfall; you just put on it a tick and it will come back to haunt you at some stage. What is your reaction to that?

Mr FORD — I think that question needs to be asked, about how individual projects are packaged. I think as well as straight out risk transfer, you can just get straight debt transfer between the public sector and the private sector, and maybe the economy as a whole, if the money goes into projects that are not particularly sound or are not particularly integrated with an overall system, particularly in transport. In Queensland particularly we are very conscious of the fact that if we are going into private-sector-funded public infrastructure in a transport context, then an overriding feature of our decision making will be the extent to which it integrates with the overall system and provides an enhancement to the system, not just an individual project, which might look nice and shiny but does not work in any sort of context. So yes, I think the idea of satisfying ourselves that what we are talking about here adds value to the process and adds to our overall system is central to the whole concept.

The CHAIRMAN — So it may not be that on a given project it is all or nothing. You may say, 'Well, we have \$500 million of public funds that we can do that project with, and for that we would get this; if we go to a PPP we might be able to extend what we can get and get a broader project out of it doing it that way'.

Mr FORD — Yes, that sort of thinking is reasonably fundamental when we are talking about, particularly, public transport-type projects, where it is highly unlikely that any public transport system could be totally commercialised so it could be 100 per cent financed by the private sector. There is likely to be a requirement for a blend of public and private sector funding. Keeping again to public transport, it does give the ability for the government to leverage its budget against some equally matched funds, or whatever, from the private sector and therefore build twice as many projects, for example.

The CHAIRMAN — Or, perhaps if you have a rail project, the public contribution might be in building track and stations et cetera, and the rolling stock might be the private component? Could it be something of that nature?

Mr FORD — Yes, I think the number of options is almost unlimited.

The CHAIRMAN — That is right.

Mr FORD — But it would be not inconceivable that the government could fund the hard infrastructure, the low-rail infrastructure, and the private sector could fund the operations of the system, for example, and charge a fee that recovered the cost of the operations. However, as it is with most rail systems at the moment, if you were trying to cover the capital cost of the system as well as the operating cost, the charge would be prohibitive. It just cannot stack up.

Ms DAVIES — I would not mind getting a response from everybody on this one. One of the really problematic issues seems to be the transfer or the management of risk. It has been put to us by some people who are very confident that you can list all the risks and properly allocate them, and then by other people the prospect that with an essential service, no matter which way you want to put it on a contract, ultimately the risk will always come back to the government. Can each of you talk about the elements of risk that you can see have not been well managed, or the elements of risk that have been well managed by some of these partnerships, or different arrangements that have involved the private sector in public infrastructure?

The CHAIRMAN — We understand within that that the current guidelines have not yet had a project completed.

Ms DAVIES — But you have had projects where you have had private sector involvement, and I would really like to hear of particular examples of where risk has been badly managed or risk has been well managed.

Mr FORD — By way of clarification, maybe ‘badly’ or ‘well’ would be in the eyes of the beholder and depend on which side of the table you might be sitting.

Ms DAVIES — From the public interest side is what I am after.

Mr FORD — Our experience with public transport infrastructure is largely related back to the air train project, which you may have heard of. That was a project where the private sector actually approached government and said, ‘We want a mandate to build this project. We will cover all risk and it will be at no cost to the government and have no contingent liability, and we will make it run as a commercial enterprise. We just need government support to facilitate the project’.

That project went through to completion and is now operational. I think it is fair to say that patronage has been disappointing from both the private sector’s viewpoint and also probably from the government’s viewpoint, but it is increasing at the moment, as we sit here. The government held very firm to the line that it would not under any circumstances entertain any transfer of risk if this project did end up going close to the wall or going over the edge. The government has held the line all the way through that it would not necessarily take on the project. However, there is an element of political risk in there, as in all sorts of major projects such as this, about what we would do if the project did shut down. That would be a matter for the government of the day to have to address at that particular point in time. So that element of the risk can be very well handled in the legalities sense. I mean, all the documentation clearly makes all the risks sit with the private sector. But you cannot totally satisfactorily rule out the elements of political risk.

The CHAIRMAN — Although there are also varying degrees of political risk, are there not? With air train there would be political risk if it collapsed, but would that not be a lesser political risk than, for example, if — and I do not know if you have one — the standard public transport rail service from Brisbane to the Gold Coast collapsed? That would be a different level of political risk, would it not?

Mr FORD — I think so, yes.

Ms DAVIES — Could the government let the air train stop operating? Would that be possible? Or may it ultimately have to take it over if the operator says, ‘I am going broke; I am not going to operate it any more’?

Mr FORD — No, the way the deal has been set up and the way the service operates, the government would have a decision to make, but it would be a fairly clear decision; the decision would not be forced on the government by the arrangements that are in place. The government’s position of no risk, and no commercial legal risk, has been protected thoroughly in all the documentation. It would be a political choice for the government to decide whether or not to intervene in the event of failure. It would not be the system; the system would not collapse. The rest of the rail system would not collapse if you took out that leg, for example.

Mr HOLDING — What was the scale of the air train project, in financial terms?

Mr FORD — About \$220 million, \$230 million.

Mr HOLDING — So that I understand, the track is owned by the private sector; is that right?

Mr FORD — Yes, it is a spur line that links into the main city train system and the track.

Mr HOLDING — So the train runs partially on a public-sector-owned line?

Mr FORD — Yes.

Mr HOLDING — And partly on a line that is owned by the consortium that runs — —

Mr FORD — Yes, and it passes back to the government after 35 years.

Mr HOLDING — The whole project passes back?

Mr FORD — Yes.

Mr HOLDING — Is the land the track is on government land?

Mr FORD — Yes; it comprises about three different sorts of government land. It is leased from — I think there is even some commonwealth airport land, some state government land and some Brisbane City Council land.

Mr HOLDING — Were the owners of the air train paying the government a sum to run on those lands, or was there a fee for the government?

Mr FORD — There are certainly fees payable to the airport.

Mr HOLDING — Presumably a fee was charged for commuters to use the train to travel to the airport?

Mr FORD — Yes.

Mr HOLDING — That fee went to the private operator? I am sorry, I am just trying to understand the project, because I am not familiar with it.

Mr FORD — There is a premium fare payable for the use of this service considerably over and above what the normal fare arrangements are on the rest of the city train network.

Mr HOLDING — Did the government have any say in the fare structure or was it set exclusively by the private operator?

Mr FORD — No, it was set by the private sector, and it was in relation to its forecast of patronage and the straight-out financing for the project.

The CHAIRMAN — So there is no risk to the government there either; it regulated the price?

Mr FORD — No.

Ms DAVIES — Are the air train project operators paying their lease payments? Have they defaulted on any of their lease payments?

Mr FORD — I am not aware of that level of detail. I am not up to speed on that at all.

The CHAIRMAN — Just one other thing, so that I understand the service: is it a dedicated service point to point, or does it pick up along the way at the normal public transport stations?

Mr FORD — There are two sorts of services that operate from the airport; one that actually fully integrates and becomes part of the line to the Gold Coast — and I think from memory that runs at half-hourly intervals — and then the intermediate service that just travels through to the city. I am not sure where they go after that.

Mr VIDAS — I think they go to either Central or Roma Street.

Mr FORD — Yes.

The CHAIRMAN — They are picking up and setting down along the way?

Mr FORD — Yes, I think that once they get onto the city train system they are indistinguishable from the rest of the trains operating on the system. The premium fare really applies to that part of the journey that you are actually operating on on the spur.

Mr HOLDING — Did they have to provide specific rolling stock?

Mr FORD — They actually used Queensland Rail (QR); they developed a service contract with QR to provide the rolling stock and the operations. In effect it is the same rolling stock that is on our system elsewhere.

Mr HOLDING — They did make a contribution to increasing the capacity of the system, so there would have been the purchase of rolling stock?

The CHAIRMAN — By doing that, you can say the public benefit was also addressed by an increase in frequency and capacity on that line?

Mr VIDAS — Yes, on that section of the line.

Ms DAVIES — I again ask all of you, are there details that you feel you do not yet have from this new Queensland government policy? Can you now see your way clear to managing the new policy thoroughly?

Mr FORD — The policy framework that we are using up here is very similar to the Victorian model. I guess there would be about a 98 per cent overlap in the content. I guess when applying that to any particular transport project we have not had the experience yet. I suspect there will be some issues where we will have to innovate to adapt the model to a particular transport project. We have set up in Queensland Transport and Main Roads a PPP unit that is headed up by George. It is a joint unit between Queensland Transport and Main Roads to develop specific transport policy applications for the overall government policy framework.

For example, a key issue for us in looking at these sorts of projects will be just how to get the project totally integrated in the overall planning and operation of the system. The overall whole-of-government guidelines are relatively silent on how we are going to do that, but it will be up to this portfolio to try to work out how the public interest will be protected in that regard. We do not want a transport system made up of a series of individual projects; we want a system, and that is what we have to try to work our way through.

Ms DAVIES — How are you going to avoid the cherry picking of that system? The private sector will be interested only in those bits of the system that are likely to be commercially profitable, and roads and transport are just not going to be profitable over most areas. One of the issues in Victoria has very much been that the break-up of the system into separate components has led to real problems with there being good competitive pressures to lower costs in very defined areas.

Mr FORD — One of the answers to the question is that we decide which projects go out for tender, or the government decides which projects would go out, so it is not a matter of the private sector saying, 'We would like to do this job or that job'. They can come in with offers, and have done, and in my limited experience that has happened a couple of times recently and both of those have been rejected on the basis that they were not regarded as being in the public interest. The simple answer is that we choose which ones we proceed with.

Ms DAVIES — My understanding of the process is that if a project is over \$50 million it is mandated that there has to be some exploration of whether a PPP is a good way to go, and the initial part of the process will be that it will be sort of touted out in the sector, 'Are you interested in this sort of project?'. You would assume that the private sector will not be interested in anything that does not have the potential to make a profit.

Mr SKINNER — We would only go to that market sounding stage if it had passed through the first couple of stages of the process, and that is about confirming that it is a project that has priority, that it fits strategically with the overall plans, that it is an affordable project, that it has some legs in the sense of going down a privately funded investment approach, and that it has some potential benefits and value for money, as distinct from delivering that project in a more traditional way, with design and construct arrangements or whatever with the private sector.

Those steps have to go into place first, and the instances Ken spoke about were a couple of examples of that what we call unsolicited proposals, where proponents thought they were onto a hot idea, put the proposition to government, and it finished up in the transport portfolio because that is what it was about. We basically did a back analysis of the proposal and looked at it along those lines and came to the conclusion in one particular case that although it was probably not such a bad project, in terms of the government's position at the moment and the project's priority and where it sat in the order of things, it was best being left for a few years yet to further contemplate.

The CHAIRMAN — Being the devil's advocate here, is there not a reverse argument that could be run that the job of government is to ensure that the people requiring the services get them, even though it may not be profitable to deliver that service, and that entering into arrangements with the private sector that free government capital from profitable ones enables the government to place the public capital into an area where it can deliver a service that may not otherwise have been delivered?

Mr SKINNER — Yes, that is true. One of the other vagaries about one of these examples we are referring to was that it was not on part of the road network over which the state government presently has ownership, so from a strategic perspective it was somewhat out of whack with the way in which the forward strategies have been established and the current ownership of certain facilities at this point of time.

Ms DAVIES — Which one was that?

Mr SKINNER — It was Kingsford Smith Drive.

Ms DAVIES — Can you explain what the issue was?

Mr SKINNER — That was an example of an unsolicited proposal that came to us.

Ms DAVIES — Is there a common element, then, in unsolicited approaches to government for projects perhaps a little more risky for governments to get involved in and for the ones that are more likely to fall over because they are not actually part of the strategic planning?

Mr BEATTIE — They would not get off the ground if that were the case. One of the criteria is that if it is not part of the strategic plan and it cannot be proved to fit the strategic plan then it will not get a guernsey.

The other issue is that it has to conform to public policy. One example is that under the tolling policy in Queensland there has to be a legitimate alternative route for people to take. It might be longer, it might take longer and it might not be as convenient, but basically people cannot be forced to drive on a road and pay the toll and they have to have an alternative. If a project does not meet that policy or if financially it does not meet that policy then it will be rejected.

The CHAIRMAN — In that instance, though, would it be rejected as a toll road or rejected as a project?

Mr BEATTIE — It would depend on how it was put to you.

The CHAIRMAN — Do you understand what I am asking you?

Mr SKINNER — As a proposal that project was early, it was ahead of its time.

Mr BEATTIE — A priority.

Mr SKINNER — Priority wise, and that was one of the key issues, but to have legs it needed to have a toll attached to it.

Ms DAVIES — It did not get up?

Mr SKINNER — It did not get up. This is in answer to your question about dealing with the public interest, and we are just raising a case where we looked at something against the guidelines and came up with the view that on a number of counts it was not appropriate to proceed at that point in time.

Mr HOLDING — Can I ask you, George, about the partnerships unit that services both main roads and transport. Can you provide the committee with some information about how you have drawn that unit together and what sort of expertise you have accumulated in that unit presumably so it can play a role in assessing projects and

allocating risk or managing the consideration of some of the financial issues over a project that has a long life or when an asset reverts to government at the end of a project and there are maintenance issues and things like that?

Mr VIDAS — Yes. I should say up front that it is a very small unit and it was only really established in August, when we pretty well had the complement of four officers at that stage. The skills base for the unit is essentially project management, planning and policy. Our objective is to take the whole-of-government framework and ensure a consistent approach to the adoption of that framework through all our project teams as they take up potential public partnerships. We also have a requirement to buy in expertise. We are required to assist project teams or to pull together learnings from projects into a corporate knowledge base which can then be disseminated to new project teams as they are formed.

That is a broad outline of how we intend to operate. The unit is not intended to adjudicate on priority for individual projects; that is actually done through a structure that exists above it. We have a portfolio PPP task force comprising the two directors-general from the departments and a number of other senior executives, three of whom are sitting here. They take decisions at a portfolio level and we provide that coordination role and front-office business development role. That is the intention for that unit at this stage.

Mr HOLDING — Have you given thought to a project that might have a particularly long life, over the course of which there might be a turnover of staff in your unit or whatever unit was managing the project? Are there processes in place so that the department can retain sufficient corporate knowledge to make sure it is not put at a disadvantage with the private sector because personnel have changed and people who were involved in the original negotiations have gone and no-one can remember what sort of understandings existed when particular parts of the contract were written?

Mr VIDAS — We certainly have discussed those issues and we believe they are very real issues, because currently our air train contract is on foot and so we already have experience in that regard. The mechanisms for retaining that corporate knowledge are being developed with that in mind. We need to have an understanding of how our contracts were developed in the early days to continue that relationship with the operator and the service provider in the long term. One of the important requirements of the unit is to maintain that continuity of knowledge and ensure that learnings are passed from project team to project team and that we do not reinvent the wheel all the time.

Ms DAVIES — Is it your understanding that about 20 per cent of your projects will end up being PPPs?

Mr FORD — I do not think we have come to a firm view about what percentage it might be. We are very focused at the moment on trying to identify the first one and deliver that in a way that is successful.

Ms DAVIES — You do not have one at the moment?

Mr FORD — We do have a couple at the moment that are prime candidates, but they are in the very early stages. We did have some experience a couple of years ago with the Brisbane light rail project that would have been a PPP if it had proceeded — and a genuine PPP, to the extent that it would have had a sizeable injection of public sector funds into it, recognising the fact that it is a public transport system and that the project was unlikely to be fully commercial. For a range of reasons that project did not proceed, some of which were basically to do with the finance issue in the first place. So we have not formed a view as to what percentage it would be. We think there are opportunities, though, for some of the larger scale projects. The transaction costs involved in project delivery mechanism are very high, therefore commonsense would tend to suggest that they have to be big projects.

The CHAIRMAN — At the bigger end?

Mr FORD — Yes.

The CHAIRMAN — Mr Beattie, did you have something you wished to raise a moment ago?

Mr BEATTIE — There are probably only six or eight projects on a list of possibles, and we would have on our project list for main roads literally hundreds of projects, ranging from small through to medium-sized projects.

Just for clarification, the PPP unit was set up by the portfolio for two reasons: one was to take those general guidelines from the Department of State Development and, if you like, adapt them and focus them on our two departments or on the transport portfolio; the second thing was for them to be a focal point so that we had

consistency in the way we handled PPPs and that we did not do business cases differently every time we struck one, and that sort of thing. They are there to provide advice and support to the people who manage the project.

We talk about project management: the responsibility will lie — in main roads, anyway — with the district that is responsible for that area or that project, and it would be supported by a number of areas, including the PPP unit, some financial and legal advisers and other experts within the department. We would not pretend that with four people they could become experts at everything PPP and run the shows. They will not manage projects, but they will be involved in any PPP project to give advice and support and ensure consistency and those sorts of things.

Ms DAVIES — Will there be an attempt across the whole of government to develop a uniform understanding of how to manage risk? Are you going to have to do that yourselves from scratch? That seems to me to be the really difficult issue.

Mr VIDAS — Our infrastructure partnerships task force — you interviewed Shaun Drabsch this morning — they have actually put out guidelines on the risk management approach and within those guidelines they have a risk management matrix. I think that is pretty close to what is in your partnerships documentation. That is one area where they have been fairly specific. I think the question you raised earlier about the risk management and how it impacts on the viability of the project and protects the public interest is central to what we are looking at with PPPs. The reality is you do not get something for nothing with PPPs. We are trying to capture a 15 per cent to 20 per cent efficiency dividend by involving the private sector and we are trying to capture some innovation. I think how we manage the risk determines whether we are able to capture that dividend. If we try to pass too much risk on to the private sector, we will incur higher costs and we will lose the benefit of the dividend. If we do not impose enough risk on them then we lose their incentive to innovate and we have the potential of having a disaster in terms of the project not delivering the outcomes we sought.

Ms DAVIES — What evidence do you use to get that 15 per cent theoretical efficiency dividend?

Mr VIDAS — It is based on studies that have been done in the United Kingdom.

Ms DAVIES — Everybody quotes the same study.

Mr VIDAS — Everybody is using the same one. However, I feel we are actually being conservative because we do say we are not getting something for nothing with PPPs. There are obviously differences in the way the jurisdictions deliver services and maybe that dividend might be less or more in some instances. We are basing it on that same study.

Ms DAVIES — You do not see that as a risk? What if they are wrong? There has been a lot of other work done that has actually challenged that assessment.

Mr VIDAS — It depends on what you are looking at. I think it is pretty clear that some recent work we have done — I cannot quote the research but in the area of construction risk we think that — —

Ms DAVIES — Construction risk seems to be reasonably well managed.

Mr VIDAS — Yes, by the private sector. I think there is enough evidence to show that public projects do tend to run over considerably more than private sector projects in terms of construction risk. That may not necessarily be because of poor management; it could be, I suppose, a tendency not to manage the scope of the project more than anything else. All I am saying is I think in terms of risk management, that is, I suppose, the trade-off you are looking at. You are looking at that possible efficiency dividend and it could be smaller but if you do not manage the risk appropriately you could actually lose that dividend in the end. I think in terms of the risk management matrix what is really important is identifying what the risks are and developing a risk mitigation strategy — identify what the key risks are and develop within that contractual arrangement a strategy for handling that risk. I am less confident of the ability to actually quantify that risk in dollar terms.

The CHAIRMAN — You raised an interesting point there but unfortunately we have an important appointment at the airport and we have some taxis on the way. I apologise that we were a bit late starting this, but this discussion has been very useful for us.

Mr SKINNER — Could I just add a point to that? I was just going to add that the process that has been laid down is pretty rigorous, and if you go through the steps that are required there to get to the point of assessment which gives you a feeling as to whether or not a privately financed arrangement is going to be more attractive and get into the process of proving that up, it seems to me that if that process is followed — and it is not necessarily

without its costs in doing that work — you then limit the amount of exposure that you might have to some of the vagaries that apply in any project delivery arrangement. I think it is just another example of you get what you pay for and if you do not put the effort in up front the chance of you getting some less than comfortable results at the other end is always there.

The CHAIRMAN — Thank you for your time this afternoon, we appreciate it.

Mr BEATTIE — I wish your committee all the best in its deliberations; we look forward to its findings.

The CHAIRMAN — Thank you.

Committee adjourned.