

REPORT OF PROCEEDINGS BEFORE

GENERAL PURPOSE STANDING COMMITTEE NO. 3

**INQUIRY INTO RAIL INFRASTRUCTURE PROJECT COSTING IN
NEW SOUTH WALES**

At Sydney on Tuesday 6 December 2011

The Committee met at 9.00 a.m.

PRESENT

The Hon. N. Maclaren-Jones (Chair)

The Hon. J. J. Ajaka

The Hon. N. Blair

The Hon. C. Faehrmann

The Hon. A. R. Fazio

The Hon. P. Green

The Hon. P. G. Sharpe

CHAIR: Thank you and welcome. This is the second public hearing of General Purpose Standing Committee No. 3, the inquiry into rail infrastructure costings. Our first public hearing was held on Monday 21 October. Today we will be hearing from witnesses from Ernst and Young, the University of Wollongong, the Australasian Rail Association, the Public Transport Authority of Western Australia, New South Wales Treasury and Transport for NSW. I welcome all witnesses and appreciate the time and effort they have made to appear before the Committee.

Before we commence I will make some comments about aspects of the hearings. Copies of the Committee's broadcasting guidelines are available from the table at the front door. Under these guidelines, members of the media may film or record committee members and witnesses. However, people in the public gallery should not be the primary focus of any filming or photographs. I also remind media representatives that they must take responsibility for what they publish about committee proceedings. Witnesses, members and their staff are advised that any messages should be delivered through the attendants or the committee clerks.

Committee hearings are not intended to provide a forum for people to make adverse reflections about others. The protection afforded to committee witnesses under parliamentary privilege should not be abused during these hearings. I therefore request that witnesses focus on the issues raised in the terms of reference and avoid naming individuals. The Committee has also agreed that any questions taken on notice by witnesses should be answered within 42 days of the date on which the questions are forwarded. Therefore, answers to such questions will be due on 17 January 2012. I ask that everybody turn off their mobile phones for duration of the hearing, including mobile phones set to silent because they interfere with Hansard's recording of the proceedings. I welcome our first witnesses from Ernst and Young. Please state your name and who you represent and swear an oath or make an affirmation.

ADRIAN RENOUF, Partner, Ernst and Young and

DAVID LARROCA, Partner, Ernst and Young, sworn and examined:

CHAIR: Would you like to make an opening statement?

Mr RENOUF: Mr Larocca will provide a brief overview of our role in infrastructure and then I will provide the context of the study that is the subject of today's discussion.

Mr LARROCA: I am a partner in a national 100-strong team called Infrastructure Advisory in Ernst and Young. The team focuses on delivering advisory services to clients in the infrastructure sector. We are part of a broader global team covering Europe, Asia and North America. We provide commercial, financial, regulatory and economics advice to government and private sector clients on major infrastructure projects. We do not do cost estimating work, but we do work closely with engineering consultants and our clients who undertake that sort of work. Our main focus is providing commercial and economics advice. One of our key sector focuses is transport. That has been my key area of focus over the past 15 or so years. I have worked on a number of transport projects here and overseas for government and private sector clients. That is the context of our tendering for this piece of work. We do a lot of this sort of advisory work in the transport space nationally and internationally.

Mr RENOUF: I will make some comments about the study that we would like to discuss today. The context was essentially that the then Department of Transport, now Transport for NSW, like many agencies involved in delivering public infrastructure was keen to get a more reliable source of comparative data. It would be fair to say that that is driven by a lack of publicly available information, often because the costs associated with projects like these are held tightly by the agencies concerned, sometimes for reasons of confidentiality et cetera. The request for tender to which we responded sought to look to us to recommend a way of doing this exercise given the challenges faced in benchmarking exercises generally. The initial approach we adopted was to identify a range of potential candidate agencies that would be invited to participate in the study on a voluntary basis. There was a discussion early on about whether the study should focus on public sector transport delivery agencies or private sector bodies. It was agreed that focusing on the public sector would provide the most readily available source of data.

A fair bit of work went into identifying the criteria for the projects that would be considered as part of the study. If members have read the report they will have noted the criteria. Briefly, the intent was to identify projects that had been completed within the past six years and to use actual costs rather than cost estimates. Obviously there was a desire to encompass road and rail projects and to understand the differences between the procurement methods used. That framed the criteria for selecting projects. That was then discussed with the various agencies who supplied a short list of projects they felt met the criteria. I think the report identifies 51 projects of which data was received for 40. Not every project was then considered as part of the study.

As many other witnesses have attested, the whole exercise of cost estimation is complex. Comparing apples with apples with regard to benchmarking is obviously the name of the game. For that reason, in the course of analysing the data we received we have had to normalise it in a number of cases, recognising that in some cases we had small sample sizes. For example, only three public-private partnership projects were submitted, so we decided not to analyse that sample size. I make it clear at the outset that there are limitations with work like this. The intent was that the study would be an initial exercise that would highlight differences between jurisdictions that would then allow those jurisdictions to understand why their jurisdictions were different and what drove the differences in cost within their agency. Benchmarking exercises are about creating a platform for comparison and the real work occurs after the study to understand why the numbers are different and what has driven that difference. This was also an exercise to create a benchmarking group, which hopefully will continue.

The Hon. PENNY SHARPE: Thank you for appearing before the Committee today. We are obviously here because there is a view that rail infrastructure projects cost too much in New South Wales, or more than anywhere else. Can you take us through the conclusions that your report arrived at with regard to New South Wales? I am also interested in your confidence in the data you received when looking at the benchmarking.

Mr RENOUF: I will start with the second half of the question. A lot of work was done initially to agree on definitions and ways that costs would be categorised. It would be fair to say that most jurisdictions, and

even agencies within jurisdictions, use a variety of approaches. A lot of time was spent upfront trying to agree to a set of definitions that would be used to arrive at a like-for-like comparison. In some cases that involved the agencies supplying the data having to recategorise costs or to re-present costs in the framework that we agreed to for the study. The agencies were also asked to certify the accuracy and completeness of their submission as a condition of providing data.

Our role was limited to checking the submissions' completeness and going back to the agencies if there were any obvious gaps, errors or omissions. Effectively the decision about what data agencies chose to supply was a matter for them. An example would be that in some cases jurisdictions provided us with a total construction cost but did not elect to provide a breakdown of the contract cost. That was a matter for the jurisdictions, but obviously to allow us to make a comparison on a total construction cost basis that was a non-negotiable number that had to be provided. My message is that there are limits in terms of the absolute accuracy and definitiveness of the findings and we have made no secret of that in the way the report is couched.

The Hon. PENNY SHARPE: To follow up on that, as a result of doing this with each of the jurisdictions, have you drawn some conclusions about the key data that you prefer to have and would you be able to outline for the Committee what that would be?

Mr RENOUF: Look, I think there is generally acceptance from the jurisdictions of a desire to move to a uniform data set and I suppose the focus of our work was specifically focusing on client costs as a percentage of overall project costs so I think that generally now people are moving to uniform guidelines, and there are a variety of guidelines that I think agencies are now collaborating on. So what we have recommended essentially in the report is that movement occur towards a uniform national set of guidelines to really define client cost categories and then also make sure that is underpinned by consistent definitions around total out turn, total construction cost, so that the basis of comparison is as robust and uniform as possible.

The Hon. PENNY SHARPE: What vehicle is being used to create the uniform data set? Is it happening through the ministerial council?

Mr RENOUF: The short answer is that I am not 100 per cent sure. I think from my experience of interacting with agencies during the course of the study that there certainly is a desire at the political level to achieve greater consistency and transparency and I think certainly the Commonwealth role in funding large infrastructure projects is certainly a catalyst for trying to get uniformity of basis of cost estimation because obviously if you are trying to determine which projects to fund from a finite funding pool application—

The Hon. PENNY SHARPE: And that is on the basis, I presume, of the Evans and Peck agreed standard; everyone is working through that?

Mr RENOUF: That is correct.

The Hon. PENNY SHARPE: Will the Evans and Peck standard give you what you need in relation to data or are other things missing that you think should be included to allow that apples with apples approach?

Mr RENOUF: I think the Evans and Peck framework is a sound framework and I think it is generally recognised by most jurisdictions as a useful framework to adopt. I think the challenge generally relates more to how you understand the context in which projects are being delivered and the unique attributes of projects. You would have seen in our study that we have gone to the exercise of excluding design costs as an example of an element of client cost category. Depending on the procurement method those design costs can vary significantly the extent to which they are done internally versus outsourced. So what I am saying is that the Evans and Peck framework is a useful and necessary component but what is critical is to really understand the specifics of projects to be able to then allow you to get down to a like for like comparison.

The Hon. PENNY SHARPE: I bring you back to the harder part of the question, which is actually where New South Wales sits within all of that? Can you expand on your conclusions around New South Wales? I understand there are issues about talking about specific projects but can you talk generally about how New South Wales fares, whether there are recommendations you could point to that New South Wales needs to look at around the way in which we do projects here?

Mr RENOUF: I think our report essentially concluded that New South Wales compares favourably with its peers on a whole-of-Australia basis, recognising again the limitations of the sample size. I think the

analysis that accompanies the aggregate analysis suggests that there are differences in terms of the percentage that individual client cost categories represent. For example, the report comments in the case of the New South Wales data set for rail projects planning costs as a percentage of overall client costs appear higher than other jurisdictions.

The Hon. PENNY SHARPE: Do you draw any conclusions from that?

Mr RENOUF: No, the only comment we made is that potentially that might be linked to the planning regime in New South Wales but our job was not to really analyse the reasons for the differences. Essentially the summary comment would be, in terms of the projects we looked at, New South Wales appears to be comparable with other jurisdictions. There are some differences when you drill down into individual procurement methods; between fixed price alliance contracting, for example, there are differences—

The Hon. PENNY SHARPE: There has been a lot of discussion about that here.

Mr RENOUF: Sure. There are also differences then in terms of how the costs are made up and which categories of client costs appear more pronounced in New South Wales compared to other jurisdictions. In terms of recommendations for New South Wales, I think our report touches on a number of recommendations which really are directed more broadly at the whole benchmarking group but I think you could read into that they would apply to New South Wales as well. They would include trying to get greater clarity around the basis of allocating non-project costs or corporate overhead costs specifically, which is an issue which generally is at the core of any attempt at activity-based costing.

Many organisations are quite adept at identifying things that are directly attributable to projects. Once you rise above the project and program level the extent to which the head office or central office costs are attributable to a project level the approaches vary quite dramatically from jurisdiction to jurisdiction, so in terms of being able to inform and build a definitive overall picture beyond the Evans and Peck stuff, which tends to deal with the stuff that is in the program and project domain, probably the major area of focus would be to try and get a more accurate way of capturing those corporate costs which sit above and beyond individual projects. That is probably the major area, and the other really is to try and do some further analysis, which we have recommended, on understanding the relative performance of different approaches to contingency and cost escalation estimation.

The Hon. PENNY SHARPE: Can you point to anywhere that that work has been done?

Mr RENOUF: Not that I am personally aware of. I think certainly that work is done within individual jurisdictions and within individual agencies and history usually is a very important factor in determining future risk-based estimations, especially on contingency so most jurisdictions certainly would have a very significant data set looking at prior project performance and that would be one of the key lead indicators, if you like, as a predictor of future project performance but it is an area where I think individual jurisdictions have the majority of the data rather than data being in the public domain again. I had a very similar experience with the BER implementation task force, which I was seconded to for six months, dealing with a similar issue of trying to find like for like comparisons across Australia.

The Hon. PENNY SHARPE: It is a challenge. Your report noted in regard to the Evans and Peck stuff that we need to undertake further analysis on the performance of actual versus budgeted outcomes under both probabilistic and deterministic estimation approaches. Can you expand on that for the Committee?

Mr RENOUF: Sure. I think the recommendation follows from the observation that different jurisdictions use of a variety of approaches. I am not sure if the Committee has previously had the alternative approaches explained to it. I am not sure if other witnesses have covered that.

The Hon. PENNY SHARPE: Not in great detail.

The Hon. CATE FAEHRMANN: I think it would be worthwhile getting your version.

The Hon. PENNY SHARPE: Yes, we are interested in what you have to say.

Mr RENOUF: Essentially the issue of cost escalation, contingency estimation, was really a secondary consideration of our work. Our brief was to really understand and collect data on how jurisdictions go about it.

Essentially the deterministic approach really perhaps is a cruder method in the sense it typically looks to apply contingency as a percentage of overall project cost and, as other witnesses may have explained to you, the degree of certainty varies dramatically depending on where you are in the project life cycle. Obviously early on where scope perhaps is not fully defined, where key decisions regarding delivery method are yet to be made, it is not unusual to have a higher deterministic percentage allocation to reflect the degree of uncertainty and obviously further down the project delivery process that percentage decreases as certainty increases.

In terms of the probabilistic approach I think generally jurisdictions use a variety of methods. The key difference is those that really use effectively the CPI escalation approach applied to a variety of cost factors versus those that use a combination of CPI building price index, which obviously has the benefit of giving you a locality adjustment for local factors in the industry sector where that particular project is being delivered to take account of things like labour supply, et cetera. That is a very quick overview, but again the primary recommendation is that further work needs to be done to drive to a more uniform approach and then, more importantly, to reassess the performance of those approaches in terms of actual outcomes versus estimated outcomes, which is the aim of the game at the end of the day.

The Hon. PENNY SHARPE: There has been suggestion from evidence around the primary driver of the costings in New South Wales and the overruns being based on changing scope constantly within a variety of projects. Based on your work, could you comment a little on scope; I am trying to understand whether the changing nature of the scope would be the major factor affecting New South Wales costings?

Mr RENOUF: Unfortunately our work did not go to considering those issues. What I could offer is a personal opinion but it would only be that.

The Hon. PENNY SHARPE: I am happy to hear that as well.

Mr RENOUF: As other witnesses may have attested to, there are a range of factors that influence changes in cost estimates over time and scope is one of those. From my own experience in architecture it is certainly a factor. So is it a factor? Yes. Was it something that we considered as part of our work? No. Therefore, we really cannot speculate beyond that, I am afraid.

Mr LAROCCA: The only thing I would add is just on the process. No doubt other witnesses have talked about the various guidelines that are now in place, including Infrastructure Australia's guidelines. I can say from my personal experience that all of the States are focused on following those guidelines, which have key gates at which you narrow scope before you go to tender, so there is quite a focus there but it is a challenge on all projects.

The Hon. PENNY SHARPE: If all the States are moving to that system does that mean that we are going to get a degree of uniformity in relation to being able to compare the cost of projects or ultimately will the States decide different ways of procurement and different ways of doing their costings? When will we be able to see that comparison? Will this process give us that?

Mr RENOUF: This particular process is the beginning of a journey, is the short answer. Will it occur in our lifetime? I am not sure.

The Hon. PENNY SHARPE: Reasons for optimism.

Mr RENOUF: I think the important message is there is general movement towards adoption of more uniform guidelines. Obviously probably the key catalyst for that is the desire by jurisdictions and agencies to genuinely compare performance to really understand how they do compare and the Commonwealth in particular obviously wanting to have a level of comparability when considering alternate bids.

The Hon. PENNY SHARPE: My last question is about your recommendation in relation to the work breakdown structure. You make a recommendation that the Department of Transport should promote the use of the work breakdown structure. Could you expand on that for us?

Mr RENOUF: Again this gets back to the core of the level of granularity in which projects are planned and costed. Essentially the concept of the work breakdown structure is obviously you break the project down into individual projects. So the point there really is about the level of granularity. As you may have heard from some other witnesses, some jurisdictions use a phased approach to breaking down projects. Within that there is

then an elemental breakdown further. So our point simply is that by moving to a uniform level of granularity in the way work breakdown structures are presented that will again facilitate a more like-for-like comparison at those more detailed levels. That is the essence of the concept and the recommendation.

The Hon. PENNY SHARPE: There has been a lot of evidence that New South Wales in the way that it has broken down projects is not breaking them down small enough—they are so big there are very few people who can actually then be in the game in terms of bidding for them. Do you have a view about that?

Mr RENOUF: Again it would be a personal opinion outside of the scope of this particular piece of work that we have done, but I think generally as governments look to derive value for money there are a range of considerations that I suppose make up that definition. There is obviously a desire to encourage market competition. That has to be balanced with a need to do business with firms that are capable and have the capacity to actually deliver projects reliably to cost and budget. I think generally the history of procurement reform in governments around Australia, by way of personal opinion, is that I think governments grapple with those two not opposing considerations but a desire to make sure that projects are delivered by organisations that have the capacity, while also balancing things like local employment considerations, apprenticeship development, local preferences around suppliers, et cetera.

So I think generally it is an issue that governments grapple with around Australia and there are a variety of approaches. I am sure the Committee may well have looked at issues of the role of prequalification, and other sorts of devices to really assess the capability of a market, that are used. But I do not think from my own experience the approaches used in New South Wales are remarkably different to any other jurisdiction.

Mr LAROCCA: I was going to add that I think it is a phenomenon that is not specific to New South Wales. If you look at the transport projects that are publicly talked about in certainly the east coast States, the urban rail and road projects are all in the \$5 billion plus sort of range. So it is basically the world we live in today in terms of how projects are being defined and the fact that most of these projects are to be delivered in urban areas where in a number of the cases there is no option other than tunnel and that drives a significant part of the cost. I think to your question about the bidding market, certainly the bigger the projects are the more narrow a market you are pitching to. But at the same time, as at today we are actually seeing significant interest from a number of players both locally and internationally because of what is going on overseas.

The Hon. PENNY SHARPE: You think it is the international market that is really driving competition rather than the local market?

Mr LAROCCA: It is a bit of both. I think it is a combination of international players that are heavily engaged now in the Australian market as well as a very mature Australian construction market. I think the other thing that is driving interest and in fact is competing with attention with government is the resources infrastructure sector. That is actually probably more of the challenge for government. I am not talking about New South Wales specifically; it is a general challenge around market engagement.

The Hon. CATE FAEHRMANN: On page 7 of your benchmarking report there are various findings that compare New South Wales rail and road projects to the rest of Australia. I understand that we cannot talk about specific projects because of commercial-in-confidence reasons, which is a pity given that is what this inquiry really needs to get to the bottom of. Obviously you have seen a lot more of the data than perhaps this Committee will be able to. Could you give us your reasons why New South Wales construction cost per track kilometre is \$48 million, and this is for comparable rail projects, and the rest of Australia's average cost per track kilometre based on four projects is \$27 million? I think that is a difference of about \$20 million.

Mr RENOUF: As I think our report touches on further on at page 58, there is a difference obviously. I think there are a couple of contextual factors. One is that essentially we are talking about a fairly limited sample size of four New South Wales projects compared to four projects elsewhere in Australia. The New South Wales data includes one particular project which had quite a different level of complexity in terms of the range of factors it included in terms of the project scope. So I think the short answer is that if you exclude that one particular project then that already makes a major difference and brings down the New South Wales average to the tune of \$39 million compared to the rest of Australia average of \$37 million. So I think the message would be that, yes, on first blush it looks like a significant difference—

The Hon. CATE FAEHRMANN: I think the rest of Australia averages \$27 million, so it is still a difference of \$11 million if you take out that large complicated project that we do not know what it is.

Mr RENOUF: Sorry, the whole of Australia average of \$37 million and the rest of Australia average of \$27 million. Again essentially the exercise was to present the cost rather than analyse what drove the difference in cost. That is really the limit of our work.

The Hon. CATE FAEHRMANN: One of the quite obvious differences that you referred to previously was the client overhead costs. That was the rail overhead costs of 1 per cent compared to the average of 17 per cent across Australia. Then the corporate overhead costs for rail projects is on page 68 of the report. It says that corporate overhead costs for rail projects were 16 per cent for the rest of Australia and 24 per cent of total client costs. In other words, we have got RailCorp or the Transport Construction Authority charging 24 per cent corporate overhead costs and the Roads and Traffic Authority [RTA] charging 1 per cent. That is a significant difference in terms of how New South Wales costs rail and road projects.

Mr RENOUF: That would suggest that it is the case that there is a difference, yes.

The Hon. CATE FAEHRMANN: What is your view of that? Is that something that RailCorp should have a look at in terms of its costing? Do you have an opinion as to whether the way the RTA does it is slightly better for the taxpayer or better for projects costings? Is there opinion associated with this information?

Mr RENOUF: Not in the context again of the scope of our work. All I could offer you is a personal opinion. I think I said in my previous comments that the issue of corporate overhead cost allocation is an issue that comes up regularly in any form of cost benchmarking. I think the factors that drive differences really include the delivery model which the jurisdiction or agency has set up and the extent to which the internal delivery arm effectively is a service provider which, for example, might charge fees to project costs as opposed to an internal provider that might be funded through a budget appropriation. So those sorts of factors are significant.

I think it also reflects in some cases the level of maturity of the organisation. As you would be aware, quite often organisations go through significant change over time and restructuring and that sometimes can distort costs as well. But in terms of opinion, I think it is an area where generally outside of rail project costing, for example it is an issue that comes up quite regularly in trying to compare performance on a range of organisational dimensions. Shared corporate services, for example, is a classic area where overhead allocation typically comes up and there are a whole variety of approaches. So I think what Transport for NSW is looking to do, my understanding is, is to move to a more uniform method. But the fact that there are a variety of methods within its sub-entities is not unusual.

The Hon. CATE FAEHRMANN: Did you find that other States had less of a difference between the corporate overhead costs charged by their rail department and their road department? Was it much more significant in New South Wales than other States, or is it much of a muchness?

Mr RENOUF: I do not think based on our work we can draw a conclusion to that effect. I think in some cases it does get back to whether the delivery of rail and road is integrated in the one entity. So in some cases if the two delivery arms, if you like, are within one integrated transport department you would expect there would be greater consistency in approach. But again it gets back to the organisational form the delivery entities take. I think that is the main determinant.

The Hon. CATE FAEHRMANN: Just seeing whether we can get any more detail out of you that you will not say is commercial-in-confidence, if we take out the Epping to Chatswood project which I think you are probably referring to as the complicated project in Sydney you cannot mention, if we get rid of that one we still have \$39 million as an average track per kilometre in New South Wales and \$27 million the rest of Australia. That is still \$12 million difference. You have seen much more of the detail. The questions that you asked of the agencies would have given you a lot of information and I wish we had that information for this inquiry to get to some good findings. I have just mentioned corporate overhead costs for RailCorp. That is a reason that you outlined. There probably are others. Are there any other reasons you can suggest?

Mr RENOUF: I think the major comment would be that in the projects considered we have tried to, as far as possible, get like-for-like comparison but we have not been able to get to an absolute comparator. So my comment would probably be that New South Wales projects that are included in that analysis probably represent a greater variation of project complexity across the spectrum than the projects being compared with interstate. So the short answer is: nothing specific, other than acknowledging that the New South Wales project sample has

quite a variety of projects that were considered with different levels of scope and complexity. I accept that for the Committee it might be frustrating that there is not more analysis provided. Obviously I would applaud the Committee's intent to try to get to that analysis. I think the challenge essentially has been that most organisations will only participate on the basis that their results are not disclosed, but it may be by approaching individual jurisdictions you may have some success in getting access to the data.

The Hon. CATE FAEHRMANN: Another comparison then is that \$8 million versus \$5.6 million for client administrative costs per track kilometre. That is much higher in New South Wales than in other States. Can you offer an explanation for that?

Mr RENOUF: Apologies, no.

The Hon. CATE FAEHRMANN: What is your view about alliance contracts versus fixed price contracts? Do you think one offers more value for money for the taxpayer than the other?

Mr RENOUF: I will have to defer to my colleague Mr LaroCCA. Again I am not sure there is a definitive answer.

Mr LAROCCA: It is certainly not part of our scope but the answer is it depends. There are projects where an alliance method where government works closely hand in hand with the private sector to work up a cost makes sense. There are projects where in some cases, for example, the scope is fairly well defined and there is a market for it that a lump sum design and construct contract makes sense. There are other projects where a public-private partnership [PPP] and actually asking the private sector to take a whole life risk on the project and provide the financing makes sense as well.

I think the important thing is the point I made earlier about the framework that each of the States have in assessing what is the best procurement method for not only transport projects but infrastructure projects generally and in fact endorsed by Infrastructure Australia [IA]. If you look at the IA guidelines it goes into quite some detail as to how you work through whether you use an alliance method or a design and construct method or a PPP or a managing contract. There are other methods out there. I think it simply does not make sense to compare one with the other and make a general statement around an alliance being better than a design and construct; it depends on the project.

The Hon. PAUL GREEN: We heard different things about having some "fat" in the project and tenderers go into it to make a dollar. In terms of the comparison of figures and the methodology that different businesses use to share their profits across the different categories, is there a set way to do that or could any of these figures and cost comparisons be a different way that people try to make profits in different categories? Is there a set percentage on every category of where they make their profit?

Mr RENOUF: To answer your question; our work did not drill into analysing profit margins explicitly. Typically the jurisdictions would possibly withhold that information for reasons of commercial confidentiality with the bidders involved. I will try to answer your question a different way: The whole issue of profit margins and the potential layering of profit margins as you work your way through the supply chain depends and is very much driven by the procurement method selected and the extent of risk that you are asking the delivery entity to take. Ultimately, the form and way in which the work is packaged up and broken down relates to the layers of management or oversight within a project. There is no uniform rule. Obviously commercial businesses make decisions around profit margins on a project by project basis based on a variety of factors. There is no uniform margin you could point to.

Mr LAROCCA: When looking at what Government can do to get value for money from the tender process, the first action is estimating before it goes to tender. One aspect of that is making sure Government has data on profit margins in the market place to ensure it enters the tender process with a reasonable estimate. The second action is to run an efficient tender process. Depending on how each of the companies allocate and price the profit ultimately they are there to win the project and Government's role is to run a tender process to maximise value for money. Profit is one of the inputs into the bid prices.

The Hon. PAUL GREEN: Your graph on page 51 talks about the comparison of client costs: Is there a capacity for figures to be distorted depending on where the different businesses are putting their profit loading?

Mr RENOUF: In terms of looking at client cost—which does not include the cost of the actual construction contractor delivering the project—the specific focus includes design cost and program/project management costs. I do not believe the issue of profit margin would be a factor in comparing client costs unless there was a jurisdiction that had set up a particular commercialised delivery model. I am not aware of that occurring.

Mr LAROCCA: Generally speaking the sort of costs we have reported here would not have a profit margin. The profit margin is usually bid by the private sector.

The Hon. PAUL GREEN: In terms of the benchmark study that you have done here: How often do you think a benchmark study like this should be done in Australia?

Mr RENOUF: I am not sure there is an absolute answer. This study is illustrative of some of the challenges of doing work of this nature. You need to recognise that in particular large infrastructure projects have long life cycles—six or seven years would not be uncommon from inception through to completion. I think there is a factor around the life cycle of these projects and how long you need to wait for them to be finished. You could do studies of planned projects prior to being delivered and that could be done on a more regular basis. It is equally important to take into account the number of projects within the sample size.

There may not be enough of a market to justify the expense of doing a study. The short answer is that you would not do it on an annual basis but you would do it on some periodic basis—potentially every three or four years—once you had a significant enough change in the available projects being considered as part of the study. There is not an absolute answer. I think what is more important—and is certainly the intent of all of the agencies we looked at as part of the study—is to refine your own internal data and benchmarks for the benefit of informing future projects.

Mr LAROCCA: Studies like this are important but what is more important is for the bureaucracies to collaborate across States as much as possible so when departments are in the planning phase of projects they talk to each other and share information about the tender process. Ernst and Young see that happen quite a bit. For example, when a major rail project is planned in Queensland that State is in discussion with people in Victoria and New South Wales, depending on who is doing what in each State. Certainly it is something that bureaucracies should do and are doing.

The Hon. PAUL GREEN: You talk about sample sizes and comparing apples to oranges: Would there be a benefit in extending the Ernst and Young benchmarking study to overseas jurisdictions?

Mr RENOUF: I think the broader you can make your sample size the better. The challenge is that once you extend the geographical reach of a study you need to take into account a range of other considerations which relate to the geographic market in which the other projects are being delivered. You need to understand the differences in approaches used in other governments, jurisdictions and countries and the relative maturity of that market. My point is that, yes, you could. What that introduces is another layer of complexity in terms of doing like to like comparisons, which reflect the peculiarities of the local markets. That would be my only comment.

The Hon. JOHN AJAKA: I have a few questions before I hand over to my colleague. Clearly market force has a big bearing on the cost of any project and I would assume that the more players within the market the more competition there is, which ultimately should bring down prices. In your studies did you find that when the tendering process went out that some of the preconditions to be satisfied eliminated a number of the players—in particular, interstate and international players—coming on board?

Mr RENOUF: The scope of our analysis did not drill down to that level of detail. While we collected information on the procurement methods used we did not drill into how many tenderers responded or the nature of the prequalification process, if there was one. I cannot offer any specifics around that issue.

The Hon. JOHN AJAKA: Is it an area we should investigate?

Mr RENOUF: That is a matter for the Committee. From a Government perspective, as I said earlier, there are a range of considerations that need to be taken into account in terms of how you procure anything. I think there is no one specific answer. As Mr Larocca has pointed out; having an efficient tender process which

creates genuine competitive tension is a key input to achieving value for money. That is uniformly established across governments around the world. It does not matter what you are buying that is a key prerequisite.

Mr LAROCCA: I am not sure that it needs investigation. I think it is a key focus of Government in New South Wales where there is a number of infrastructure projects being developed. The key issue is making sure there is an efficient tender process and good engagement with the market place. There are a number of streams of work that Infrastructure Australia is leading in consultation with the States. They include ways of minimising big costs for public private partnerships and for projects generally and looking at alternative ways of attracting private sector finance. There is a lot going on in the area. The ongoing focus by New South Wales on the market and maintaining engagement is very important.

The Hon. JOHN AJAKA: You were asked a question earlier in relation to the \$48 million per kilometre rail line that you brought down to \$39 million compared to \$27 million: What are the various criteria and categories taken into account to calculate the amount? Do you take into account cost of land and cost of salaries compared from one State to another in that figure?

Mr RENOUF: The various appendices in our report set out the different elements that make up the definition of "client cost". At the beginning of our report there is a breakdown of the elements that come into client cost. In terms of acquisition of land specifically—from memory that cost is excluded from the numbers. I will have to confirm that.

The Hon. NIALL BLAIR: My questions are generic in order to get information that we can apply to New South Wales in a specific way. I am interested in your comments about the international market at the moment and the effect of competition. One of the previous witnesses has mentioned that in New South Wales there is a preference to have a smaller tender market so the organisations that are tendering have a high probability of winning the job. From your comments earlier, and what is happening globally, we may be able to get more competition if we opened up the number of players in our tender market and let the market decide whether those organisations tender or not. I am not an economist and I am wondering if I have the correct view: would you agree with that statement?

Mr LAROCCA: I am not aware of any processes within New South Wales that close off people bidding for projects.

The Hon. NIALL BLAIR: I am referring to the level of prequalification that restricts the number of organisations that have the resources and eligibility to actually apply.

Mr LAROCCA: There is a balance. Generally speaking governments, including New South Wales, are looking to maximise competition. In some cases the focus should be the other way around—to make sure the process is not too onerous for the market place. The Government, being the client, needs to make sure it gets what it wants and in some cases that means setting out in the prequalification documents the minimum criteria. For example, if there is a tender for a \$5 billion project there is no point putting a contractor on the list that has a track record of delivering \$2 million projects. There is a line that needs to be drawn somewhere. My personal experience is that the tender process is reasonably open. The expression of interest documentation is almost always public and it is driven by market forces. The key threshold issue for a number of the players is the size of the project and scope of the project and whether the company has the skill sets and financial capacity to deliver. The market sorts itself out as to who teams with whom and who bids.

Mr RENOUF: It is worth pointing out that prequalification is not just intended to serve the needs of Government; it is also intended to reduce the cost of business for bidders. As I am in the business of regularly submitting tenders for Government work, anything that can be done to streamline the information you need to submit for the project and make it more specific is what the tender should be about, rather than proving that you have balance sheet strength on every tender you submit. It is important to acknowledge it is not just about limiting the market from a Government point of view around capability and capacity: There are benefits for industry in forms of prequalification. It is a matter of what the hurdles are and whether those hurdles are appropriate or not.

The Hon. NIALL BLAIR: From your research for your report are you able to comment on the estimated life cycle that some other States are putting on their projects? I stand to be corrected but I believe in New South Wales we are looking at a 15-year project life for some of our projects, which seems very low for some of our rail projects.

Mr RENOUF: It is not something that we were asked to look at or collect but the economic life of assets is usually informed by central agency Treasury guidelines in relevant jurisdictions and it is not so much a matter of individual agency choice. It is usually something that central Government sets down the guidelines for.

The Hon. PENNY SHARPE: Is it different from State to State?

Mr RENOUF: I could not say definitively. The short answer is that I am not sure. It may be, but generally there is reasonable uniformity across jurisdictions in things like that.

The Hon. NIALL BLAIR: Is the shelf life of the project not part of the benchmarking or the consistency that we are looking towards for all the States we spoke about earlier?

Mr RENOUF: It is not something we were asked to look at specifically in terms of the total cost of ownership over the life cycle of an asset. Generally most governments have adopted total asset management frameworks for some time, which look to move to a whole-of-life costing approach. We were not asked to specifically examine it as part of this work.

The Hon. NIALL BLAIR: Should that be a consistent approach? If Treasuries are going to be looking at depreciation et cetera for projects and if New South Wales is depreciating over 15 years and another State is depreciating over 30 years, would that not have an impact on comparing apples with apples for future years with projects?

Mr RENOUF: Conceptually, yes, adopting a whole-of-life-cycle costing approach is potentially preferable to a project-delivery-only approach because obviously that allows you to take into account issues of maintenance et cetera. Generally, most jurisdictions are moving to that approach. Again, the challenge is the length of time you have to wait to be able to collect that data to then inform the analysis. It is not a lack of intent to move to that type of approach, it is just recognition that it takes quite a while to build up the data set to be able to do that sort of comparison.

Mr LAROCCA: Our report talks about construction-related analysis, which is the first three or five years or so of a project and really most projects have a real life cycle of 100 years or so. The important thing is that when government is scoping these projects it thinks about the life cycle and not just the construction, particularly the link between regular maintenance costs and life cycle-related capital costs over the term. Again, I point to the guidelines that are out there that, for example, prescribe producing a financial model that does not just cost capital but actually costs the life cycle costs when government is going about estimating for these projects. That is one of the things that can be done a little better as cost estimates go forward. I think there is a heavy focus on construction costs and maintenance and life cycle tend to get left behind at times.

The Hon. NIALL BLAIR: My final question is around the methodology and particularly the project costing. Previous witnesses have referred to the fact that every line item has a contingency element and also the introduction of P90 in New South Wales when other States are using P50. Could that be one of the factors that is showing the cost per kilometre of track differences—all the contingencies that are built in plus the P90 versus the P50?

Mr RENOUF: It is possible it is a factor. We did not specifically look at it as part of this work. It is potentially a factor but some specific analysis would need to be done to establish that that was the case.

Mr LAROCCA: The work we have done is mainly on outturn costs. These are actual costs post-completion, so the estimating P50-P90 thing becomes a little less relevant because ultimately this is the actual cost. It is what was actually delivered by the marketplace and the government agency.

The Hon. NIALL BLAIR: On the actual costs—I know you cannot give us specifics—did you see any model that showed good incentives and returns to government for organisations to come in under budget and under time so there was value for money for government and companies carrying out the work?

Mr RENOUF: Unfortunately the scope of our work did not include drilling down into the nature of the specific contracts entered into other than the comparison of client costs under different delivery models. As Mr Larocca alluded to earlier in responding to the question regarding alliance contracting, I think the selection of a

procurement method is very much a project-specific decision. There are examples where the sorts of more innovative approaches that seek to transfer risk and incentivise behaviour have worked well and there are other examples where perhaps they have not worked well. Again, it depends on the nature of the project and what outcome is sought to be achieved. There is a place for those styles of procurement approach, which is why they exist now. I can draw no definitive conclusion for you, unfortunately.

CHAIR: I would like to look at the other costs that are involved that are significantly higher in New South Wales than in other States. Could you elaborate on why that is? It is on pages 54-55.

Mr RENOUF: In relation to the other category, 13 per cent of overall costs, it appears to be a reasonably significant factor. As to why that might be higher in New South Wales, our analysis did not extend to asking that question. The exercise was to present the percentage of costs compared to other jurisdictions. The answer lies in the various factors that make it up. There would need to be a further analysis to break down those factors. It would not be unusual, for example, to assume that in certain projects there might be a higher percentage of legal costs involved, depending on the complexity of the contracting arrangements or the work breakdown structure whereas you would assume that other things such as insurance costs would be reasonably uniform linked to the size and risk of the project. I am sorry I cannot provide any more analysis than that.

CHAIR: Did you look at safety across jurisdictions or compare any of the parts across jurisdictions?

Mr RENOUF: No, not specifically. We did not drill down into doing a comparison of the extent to which occupational health and safety considerations or safety are a material difference across jurisdictions because that was not part of the scope and also generally there is a view that every jurisdiction and every player in industry is committed to safety as a core concern, supported by legislative requirements. We just assume that people comply with those. It is not a factor we specifically analysed or were asked to analyse as part of the scope.

CHAIR: On the two types of methodology—I notice Western Australia does a mixture—did you find there was a better style for particular projects depending on whether they were smaller or larger?

Mr RENOUF: Are you referring to the process of contingency estimation? The short answer is that we have recommended that further analysis needs to be done to understand the effectiveness of the approaches, which would then inform a decision about what is the most appropriate approach. In the absence of that analysis that really looked at the outcome achieved versus the method adopted there is not a conclusion that can be drawn. The best indicator is the relative performance of agencies in terms of actual cost versus estimated cost. That would give you the best indication of which approaches were most effective. As other witnesses may have commented, estimation is in part an exercise in looking into the future and it is not an exact science. Certainly there are approaches that work better than others. Generally, as a principle you would expect that the more sophisticated the approach the greater the degree of accuracy.

CHAIR: Did you look at the use of consultants versus in-house experts?

Mr RENOUF: No, other than just collecting information on the extent to which agencies use internal versus external resources. The approach varies markedly across jurisdictions. In part it is informed by the attitude of the government of the day to the extent to which governments should be in the business of doing some of those things versus relying on the market to provide that type of advice. There is no hard and fast rule other than to acknowledge generally that even if governments outsource the cost estimation there are usually internal resources that review the estimates provided. They can obviously draw upon the agency's own databases of previous projects to inform and check the estimates provided.

Mr LARocca: Generally speaking, in my experience when it comes to estimating construction costs in the planning phase governments use a balance of outsourced and in-house expertise. Usually you have an engineering consultant producing the cost estimation working closely with the in-house resources. As Mr Renouf has said, it is a balance between in-house and outsource and it depends on a range of factors, such as how many rail projects government is procuring at a particular time and its in-house resources to manage a wide range of projects. Generally speaking there is a mix.

The Hon. CATE FAEHRMANN: Does the comparison between in-house and outsourced appear in this report?

Mr RENOUF: No, it does not appear specifically mainly because that was not a core focus of the study. It was just useful to understand the approaches they used and whether they used internal or external resources.

The Hon. CATE FAEHRMANN: You gathered that information but you do not think that made a significant difference to the costings?

Mr RENOUF: No, I do not believe so.

The Hon. JOHN AJAKA: You mentioned earlier that your report was focused on looking at the projects after they were completed so you did it on actual costs incurred. Was much work done on comparison of what was initially quoted and whether the projects were completed, to use an expression, on time and on budget or whether there seemed to be an escalation especially of time and budget aspects? Did you look into that aspect?

Mr RENOUF: The short answer is that that was not part of the scope of the study. There was certainly initial discussion with agencies regarding looking to get that relevant performance data. Agencies were really more focused initially on trying to get a higher level comparison of client costs. That is an area that we have recommended the jurisdictions should consider because ultimately comparing methods is fine but what matters is the outcome. That is an area we have pointed to in the report where agencies should certainly consider doing further work.

The Hon. CATE FAEHRMANN: Going back to the comparison between fixed price contracts and alliance contracts, to which the Chair referred earlier, on pages 53 and 55 the figures show that New South Wales rail fixed price contracts, which is figure 39 on page 53, have a similar breakdown of client costs to other States. However, when you look at alliance contracts in New South Wales there are very high corporate overheads—28 per cent compared to 2 per cent—and high other costs of 30 per cent versus 8 per cent, compared to other States. The way alliance contracts are carried out in New South Wales is clearly quite different from the way they are carried out in the rest of Australia whereas fixed-price contracts are quite similar. Can you explain why there is such a huge variance in alliance contracts particularly in this State?

Mr RENOUF: The answer is quite simple: it relates to sample size. I think on page 55 of our report we highlight that really only one other non-New South Wales alliance project was compared whereas we had three New South Wales alliance contracts. That is an example of a sample size. I think you might look to that as a conclusion but I think the sample size would not allow you to draw that conclusion.

The Hon. CATE FAEHRMANN: Is it fair to say that alliance contracts are used less in other States than New South Wales? It was more difficult to find more projects to compare?

Mr RENOUF: I am not sure, is the answer. I think again that may be an issue but I cannot specifically tell you. I think certainly within the more non-traditional forms of procurement generally there is a much smaller sample size to draw upon—I think that would be a fair comment to the point that I referred to earlier with the case of PPP projects we could not do the analysis because there just was not enough of a sample size to really be able to do anything that was reliable. I think the short answer to your question is I cannot comment on the prevalence of alliance contracting in New South Wales versus other jurisdictions but there is certainly more data I think using more traditional forms of fixed price contracting be they DD&C or DNC there is certainly a bigger body of evidence, if you like, to draw from.

The Hon. CATE FAEHRMANN: Was the report peer reviewed?

Mr RENOUF: It was peer reviewed within Ernst and Young. The report production essentially involved producing this report which is specific to New South Wales. One of the conditions of participation from other jurisdictions was they each got their own individual report which disclosed their projects and, again, provided a similar comparative analysis to the rest of Australia and all of Australia. Yes, it was peer reviewed within Ernst and Young. The individual relationship was then allowed to, I supposed, respond to their draft report for their jurisdiction and provide commentary. We then worked with them to close out any concerns they had regarding the way we interpreted data or presented data.

(The witnesses withdrew)

PHILIP GLENCOE LAIRD, University of Wollongong, sworn and examined:

CHAIR: In what capacity do you appear before the committee?

Professor LAIRD: I am appearing in a private capacity but I have drawn upon the resources of the University of Wollongong in research.

CHAIR: Do you want to make an opening statement? I remind you that there is no need to repeat anything that is in your submission.

Professor LAIRD: The submission is of a general nature. Its motivation is that in the course of my research other mainland States, let alone certain overseas jurisdictions, are doing a much better job than is New South Wales in planning for and delivering rail infrastructure upgrades. In addition, in recent years New South Wales has produced text book examples of expensive projects with, at best, excessive costs and, at worst, reduced project scope. This includes the former Parramatta Rail Link, including a bridge over the Lane Cove River with an incredible decision taken 10 years ago to build a tunnel under that river. And as well as imposing additional construction costs, it also imposed additional operational costs and then was followed by cutting the original project in half—Parramatta Rail Link into Epping-Chatswood Rail Link.

Even with the same or perhaps expanded scope we can see our cost blow-out. I refer to Cronulla-Sutherland duplication. A major cost inflator in my view for recent and future rail projects has been the failure to reserve land corridors at an early date. Perhaps the Roads and Traffic Authority do better at this. Where I am from in Wollongong land for the Northern Distributor, now Memorial Drive was reserved 60 years ago. At the end of the day, Sydney's population has grown some 50 per cent in the past 35 years—go back to 1976 it was 3.1 million, including Gosford and now it is 4.6 million—but the rail system has not grown to keep up with the population growth.

Newcastle and Wollongong people in 1998 were promised track upgrades to facilitate appreciably faster trains. Instead, they got slower trains and no track upgrades. The track linking Australia's three largest cities within New South Wales has steam-age alignment. Net result, coupled with deteriorating grain lines, pushes more loads onto roads. All in all, we need an upgrade rail system and to get the upgraded rail system we have to have better advance planning like the Roads and Traffic Authority does, and better control of projects.

The Hon. CATE FAEHRMANN: On page 4 of your submission you have commented on the large number of senior executives in Transport Construction Authority [TCA]. In addition, the committee heard this morning from Ernst and Young its explanation of why New South Wales costs \$8 million per single track kilometre for administration costs compared to \$5.6 million in other States. I am sure that you will agree that that could add up to a significant amount of money even for modest projects. Do you have any insight as to why the New South Wales administration cost is more than other States, particularly given the mention in your submission about the high number of TCA executives?

Professor LAIRD: There are two questions there. By way of clarification, if I may, on page four, item eight, rather than referring to a high number of TCA and its predecessor executives, I was referring to the incredible number of chief executives that State Rail, now RailCorp, has had. This sort of constant churn at the top does not do the organisation any good at all. There are no fewer than eight from 1995 to date. It was not only a change in the chief executives but there was a constant change in the structure of what we now call RailCorp. In 1996 State Rail was split into four, following the Glenbrook collision in 1999, back to three and following the Waterfall incident in 2003—both accidents which should have never happened. When you look at the Japanese Shinkansen operating since 19864 with no loss of life from derailment or collision and no loss of lives of passengers and you look at this it is just not good enough and the same with the planning.

To answer your second question as to why does it cost so much for cost administration, I am sorry it is outside my scope but I would like to observe that Perth to Mandurah, built between 2003 and 2007—the whole thing on average was built for \$9 million per track kilometre or, if you like, \$18 million per route kilometre, and that included two underground stations plus an interface with the Perth network. May I further suggest what would be interesting in the New South Wales context would be to look at the project of the airport line completed in the year 2000, and taking away the PPP for the delivery of four stations, you see the construction of about 12 kilometres of railway line with two interfaces at Wollli Creek and Central Station. There I think we

are talking about hundreds of millions as opposed to the billions we now tend to talk about for such major projects. In a similar way I think the M5-East completed in 2001, as I recall, was \$400 million, and for the M5-East duplication we are talking about \$4.5 billion.

The Hon. CATE FAEHRMANN: If we use, for example, the airport line as you have indicated that was built in 2000 compared to what are cost estimates for some of the rail projects now, would you give the committee some of your reasoning behind why we are getting such cost escalation in 2010-11? What are some of the key reasons for that to be happening in New South Wales?

Professor LAIRD: Firstly, again, the failure to reserve corridors is an issue. For example, if the Epping to Rouse Hill line had been built 10 years ago we could have put more of it on the surface. Many people are now calling for more tunnels, which of course will push up the cost. Secondly, the occupational health and safety requirements are probably more demanding now than they were 10 years ago. There are also other factors.

The Hon. PAUL GREEN: It has been suggested that the estimated cost of rail projects in New South Wales is greater than the cost of similar projects elsewhere. Do you think that is true and, if so, why?

Professor LAIRD: My first impression is yes. However, one needs evidence, not impressions. I think it is fair to say that all jurisdictions over the past 10 years have found that project delivery is more expensive, but some execute them much better than others. The Perth to Mandurah line is a good example. It was well planned from the beginning. There was a change and it was decided to approach the city of Perth in a more direct manner rather than using a convoluted route. However, at the end of the day, having secured the corridor, some of which was happily down the middle of freeways, and with good project management well supported by the Minister of the day, the Hon. Alannah MacTiernan, it was delivered at \$9 million per track kilometre. If members were to look at regional fast rail in Victoria completed about five years ago, they would see what in today's terms might be called value for money.

Incidentally, with the track upgrades and using trains running at the 160 kilometres per hour on the good sections of track, the patronage has doubled over the past four or five years. The project funded by the Federal Government for the amplification of the western lines into Melbourne involved billions of dollars rather than hundreds of millions of dollars. The Alice Springs to Darwin project involved a freight-only line in a greenfield scenario and negotiations for the land corridor started 20 or 30 years ago. That cost less than \$1 million per kilometre. Brisbane has completed a range of projects and there was one escalation. Again, they wanted to do the Caboolture to Landsborough line in one hit, but affected landowners more intent on looking after their own interests rather than the interests of the State or the nation as a whole raised all manner of objections. As a result, the project was cut in half. The same is true of the Parramatta rail link. It is not only about rail; it is also about roads.

The Hon. PAUL GREEN: Do you have a view about whether the Maldon to Dumbarton railway would be a good or a bad thing?

Professor LAIRD: I am very happy to say that on the basis of research conducted at the University of Wollongong the case for the completion of the railway is much stronger than it was when it was abandoned in 1988. The reason is that we have more coal on rail and the derailment in the past two weeks at Clifton caused all manner of problems, not only for the port of Port Kembla receiving coal but also for the coal producers and many train passengers who had to be bussed around. It is not only coal. Port Botany has a cap of 20.3 million 20-foot equivalent units. It is already about two million, so that cap will be reached this decade rather than next decade. So it makes very good sense to expand Port Kembla to take some of the overflow from Port Botany and to have a good direct link from the port of Port Kembla to the very fast-growing area of south west Sydney.

A further consideration is cars. Port Kembla is now importing cars relocated from Sydney and 20 per cent of them are supposed to be on rail. In addition, the completion of the Maldon-Dumbarton rail link will support the operations of the Moorebank intermodal terminal. Sydney is incredible because it has such limited intermodal rail terminals compared with Melbourne, Toronto, Vancouver, Montreal and other cities of similar size around the world.

The Hon. PENNY SHARPE: A number of witnesses have talked about in-house technical expertise within Transport for NSW and its various other iterations. Can you elaborate on your views about that and the transition over time, and can you make any recommendations about in-house technical expertise?

Professor LAIRD: In RailCorp's transition from the 1980s up to 1996 as part of the State Rail Authority and until 1993 there was good in-house technical expertise. Around the world, including in New South Wales, agencies such as the Roads and Traffic Authority—the former Department of Main Roads—seem to be downsizing. You can downsize technical expertise too much and when that happens you are no longer an informed buyer. Like the witnesses from Ernst and Young said, you need people in house to verify the estimates provided by consultants.

The Hon. PENNY SHARPE: Do you have any specific insights? You made comments in your submission about the changing nature of the agency, the constant restructuring and the different people involved over time. What are your thoughts about the Government's much trumpeted move to a new structure and integration? Is it on the right track or do we need to wait and see?

Professor LAIRD: I think we have to wait and see. It was announced earlier this year that following the change of government we could expect a definitive transport plan for New South Wales by the end of this year. That has proved overly optimistic.

The Hon. PENNY SHARPE: We will be waiting for another year before we even get close to that. It is a plan for a plan.

Professor LAIRD: We are still to get a freight strategy. One was promised in 1988.

The Hon. PENNY SHARPE: Do you have any specific suggestions about expertise? What basic level of expertise does the department need to have? Can you outline the team, or is it a general view that over time in-house expertise has been outsourced too much?

Professor LAIRD: Extensive outsourcing is the result of two things. First, there was the downsizing of technical staff in large government agencies in the 1990s. If talented engineers cannot go out and build new track or upgrade existing track they can move to the Roads and Traffic Authority and get a sense of doing things such as building hundreds of kilometres of freeways in Sydney and working towards the duplication of the Hume Highway and now the Pacific Highway. They can move from an agency that is being chopped and changed. To add to the confusion, they then created a new agency called the Transport Infrastructure Development Corporation. Members can imagine what that did to the people with the expertise sitting in RailCorp about eight years ago. They might live with the arrangement or they might leave. We need technically qualified people—and engineers in particular—and people with experience. On the broader front, we have over the past 20 years been quite good at encouraging bright young men and women to go into fields such as commerce and finance as opposed to engineering and science.

The Hon. PENNY SHARPE: I do not disagree with you about engineering. Your submission is highly critical of New South Wales transport planning to date. To assist the Committee in its deliberations can you provide the four or five key things that you believe need to happen in New South Wales to get this right?

Professor LAIRD: First, as per the submission and as observed by the now Deputy Premier of Queensland, Paul Lucas, we must reserve land at an early stage. Secondly, we must improve advance planning within RailCorp so that we have plans in the drawer. If that were done, when we have the happy situation of a Federal Government that is prepared to fund urban public transport—

The Hon. PENNY SHARPE: Going our way.

Professor LAIRD: Whitlam started it in 1974 and it was continued by Fraser, Hawke and Keating, but it was discontinued by Howard until both Rudd and Gillard restarted it. If we had had good plans in the drawer, as we should have back in 2008, we could have gone to Infrastructure Australia with strong submissions and realistic plans not an uncertain metro proposal. If we had gone to Infrastructure Australia four years ago and said that we wanted a north-west rail line, the Maldon-Dumbarton line and light rail to Dulwich Hill, we would have got two or even three of them. Where do we stand now?

You asked for five points. The first point is that we must reserve the corridors. That needs sufficient planning so we have confidence that the route selected is the right one. We also need to improve advance planning and the in-house capability of RailCorp. We must give RailCorp some ability to plan its future rather than simply saying, "Look, you guys are just operators of trains. We will decide where the tracks will be built."

The Hon. PENNY SHARPE: That is exactly what has happened under the new model.

Professor LAIRD: RailCorp should be strengthened.

The Hon. PENNY SHARPE: You do not have to give me five. Rather than give me three, I thought if you had four?

Professor LAIRD: I think you have to look at other agencies such as the Department of Planning and I do not think they have helped in the last three or four years. For example, they put on draft exhibition the Sydney-Canberra corridor strategy. The draft included a high-speed rail between Sydney and Canberra, which is very much on the Federal agenda now. The department took it out and it did not appear in the final report yet alone their submissions from at least one member of the public saying it was a good idea to recognise this and include it and perhaps even allow for the possibility of straightening out the track of the existing line. The other thing we really need in New South Wales is a way of expediting agreement between the Australian Rail Track Corporation [ARTC] and the New South Wales Government.

It took an intergovernment agreement in 2001 to say "Okay, interstate tracks will go to a long term lease to the Federal ARTC". It was costing New South Wales well over \$100 million a year to look after this track but it took three years to reach an agreement. History repeats itself. Former outgoing Prime Minister John Howard offered over \$800 million for work, for funding, to have the capacity upgrade of North Strathfield to Hornsby. Here we are four years later and the two parties still cannot work out a scope of work. One party says it must be capable of passengers and hence overhead catenary; the other party is much more interested in freight and does not want the catenary so my fifth point is we have to have much better mechanism for interaction with the Federal Government and its agencies.

The Hon. JOHN AJAKA: Earlier you gave examples about the Parramatta rail link and spoke about corridors not being secured and then mentioned some corridors being secured. If we accept your evidence today that not sufficient corridors exist we cannot simply now wait for those corridors to be obtained over the next 50 years, as you indicated; we are compelled to deal with the existing landscape. Therefore, are we not compelled to look at tunnelling, bridges and other aspects rather than simply wait until those corridors are secured?

Professor LAIRD: I think we have a need for corridor catch-up, if I may say so. The corridors that I have in mind are not only in the Sydney urban area but also interstate main lines. The Sydney to Melbourne line is 60 kilometres longer than it should be. If we were to build 200 kilometres of new track, we would get rid of 260 kilometres of steam-age alignment which is far too twisty and heavy, and similar for Newcastle to Sydney. Basically we are looking at over the next 10, 20, 30 years the need for probably a Hornsby-Newcastle corridor. The existing double track is capacity constrained, so we need to be a lot more enthusiastic about reserving corridors than we have been in the last 10 or 20 years. My submission refers to an advance on the Victorian side where they have reserved an outer metropolitan rim.

On the question of tunnels or surface route, this ultimately is a decision for government, but I argue that we erred too far on the side of sensitivity to bridges or surface routes in 2001. We are now in a cash constrained situation. We do need more rail capacity and efficiency in New South Wales to prevent undue reliance on cars, buses and trucks, which are very costly to the State and if the international price of oil goes up—as well it might when we come out of the global recession—then these costs will really bite hard on New South Wales.

A city like Perth is much better placed because in the last 30 years it has built about 140 kilometres of new railway line, a new line to the north and to the south, and improved its older system. We have this huge catch up of rail work to do if we want to be a competitive, well functioning State and to restore Sydney to its former place of top five cities in the world. At the moment it is too congested, too hard to get around so it is falling. In trying to meet this demand sometimes government will be placed in the difficult position of saying, "I'm sorry, the original plans for a surface route near Epping will have to stand. We just simply cannot afford the tunnel." And then you try to mitigate the impacts with a few noise walls, which of course will push up the costs but not as much as tunnelling.

Perhaps we need a better level of public debate on some of these questions because you have huge expectations in the community. We want everything really good but, hang on, as Sir Rod Eddington observed in the Infrastructure Australia report, we want all this stuff, but hang on, as a nation, governments do not like borrowing, people are yet to warm to the concept of user pay and we do not always like paying big taxes. The

fourth one was we do not like to recycle assets. This is particularly the case with high speed rail when you are talking of something in the order of \$100 billion and you are looking at three cities. Can we as a nation afford it? Technically we can build it but how are we going to pay for it?

The Hon. JOHN AJAKA: Professor, you are aware that there has been a substantial change in relation to the structure of what is now known as Transport for NSW with the merging of those departments. Did you take that into account with the various divisions that are now available within Transport for NSW in what you have said or was most of what you said in relation to failings on the part of the Government over the past three years based on the then existing structure?

Professor LAIRD: No, I could not take into account the recent Transport for NSW but it was written in September and you could see, I think it is fair to say, that the rail challenges that the Government elected this year were perhaps more severe than they thought on taking office.

The Hon. NIALL BLAIR: Picking up on some of the points you are talking about and looking at what happened in Victoria, you said patronage doubled with the ability to increase the speed of those trains. Do you think that the role of project cost and benefit analysis is done adequately enough for the projects that we are looking at in New South Wales because if we can double the patronage by straightening tracks, et cetera, obviously that is a good payoff against the cost, is it not?

Professor LAIRD: Yes, I agree that when we look at benefit cost analysis we have to take a triple bottom line approach. This brings into play the question of external costs. For every train that you can fill coming over the harbour bridge with passengers that formerly went by car you have got very large benefits.

The Hon. PENNY SHARPE: Except there is not enough capacity to get more people over the bridge?

Professor LAIRD: Yes, and this is the other one, a second harbour crossing or some other means of expediting or increasing passenger flows. Maybe we go back to what Bradfield envisaged when the harbour bridge opened in 1932, four lanes, two tracks each side. We do need to sharpen up our approach to assessing the wider benefits. Road congestion alone costs the city about \$3, \$4 or \$5 billion a year. The health costs of motor vehicle emissions, both mortality and morbidity, are estimated in year 2000 terms at about \$1,000 million a year. The cost of road crashes, you are looking at least \$3 billion a year for Sydney alone. The other one harder to quantify but was the motivation for the Perth planners and Minister McTiernan is reducing our carbon emissions and reducing our dependence on imported oil.

I think the Department of Planning and Infrastructure needs bringing up to speed on the issue of external costs and project assessment. For any major traffic generation proposal it should really be incumbent on the proponent to go to external costs, either default ones published by the Australian Transport Council of Ministers or more area specific ones, bearing in mind that in Sydney, being Australia's biggest city, these costs are high.

CHAIR: We have heard from our previous witnesses in relation to the high cost of what they classified as other costs in New South Wales compared to other States. I am interested in your comments in relation to the impact of costs of special interest groups and occupational health and safety in relation to rail projects. Could you elaborate on that?

Professor LAIRD: On special interest groups, the ones in the submission first of all refer to the Lane Cove bridge and tunnel. I am sorry I cannot specify what this cost would have been but I think it would have been hundreds of millions of dollars. For the smaller ones the submission referred to councils. You have a rail project like the South Sydney freight line being done by the ARTC and the particular council—I think it is public knowledge that it was Liverpool—went in to bat and got an extra few million dollars out of the project for more car parking. On occupational health and safety there was some talk, for example, there is an electrical substation in Sydney and someone wrote a project specification—it had a toilet inside the building and someone said this had to be a disabled toilet and there had to be a disabled car park outside, yet you would never let a disabled person need this high voltage equipment. That is a very isolated, small example.

CHAIR: I was also interested in your comments that the Roads and Traffic Authority has fared better than rail authorities. In this it refers particularly to planning. Are there any other examples where they have fared better, such as workforce?

Professor LAIRD: Yes, getting the money from the Federal government, Madam Chair. They are really very, very good at getting large amounts of Federal land transport funds. At the end of the day take for example the Pacific Highway. The goal was to have a Maitland to Queensland border dual carriageway by 2016 and we are told that this will cost \$8 billion. On the basis of the Kempsey Bypass I venture to suggest we are looking at \$16 billion for it. But the Roads and Traffic Authority, in my humble opinion, would have done well to have been responsible for the execution of some rail projects in the last 15 years because they had the capability to get the land, do the advanced planning, take it through the environmental assessment process and then get the contractors on the job and get the projects built.

CHAIR: Is there anything beyond planning that you have seen as a distinct difference between the two that could impact on cost?

Professor LAIRD: Yes, mainly the ongoing corporate restructuring of the rail agencies whereas the road agency has been stable and allowed to get on with the job. The job is not only the planning and the corridors but also procuring large amounts of Federal funding. On the Pacific Highway the nation may well be better served by having a better balance between the rail upgrades and the road upgrade, because that railway line from Maitland to Kyogle was initially a few branch lines that were stitched together. It was never intended to be a main line. But we have put, say, a billion dollars into that rail line but we have already put at least \$5 billion into the Pacific Highway and we are anxious to put in \$8 billion more at least. We have not talked about doing what was done in Queensland where we straighten out twisty turvy track and with deviations built to modern engineering standards.

On this alone the Government of Queensland, with half the population that we have, albeit with some coal revenue, between Brisbane and Cairns from 1987 to date has built over 200 kilometres of high quality track on improved alignment. In so doing it allowed the weight of a load behind a locomotive hauling freight to double from 750 to 1,500 tonnes. A Brisbane-Rockhampton journey which in 1985 took 14 hours now takes a bit over seven hours with a tilt train doing up to 160 kilometres an hour. So we have got States not only to the north of us and the south of us with 160-kilometre an hour trains but also Western Australia. The Prospector at times goes at 160. In New South Wales what have we got? The dream of high speed rail, but on the English experience it took from 1983 proposing from London to the Channel Tunnel and it was not delivered until 2007. So we really need some rail upgrades now, or this decade. In your Committee, attention to costs and planning I think will help.

CHAIR: Unfortunately time has expired, but if Committee members have more questions they will submit them to you in the next couple of days. The Committee has resolved that any questions on notice sent to you need to be responded to within 42 days. I thank you for appearing this morning.

(The witness withdrew)

(Short adjournment)

GARRY NOEL WHITING, General Manager Suppliers, Australasian Railway Association, and

BRYAN NYE, Chief Executive Officer, Australasian Railway Association, sworn and examined:

CHAIR: Normally we ask witnesses to provide an opening statement of no more than five minutes. I understand that you have a presentation. To ensure that we have enough time for questions, could you limit the presentation to no more than 10 minutes.

Mr NYE: I certainly will. I will not go through it all; I will just go through it and highlight some information in it. We represent the totality of the rail industry in Australia. That is all the rail operators, passenger operators, freight operators, track owners as well as the manufacturers. Quickly in the rail story, it is a big industry. It employs about 100,000 people and currently as of today there is \$36 billion being invested in rail. Since 2008 there has been an incredible increase in passenger numbers. What it is meaning at the current time across Australia is 60,000 people are catching the train every week, every week, every week. That is constantly going at the current time, a growth rate of 6.1 per cent which has caught passenger operators and urban operators throughout Australia on the hop. You can read this later, but people say petrol price is the real driver; it is not. It is congestion that is driving people to get out of their cars and get into public transport.

I think the thing that is really telling for us is what we do incredibly well is iron ore and coal. The big picture, this year we will move a billion tonnes by rail. The thing that is not going well is the non-bulk. That is the container traffic between the capitals. That is going backwards. That graph is what it looks like. The black and grey are the coal and iron ore. The thing that is showing there is how little grain is currently being moved by rail. The impact of that is every week there is an extra train set. There is a 1 million tonnes going on to the network every week. That is in coal and iron ore. That means a new track every week, more tracks, more train sets.

In our estimates that we have recently done we are about 6,000 skilled employees short in the rail industry. People talk about train drivers. It is not train drivers. It is project managers and technicians. We are now 600 engineers short and that figure is continuing to go up. One of the challenges is national reform. That figure still applies. We still have different rail gauges in every State—some States have three gauges. We have 22 communication networks and one of the major changes we are implementing is to digitalise that network. For example, the Indian Pacific train travelling between Sydney and Perth has 345 kilograms of radio equipment including eight radio sets and yet it cannot talk to another locomotive across the network in Australia.

Rail has done a dud deal in relation to carbon tax. Road transport does not pay the carbon tax but rail will even though we are greener. We have argued that point and we will continue to argue that point. There is a major project underway now and the good thing is that every one of the urban networks has agreed to the same groupe spécial mobile railway [GSM-R] technology to take forward. The Federal Government has agreed that we need the GSM-1800 spectrum; it is just how much we need and what is the public interest price. That will change the industry in urban networks more than any other infrastructure investment. It will increase the capacity by 20 per cent without building any more infrastructure. It is the most crucial issue we face.

On the issue of safety you hear about level crossings. This year we are going to talk about suicides and trespass. Last year there were 250 suicides on the rail network. The trackSAFE Foundation has just been launched. The main focus of that foundation will be to look after the silent victims who suffer from traumas and suicides, including station staff and train drivers. There is an increase in transport demand and we are looking at how to meet that. I am happy to take questions but one thing we are arguing about is the integrated transport planning. That is a failure throughout Australia. The only place where they have planning together with transport is in Perth and they done it successfully.

If you look at the figures they show some of the challenges in freight. We do well transporting east-west but Melbourne-Sydney and Sydney-Brisbane are going backwards. The freight—from the Government's own figures—will double in 10 to 15 years. If we do not improve and optimise that rail network it will have to go down the Hulme Highway. That is the challenge. That slide shows the condition of the grain line in this State. It is going to be interesting to watch how the grain crop is transported this year. New South Wales has an aged locomotive fleet. The passenger and freight locomotive fleet in the United States is eight years old compared to ours at 34 years old. In Canada the distances are greater but it costs half the rate it costs in Australia to get the grain from the farm to the port. We have a challenge there.

The Australasian Railway Association has three groups of suppliers: Contractors, manufacturers and small industry groups. We have listed all the major manufacturers in Australia. The majority of the locomotives are built in Australia. It is a vibrant industry. We have done a major study on the forecast demand taking into account the national growth. Rather than each State doing its own study we are asking what the demand will be for each State. One of the reasons for costs rising is how lumpy the demand is—there is a burst of demand and then nothing. We are trying to find a better way to forecast demand. The Australasian Railway Association is working closely with the small enterprise group to improve the tier three suppliers. You will have heard of the National Rail Contractors Group. We have included a list of the chief executive officers within that group that meet and work closely with Infrastructure Australia.

One of the things we are trying to focus on is better models for infrastructure and tendering. The current tendering process drives up costs. The solutions we suggest are: Nationally consistent regulation and policies—we continually battle different road and rail pricing issues; spectrum; and we are setting up the trackSAFE Foundation. One of the challenges the industry faces is a different thickness of glass in each State. For example, the rail car that operates in Perth is identical to the one built in Queensland but by the time it moves across the continent there are 652 differences including a different air-conditioning system. All that is doing is driving up prices and we have done that to ourselves. In the area of freight solutions we suggest containerisation of grain. That will be a challenge. They are doing it overseas but we have not got to that yet. Some of the passenger solutions include integration of transport and land use planning and better use and sweating the asset more. The industry is looking at how that can be done.

I sit on the reference group for high speed rail. It is quite a challenge. A high speed railway travelling Newcastle-Sydney and Sydney-Canberra will allow the Government to defer the requirement for a second airport. The rail freight corridor required from Hornsby north to Newcastle is costed at \$7.5 billion. If you build a high speed rail network you can give the current passenger network over to the freight network. It is \$25 billion to build a new airport. If a new freight corridor north was built at the cost of \$7.5 billion you would pay for a high speed rail network Newcastle-Sydney and Sydney-Canberra. On this occasion the Federal

Government is in the driver's seat and has involved Treasury—that is important. They were the indicated costs. The second stage of the implementation study is out now and looking at refining that corridor down in some detail. In trying to convince people of the true value of rail we can demonstrate that every passenger trip means 525 cars off the road. That is the focus we have. The key recommendation is to implement a benchmarking process to set the cost of a project to enable a real evaluation. At the moment the competitive tendering process does not give you a real cost and it is very complex. There will be a national rail safety regulator by 2013. When that occurs what will be the risk allocation and where will it be allocated? They are two matters that the Australasian Railway Association believes this inquiry should act on. I have taken you through a quick train journey and I am happy to take questions.

CHAIR: Are you happy for the slides to be incorporated as part of your submission?

Mr NYE: Yes, I certainly am.

The Hon. PENNY SHARPE: The main reason we are here is the suggestion that rail projects cost more in New South Wales and we are trying to attack that. Would you like to comment on that and give the Committee some pointers on where you think we should be looking in relation to costing in New South Wales.

Mr NYE: I think it is true, they do cost more in New South Wales currently and the industry will not deny that. You have to look at why it costs more? One answer is certainty of a long term plan and certainty of projects. There has been a change of plans every few years in New South Wales. I was recently in Finland and spoke to the transport Minister for that country. It was a city of 500,000 people with six light rail lines and heavy rail. I said: Is this debated in parliament? He said: No. It is a transport plan. It is not a political issue. We have to go forward. That then provides certainty of investment. Competitive tendering is another major issue with those people submitting their tenders going through an expensive process of evaluating the project. There has to be a better way than competitive tendering. As this Committee works with industry we believe you have an opportunity to establish benchmarks nationally and improve the tender process.

The Hon. PENNY SHARPE: In your submission on page 6 regarding the issue of competitive tendering and who gets to put in a tender in New South Wales you state, "New South Wales clients have a limited track record of letting new entrants into the market and this may have had an impact on value for money". Can you point to any other jurisdiction, such as Finland or other places, which does it better?

Mr NYE: There have been all sorts of models such as alliance contracting and getting everybody into the room and defining the costs overall. Under competitive tendering the projects are so big only the major companies—they are not all my members—have the resources to go through that tender process. You could split up the process into smaller packages, get all the parties in a room and talk about the project up front and consult them very early. Under the Union Internationale des Chemins de Fer, the world rail association, there is a whole series of benchmarks, particularly for high speed rail, which they are promoting, which show how much it should cost per kilometre over different terrains. Establishing what the benchmarks should be as a key guide should give you a better figure to enable you to say whether the cost is reasonable.

The Hon. PENNY SHARPE: What was the organisation you mentioned?

Mr NYE: It is the Union Internationale. We can send you that document.

The Hon. PENNY SHARPE: You say that these benchmarks exist but how are Australian jurisdictions using them or are they ignoring them?

Mr NYE: There are no benchmarks in Australia at the current time. We think that a good recommendation from this Committee would be to work with other jurisdictions and Infrastructure Australia to establish some benchmarks. In China they can tell you how much per kilometre it costs to tunnel.

The Hon. PENNY SHARPE: Is it different amounts in different parts of the country? Are they using a standard approach?

Mr NYE: Tunnelling is pretty standard around the world. The cost of tunnelling is coming down dramatically, so you can get a whole series of benchmarks. We do have different terrains and population densities are different but establishing a realistic figure would be a good way forward.

The Hon. PENNY SHARPE: The issue of in-house expertise and the ability of public sector agencies to manage large contracts have been raised. Can you step us through your views on that and what you think are the base level requirements of in-house expertise that would assist with these sorts of projects and costings?

Mr NYE: You need some in-house expertise and the Transport Infrastructure Development Corporation [TIDC] was established some time ago as an external authority to build up that expertise. I am not critical of it; I think it is probably a good move that you have brought it back into the organisation. One of the challenges we have in Australia is getting the expertise, particularly when you think of what is happening in the mining sector where there are so many rail projects being built and we are short of so many project engineers and rail signal specialists. We are short of expertise in Australia.

The Hon. PENNY SHARPE: Private and public.

Mr NYE: Yes, private and public, so it is a challenge that we face in Australia. We need more pooling of resources. Why do we have so many different rail car designs in Australia? It is because each one has been done by a different jurisdiction. Why do we not have a common rail car design? We are facing some major requirements yet we keep re-specifying requirements right across Australia.

The Hon. PENNY SHARPE: You indicated that TIDC built up some expertise but it is an open question as to how that will resolve itself as it goes into the new structure. Are there other States in Australia or overseas jurisdictions you can point to that have got it right?

Mr NYE: I think Canada does it better. We have looked a lot at what Canada does and have sent quite a few people there to look at how they do their transport planning.

The Hon. PENNY SHARPE: Can you take us through how they do it?

Mr NYE: I would recommend you go overseas but Toronto and Vancouver are probably the two cities where they do transport-oriented developments. They have a high level of expertise and they give the challenge to the private sector to come back with the solutions.

The Hon. PENNY SHARPE: It is not the way we do it by packaging it into a range of projects and taking them out to test the market. Do they get people in at the beginning and say, "This is the entire project; what do you think you can do?"

Mr NYE: That is exactly the model. They get them in the door right at the start and say what they are trying to achieve and go through it with them. All the major contractors have a team responding to competitive tendering. They are project managers and project engineers that we are just keeping there working on a bid for maybe two years and which costs millions of dollars. Is that the best outcome? I do not think we are getting something that we should be getting.

The Hon. PENNY SHARPE: Your submission talks about allocation of risk and that in New South Wales risk allocation is not clear. You suggest that that is inappropriate and therefore difficult to predict with certainty. I am interested in how other jurisdictions allocate risk and whether you have any recommendations or standards that you suggest New South Wales should look at.

Mr WHITING: We have some evidence from our members that there are problems here. We are very keen as an industry association and a membership group to work through the specifics of that. We do not have the rigorous data that would enable us to say to you today that these are the five things you need to do in New South Wales that will fix everything. The reality is that the evidence we are getting from our members, which is anecdotal, is that there are some issues in New South Wales that do not appear in the other Australian States.

The Hon. PENNY SHARPE: Can you be more specific about what they are?

Mr WHITING: I do not know that it is helpful other than to say that allocation of risk is one. The previous witness was talking about the use of immediate tendering or an alliance contract. How you use them depends on whether it is a greenfield site or a brownfield site and whether you are clear about the interface issues and the commissioning issues and those sorts of things. That changes the decision about when and how you use it. What we are proposing is that you need to go through some work with contractors in the industry to build the models for this sector. What is happening is that occasionally we do not quite get things right. We mentioned the metro project. Everyone we spoke to said there was no clarity for the people who were tendering. How do you get the commissioning access and what are the rules of engagement between the various parties? That adds cost. If you ask somebody to be in on a piece of work and give them very clear interfaces and scope of work they can bid very aggressively and price sensitively around that. If you give them a whole range of variable scenarios and there is no clarity about how they are to be delivered they have to price that in.

It is the same with risk. If you try to push the risk onto the contractor at a particular point in time when it is really best managed by the client or the client interface or the operational unit, those issues change your costs. Our evidence is that some of these decision-making processes in the past have been mistakes, for want of a better word. We proposed that we accept that that has happened. We should go through a process to find the best use of the various tools to bring down the cost. When do you use an alliance so that you create the best outcome? That relates to the Canadian example. When is the best time to get all the contractors in a room and say, "Here is the clear scope of works; we want your best price because we know what we want"?

The Hon. PENNY SHARPE: Obviously in New South Wales the number one project for the Government is the North West Rail Link. Has your association had much input into these kinds of discussions to date?

Mr NYE: We have certainly been part of the briefing process on the whole project. Once it goes to tender we do not. We do not want to put ourselves in front of our members for precisely that reason.

The Hon. PENNY SHARPE: You say that we will get a better outcome if we get everyone in the room at the beginning and talk about how to break up the project. However, this is a live project that the Government says it is very committed to delivering. Do you believe your suggested process is happening with the North West Rail Link?

Mr NYE: I think the process is getting better. Rail in Australia was driven on a silo basis, State by State. Only six years ago I got the human resource managers from around Australia together in one room. Only three years ago the rail manufacturers' chief executive officers got together to start talking about the issues. It was not a good first meeting. At the second meeting we had a trade practices lawyer present and it made for a much better discussion. We are asking what is the problem and they say it is the contracting, the way we go

about processing, bringing people in early and the establishment of clear competitive guidelines. We do not know what is the best solution but we do know that what we have now is not good, so why not try to work with everybody to reach agreement with the contractors and government about what is the best process to go forward?

The Hon. PENNY SHARPE: I am not trying to be difficult about this; I am seeking clarification in relation to the North West Rail Link. Is that something this Committee should recommend?

Mr WHITING: Given the history of where we have come from, if you tried to take a live project where there is a whole lot of money on the table for a whole range of people it might be difficult to get them to come at it without having a vested interest. We are proposing that you do this outside a tender. Go through some of the mistakes of the past and unpack them and look for models to use in the future. If you try to use it on a live project it might be too hard.

Mr NYE: The one project we are trying to work up and go through is the cross-river rail project in Brisbane, which is a huge project. It is nowhere near tendering. They are trying to work through the project book. That should not be done by one jurisdiction; it should be done in an open way. Everybody should learn from the lessons of that project.

The Hon. JOHN AJAKA: Mr Whiting, the problem is, as you were saying, when a number of companies are tendering and looking after their vested interest, as they should, the last thing they want to do is be in an open room telling their competitors what they are proposing to do, how they are going to tender and the price they are considering. They want it all kept strictly commercial-in-confidence. Looking at a live project would probably be almost impossible. Are you saying it would be better to look at projects that are completed and analyse them and see what lessons can be learnt from them?

Mr WHITING: As Mr Nye said, there is the cross-river rail. There has been significant market sounding and analysis as to how the project will be packaged and brought to the market and what is the best scenario. Both the visibility and transparency around that are useful to people so they know what is coming down the pipeline. It is also useful for the customer to get an understanding about what capability exists in the market and how that can be delivered. That sort of pre-tendering activity is really the ideal way to go because you are talking about a specific project and a real piece of work. We are also saying there have been a number of projects that have run that we could unpack and on which we could build future models. I think there is a learning experience there. The best thing we can say to the Committee is that things are not perfect at the moment and there is a need to go forward. Right now the message we are getting is that all stakeholders are willing to do that.

The Hon. PENNY SHARPE: Your submission talks about the difference between road and rail pricing, the carbon tax and other things. Are there other matters that you can draw to the attention of the Committee to improve the lot of rail to a level playing field?

Mr NYE: Australia fell in love with the car in the 1950s. We have the highest car ownership in the Organisation for Economic Co-operation and Development [OECD]: 96.4 per cent of families own a car and 53 per cent own two cars. We have not hit the wall they have hit overseas to make us realise that is not sustainable. Every State Government jurisdiction is challenging because the demand for public transport is increasing so much. Road and rail freight pricing is vital for us. The other major issue in freight is terminals. We need more terminals.

The Hon. PENNY SHARPE: Intermodals.

Mr NYE: Intermodal terminals. We have been talking about Moorebank for four years. That cannot go on. We need terminals and we should already be planning another terminal somewhere out near Eastern Creek because we need it. There is a good terminal plan in Queensland. The Queensland Government has a great terminal plan but unless there is one at the other end it is not going to achieve anything. I think more terminals is probably the greatest issue for us. Separating the freight corridors from passenger corridors is important. While passenger trains have priority over freight trains we are not going to get the reliability up to 90 per cent that people like Woolworths demand. If you get 90 per cent reliability we will put all the freight onto rail. It is not price, it is reliability.

The Hon. CATE FAEHRMANN: You said it may not be helpful to go into some of the reasons why New South Wales risk allocation is not only not clear but often inappropriate. It would be useful to explore that a little more, if I may. You said that the risk is best managed by the client. If we compare the way New South Wales does it to other States, does in the client in other States generally carry more of the risk than New South Wales has traditionally?

Mr WHITING: If I did say "by the client" it was actually not appropriate. It is about where you can control. If you can control whatever that part of the process is then you are the best one to manage that risk but if you do not have control over that part of the scope of the works then how can you be held accountable for the risk? That is the real sort of essence. There have been examples where project tender documents have come out and they are asking people to tender and undertake certain risk allocations that are just not within their control. That is the bit that needs to be explored. Again, going back over particular issues here and now is probably not the best place to do it. What we are really saying is that there is a body of work that both industry and government can do to explore how these tender contracts are developed.

The best example we have got of this is out of the United Kingdom. Essentially the network provider in the United Kingdom got to the point where tender projects were running so over budget, the cost issues were getting out of control, and the litigation was just absolutely enormous so they pulled everyone aside out of a live tender and then went through essentially a principles of tendering process. They went through a process of trying to determine the best possible tendering mechanism for the sort of scenarios you use, went through the process of trying to develop how they best allocate risk responsibilities in certain scenarios and developed a set of principles or guidelines which is why in there we have referred to a generic infrastructure guideline which I think was mentioned this morning, the Evans and Peck work.

We are saying going through that process with rail contractors would be very healthy for New South Wales both at a transport level and at an operational RailCorp level because developing some rules of engagement outside of a live tender, outside of the blame game, outside of those sorts of things, gives you the opportunity to actually get everybody on the same page, so to speak, and then start moving forward. That is really essentially what we are talking about there when we say things have happened.

The Hon. CATE FAEHRMANN: It is surprising that there are not rules of engagement, so to speak. Is that the case in other States? Are other States clearer or do they set the rules of engagement for each project more than New South Wales does?

Mr WHITING: I think the short answer to that question is: yes, it happens, but I do not think in the day-to-day business that is a onetime piece of work. We just mentioned the Cross River rail project. It is going through that process now and it does not have funding to execute the project so it is in a completely open environment to go through those sorts of things and that is the time you need to do it. When there are no competitive tendering issues, everybody is willing to work with their competitors but they are more than willing to talk openly than they would if it were a live tender. That is the time to do that sort of work. We think that is a healthy thing to happen right now, based on the feedback we have got.

The Hon. CATE FAEHRMANN: What are your views about how much that impacts on the price at the end of the day for New South Wales rail projects?

Mr WHITING: Again our evidence is anecdotal for which we apologise. We have had a number of international companies who come into this market and say, "Australia is generally more expensive" than their home market. If they are dealing with a parent company the cost of tendering is something that their home parent does not believe. They say, "Why do you want so much money to tender for that project?" We say, "That is what you have got to do around here." They say, "That's just crazy". It is wasted money because that tendering money then goes into a corporate overhead and comes back to the customer at another project date.

There is room to take cost out of the system but it will require some collaboration from all parties. Numbers given to us have been Australia is about 1 per cent to 1.5 per cent more—and these are big numbers in terms of the total project costs—of the United Kingdom which is generally accepted as about 0.5 per cent. What we do not have is the evidence to say how much more is New South Wales as opposed to maybe Queensland or Victoria or even the Pilbara but everybody says it is more expensive, that is all we have got.

The Hon. CATE FAEHRMANN: Earlier you mentioned that the cost of tunnelling is coming down. Several years ago the Hon. Eric Roozendaal as Treasurer suggested that tunnelling Sydney sandstone cost

approximately \$400 million per kilometre. I am still unclear as to where that estimate has come from, but I have in my possession his advertisement which I can table at a later time. Is \$400 million a fair amount?

Mr NYE: I think that is not a figure I have actually heard. I asked the Chinese and Japanese who seem to be the world leaders what are their costs of tunnelling. They obviously have a different labour market and different things. I was trying to get a benchmark figure for a high-speed rail network and asked the Chinese and Japanese what it would cost for them to build one for Canberra-Sydney, Sydney-Newcastle and they said around \$30 billion, most of that today, the reason they would not be building bridges is because tunnelling is cheaper than bridges.

The Hon. CATE FAEHRMANN: From your experience how does tunnelling compare? We hear that that is why some of the recent New South Wales rail projects were more expensive is because tunnelling in Sydney sandstone is apparently so much more difficult than everywhere else in Australia. Is that accurate? Is there a difference between the costs with tunnelling in some of the Mandurah line about which we constantly hear compared to say, for example, the recent airport line which I do not think was \$400 million per kilometre at all?

Mr NYE: You have got to look at where the cities are. Melbourne is pretty flat. Perth-Mandurah is almost a flat straight line. They did not have a built-up environment there. It was a greenfield site. They built the highway and put the railway track down the middle of the highway so they were able to do that. The challenges in Sydney are that it is hilly and there is population everywhere. Tunnelling, although it might be expensive, is sometimes the only solution in Sydney that you have got left. Another harbour crossing would have to be tunnelled. I do not think you can compare cities to cities.

The Hon. CATE FAEHRMANN: Just in terms of the median and what is being tunnelled through. The essence of the former Treasurer's advertisement was that tunnelling through Sydney sandstone was so much more difficult than anywhere else. Is that correct?

Mr NYE: Yes, that is true.

The Hon. CATE FAEHRMANN: Are you aware of the Ernst and Young benchmarking study? Were you present when people from Ernst and Young were questioned this morning?

Mr WHITING: I was here but we have not seen that report.

The Hon. CATE FAEHRMANN: I asked about the very high corporate overhead costs charged by the Transport Construction Authority compared to the almost minimal or no corporate overheads costs charged by the Roads and Traffic Authority for its road projects. I asked whether Victoria does the same thing with its road versus rail agencies. Are you aware of serious differences in other State agencies road and rail in terms of how much they charge? Is it your view that also impacts on the cost of rail projects in New South Wales?

Mr NYE: It gets back to that allocation of risk overall. We have totally failsafe operations in rail that they do not have in roads. Post Waterfall, every rail jurisdiction around Australia is making sure that we do not have another Waterfall accident. We have measures in place so that the safety risk for rail, if you go on a train you expect to get to the other end safely. We have zero tolerance for any risks at all. I think the other thing to look at is we are not a very mature industry in rail. We have had rail in Australia for 150 years but only private sector involvement for the past 10 years. I think we are going through that challenge of maturing the industry to get more competitive processes in there. When you commission a signalling system in the Pilbara it is just done by the contractor. He guarantees that it will be done to a certain performance. Here we have not only the contractor having to guarantee it but we also have an Independent Transport Safety Regulator who comes back and then checks it again. We have a whole series of different processes in place which just increases the costs.

The Hon. CATE FAEHRMANN: In New South Wales how do transparency of rail projects and how they are costed compare to other States?

Mr WHITING: The biggest issue is the pipeline of orders. I think there has been previous conversations about the absence of a clear long-term plan and the consistently bringing forward of the new projects rather than the flavour of the day so to speak. There is that sort of pipeline of orders process in this sort of environment is the best way to get your overall costs down because people have predictability. They have some level of understanding about how that is going. Again we have got the anecdotal evidence that that

process, that pipeline of orders, is actually delivered better in other jurisdictions. The long-term planning, consistency and the follow through in the planning is more stable, for want of a better word. So, therefore, when tenderers go into a project they have actually got more confidence that they are really bidding on something that is going to happen whereas in this particular market there have been some past sins that give them a whole range of concern around that. So they then start looking at it in terms of "Okay, is this an ideal project?" When you look at what is on the table at the moment, we say there are \$36 billion in rail projects, a lot of that is infrastructure, a lot of it is privately funded, do you want to go for that one, that one, or this one? They start pricing them accordingly to that.

The Hon. CATE FAEHRMANN: At the end of the project are we seeing as much transparency in relation to the final costs and how projects are costed in New South Wales compared to what we are seeing in other States?

Mr WHITING: We have got anecdotal evidence. We have not got the rigour—the people from Ernst and Young probably have the best data there is around on that issue. We have not done anything like that piece of work.

The Hon. CATE FAEHRMANN: Your anecdotal suggests that it is not as transparent?

Mr WHITING: No, it is not transparent. It could be far better.

The Hon. PAUL GREEN: On page 6 of your submission you state that New South Wales clients have a limited track record of letting new entrants into the market and this may have had an impact on value for money. What has been your experience in other jurisdictions? Would you elaborate on that comment?

Mr NYE: The best way to answer that is to look at the new \$3.4-billion rail project being undertaken in Victoria. The project has been split and it now involves a series of alliances between small contractors and groups of contractors have been formed to divide the load to ensure it was not seen as too big. Only a couple of contractors could have bid for a \$3.4-billion project. Splitting it up into smaller packages meant that more people could be involved. They pushed the idea and briefed the market that they wanted groups of contractors to work together. I think there are 12 different companies involved and that ensures a better pool of talent and expertise across the board.

The Hon. CATE FAEHRMANN: What was that project?

Mr NYE: It was the \$3.4-billion rail corridor project in Melbourne.

The Hon. NIALL BLAIR: I refer to the benchmarking project that you said the industry is involved with in Queensland—that is, the Cross River Rail project. Is the Government paying for that benchmarking project? Who is paying for the time and expertise required to do that?

Mr NYE: We are. We are working together and the chief executive officer is allocating time to do that. There are two elements. It is a better way of going out for consultancies and approaching the tender process. No-one is doing any work on national benchmarks for Australia. That should be done across all jurisdictions with Infrastructure Australia. We must know. There is very little difference between the Australian States, so why are projects handled differently?

The Hon. NIALL BLAIR: Given that the Federal Government owns many infrastructure projects, have you asked it to contribute to a national benchmarking system or project?

Mr NYE: We have been in discussions with Infrastructure Australia, which is a Federal Government agency but an independent authority, and working with the contractors to achieve that. I know that Infrastructure Australia is certainly spending money looking at that.

The Hon. NIALL BLAIR: Reference has been made today to the "informed purchaser". I take it from your evidence that an informed purchaser has the expertise in house to provide a detailed scope, which reduces the risk and variability involved in the tendering process. Would you identify any Australian jurisdiction as an informed purchaser?

Mr NYE: Victoria and Queensland do it better than most. Victoria has put a lot of effort into it with its current process and its track record is certainly better than New South Wales's.

The Hon. NIALL BLAIR: You said that, unlike Canada, we are not yet putting grain into containers. How close are we and what are the barriers?

Mr NYE: I visited Canada and found that the grain farmers took charge of their own logistics chain and became involved. I am a farmer, so I can criticise farmers. They still think the Government will provide all of the infrastructure and the solutions. We have not got to that watershed. Some of the very big farmers and grain producers have taken charge of their own infrastructure and their logistics chain, and they are good at it. We are not there yet.

The Hon. NIALL BLAIR: Are we too far gone with the closure of rail lines, and particularly grain lines, to achieve that?

Mr NYE: We should compare the cost of upgrading those lines with repairing the damage caused by b-double grain trucks on country roads. If we did the equation that way, it would be far better to upgrade the rail lines.

Mr WHITING: Road-rail pricing is not within the terms of reference of this Committee, but we believe it is one of the issues that continue to push the high level of funding into roads that we think would be better directed to some rail projects.

The Hon. NIALL BLAIR: The impact and the ongoing costs in that area need to be considered when looking at cost-benefit analyses.

Mr NYE: We would argue that rather than a cost-benefit analysis we should look at a longer-term economic analysis. We would not have built the Sydney Harbour Bridge or the Opera House if we had done a cost-benefit analysis. We have to do a longer-term economic analysis of what is better for the economy.

The Hon. NIALL BLAIR: I refer again to tunnelling, which has been a hot topic today. What figure did the Chinese and the Japanese mention in your discussions? I know they were talking about high-speed rail, but what figure did they present?

Mr NYE: I do not have that figure, but I can provide it. They are building 20,000 kilometres of high-speed rail lines, so they have obviously refined their costs dramatically.

The Hon. NIALL BLAIR: Again, our point is that the median should be the median across the country, whether we are talking about sandy soils in Western Australia that need to be shored up or sandstone here that is harder to get through but does not need shoring up—the median should be the median. If it is reducing, we should look at that.

Mr NYE: We will investigate and provide some figures for overseas projects.

The Hon. PENNY SHARPE: We heard evidence at our last hearing that Sydney sandstone is the best medium to tunnel through. You have said something quite different. Can you explain that?

Mr NYE: My statement is based on information provided to me. I am not an engineer. There is a tunnelling association that should provide that information. I know anecdotally and from overseas experience that tunnelling costs have come down dramatically.

The Hon. JOHN AJAKA: I refer to your comments about splitting up the process. Is there a risk if you split the process that if one of the contractors were to fail it could have a domino effect on others that they cannot control and suddenly everyone's costs increase?

Mr NYE: You would probably have a lead contractor but with the involvement of many others. The expertise in Australia does not rest with one project contractor. The major contractors all have to have project engineers, project managers and design experts. Given the size of Australia and what we are trying to achieve, we cannot afford that number of people.

The Hon. JOHN AJAKA: You said that splitting the process reduces the cost rather than increases it.

Mr NYE: If we were to establish a series of national benchmarks to go through that process we would know if a bid was too high. Under the current process we do not know the right costings and whether we are getting value for money because there is no comparison.

The Hon. JOHN AJAKA: You took a question about tunnelling costs on notice. That is great. Apart from mentioning that tunnelling costs are reducing, do you have any evidence or examples of where we are still being quoted and are still paying tunnelling costs at the "old" rate as opposed to the new and reduced rate?

Mr NYE: No, I cannot.

The Hon. JOHN AJAKA: I understand that you have not had a chance to read the Ernst and Young report. If we provide you with a copy can you examine it and provide any comments or suggestions you may have to the Committee?

Mr NYE: We certainly can.

The Hon. CATE FAEHRMANN: There is not much information in it.

CHAIR: I refer to your comment about the RailCorp interface being complex in New South Wales. What are the barriers?

Mr WHITING: Again, one of the witnesses talked about the turmoil not only within that organisation but also in transport generally. We talked about the prescriptive compliance issues, which add to the costs. They create those interface issues that essentially mean that it is not a clear system. There have been, for want of a better word, "processes" put in place to try to eliminate risk. The only way to eliminate risk in rail is not to move trains. There will be risk, but we must have controls and safety systems to manage it. Trying to eliminate risk simply adds costs.

Mr NYE: In world terms the Waratah train is seen as the Hummer of passenger vehicles. If you were to ask the Japanese—who have not had any deaths over 40 years of operating high-speed trains—whether they do crash worthiness tests, they would say, "No, we design our trains not to crash." We have a different approach to risk allocation: What happens if they do roll over? The technology exists to prevent them rolling over. We need a fresh approach.

CHAIR: Safety is, of course, a very important issue. Would you say New South Wales has a higher standard of safety compared to other jurisdictions?

Mr NYE: Australian rail overall is incredibly safe and we pride ourselves on our safety record. There is no competition between any State or operators about safety. They share information constantly and we are trying to improve our standards all the time. I am a member of the Rail Safety and Standards Board and I can honestly say that if someone has a good idea it is shared instantly across Australia.

CHAIR: Are the New South Wales standards higher than others?

Mr NYE: The industry sets the standards and has established the codes of practice. The Government looks at them, but the industry holds the standards itself.

The Hon. CATE FAEHRMANN: I refer to the P90 rule for allocating risk. The Evans and Peck best practice document and other sources state that tenderers calculate risk using the rule so that they can be 90 per cent sure that the project will come in under the price quoted. Do you think that the practice of the contractor bearing most of the risk has an impact on the final price quoted? Is 90 per cent too much or about right? How much is that impacting on the price of rail projects?

Mr NYE: We will take that question on notice, ask the contractors and come back to you.

The Hon. CATE FAEHRMANN: The Ernst and Young infrastructure cost benchmarking study outlines how alliance contracts in New South Wales are much more expensive in terms of client costs than fixed price contracts. It compares fixed price contracts and alliance contracts for New South Wales and the rest of

Australia. In relation to fixed price contracts, New South Wales delivers lower client costs—10 per cent compared to 16 per cent for the rest of Australia. With regard to alliance contracts, New South Wales was much more expensive. Do you know why alliance contracts in New South Wales involve so much higher client costs?

Mr NYE: I would like to take that question on notice and put it to our contractor groups.

The Hon. CATE FAEHRMANN: That would be great.

Mr NYE: It would be better to have an accurate answer rather than my summation.

CHAIR: Thank very much for appearing before the Committee today. Any questions you have taken on notice and further questions sent to you in the next two days must be answered within 42 days.

(The witnesses withdrew)

MATTHEW ROBERTS, Deputy Secretary, New South Wales Treasury, Level 27, Governor Macquarie Tower, 1 Farrer Place, Sydney, sworn and examined, and

ZIGGI LEJINS, Director, Treasury and Planning Branch, New South Wales Treasury, Level 24, Governor Macquarie Tower, 1 Farrer Place, Sydney, affirmed and examined:

CHAIR: Would you like to make an opening statement before we commence?

Mr ROBERTS: It might be worthwhile. I thank you for the opportunity to appear before the hearing today. Treasury has provided a submission to the hearing. The main points we would like to stress here is that Treasury itself does not do detailed costings for major projects; that is done by the agency particularly. Our role—and we will go through this in the many questions—is basically looking at the assumptions of major projects, work with agencies to test those assumptions to make sure they are rigorous and robust and also apply various frameworks that are written by Treasury. The main thing we do is, firstly, test the robustness of some of the assumptions and, secondly, the application of the main frameworks that we will go through in more detail in terms of our policy documents that we put forward. I will say that unfortunately the span of the submission covers lots of areas in Treasury and many policies and a lot of people could not be here today to obviously talk to those. I am more than happy to take on notice any questions and we will come back with a written response for the Committee in due course.

The Hon. PENNY SHARPE: You mentioned that Treasury provides advice on how projects are stacking up. Do you seek independent advice? Do you go to people outside when testing the submissions of other government agencies in relation to transport specifically?

Mr ROBERTS: It is a fairly dynamic process. Typically our processes are rigorous enough to have the experts as part of them. For example, when there is a gateway process particularly, a six-stage gateway process, that typically will involve over four or five days a fairly rigorous examination of those sorts of things, around scope and scale, which definitely involves the agency because they are the ones involved as well as some peer reviewers and other experts.

The Hon. PENNY SHARPE: And are those peer reviewers chosen by Treasury or by the department or agency that you are working with?

Mr ROBERTS: I am actually not sure of that answer. I will have to come back on that one. I think it depends on the actual project itself. There probably is some collaboration there but I need to come back and confirm that. These are specific questions for our guidelines and that is something on which I need to come back with a technical answer.

The Hon. PENNY SHARPE: Sure. Can you step us through the gateway review process in relation to transport projects? I am not sure that you are able to but if possible can you step us through what is happening in relation to the North West Rail Link, as an example. If you cannot use that example, perhaps use a more generic example of Treasury involvement?

Mr ROBERTS: Again, unfortunately this is not my area of expertise in terms of policy work.

The Hon. PENNY SHARPE: What about you, Mr Lejins?

Mr LEJINS: I could point to the policy, which I think we referred to in our submission and which actually sets out in a fair amount of detail the process, but the actual gateway review process is overseen by another part of Treasury. If you like, we are at the client end; they actually monitor and administer the policy.

The Hon. PENNY SHARPE: Before coming here today did you read the transcript of the last hearing on 21 November about the gateway project?

Mr ROBERTS: No. I can give you an overview of the actual process itself.

The Hon. PENNY SHARPE: Yes, that would be good.

Mr ROBERTS: And I can table this document.

The Hon. PENNY SHARPE: That would be good as well.

Mr ROBERTS: We can table a few documents after the meeting.

The Hon. PENNY SHARPE: Yes.

Mr ROBERTS: At this stage there is generally a six-stage process to most of the gateways, and I am referring to the document here, which is the Gateway Review Toolkit, which may have since been amended by some Treasury documents but this is the essence of what the six stages are. The first one is our strategic review. The strategic review basically assesses whether the proposal is aligned with the Government's objectives, so it is a very high level starting approach, whether it be the North West Rail Link or any other project itself, so whether strategically it fits in with the Government's direction of where it wants to go.

The Hon. PENNY SHARPE: So I understand how this all fits together, the State Government is currently going through the process with Infrastructure New South Wales for the development of a 20-year infrastructure plan. Within that there is then going to be a process of a five-year infrastructure plan?

Mr ROBERTS: Yes.

The Hon. PENNY SHARPE: Overlaid with that there is obviously what is outlined in the material you have given us your rolling 10-year total asset management plan and the State infrastructure strategy [SIS]?

Mr ROBERTS: Yes.

The Hon. PENNY SHARPE: And rolled into that we also have the transport master plan that the Minister has announced, which is another year's process of consultation before a final plan is signed off on. For large transport projects, for example the North West Rail Link project, can you explain where the gateway process operates with that?

Mr ROBERTS: As I said, this is not an area where we will be particularly involved. I can give you a general oversight of how the process works for most projects, but a couple of questions you have asked are around a lot of issues. The first one there is the 20-year SIS and the 10-year current SIS that Treasury does. With the introduction of Infrastructure New South Wales they are, by legislation, required to do a 20-year SIS, which will be a strategic document setting out the Government's strategic aims across all transport modes and then there will be a five-year detailed project based document, which will fit in with the budget process.

The Hon. PENNY SHARPE: For Treasury, it will be at that point in the cycle where there is the allocation of money and the priority of money within the five-year plan that you expect to be mostly involved, is that right?

Mr ROBERTS: Yes. And just to go back to the current arrangements, when I say they are current, they are still being worked out, I should say because Infrastructure New South Wales has been around for a good six months now so we are still working out core processes. The existing State infrastructure strategy, which is a Treasury document, is that 10-year program which essentially is a list of key projects over 10 years across all various economic and social infrastructure within a 10-year funding envelope.

The Hon. PENNY SHARPE: Obviously there has been a change of government so there is a change of focus. When is that next 10-year plan due?

Mr ROBERTS: This is the issue. This is the rollover now to Infrastructure New South Wales.

The Hon. PENNY SHARPE: That 10-year plan is being handed over to Infrastructure New South Wales?

Mr ROBERTS: Not the plan itself, the responsibility for preparing the plan.

The Hon. PENNY SHARPE: So Treasury will no longer be preparing a 10-year State infrastructure—

Mr LEJINS: Can I clarify? The 10-year SIS is a compilation of the total asset management plans of each of the agencies; it was a compilation of those plans. The new framework of Infrastructure New South Wales will be to have a 20-year SIS, which is a strategic document that did not exist before. Agencies will still prepare their 10-year total asset management plans and in a sense they can be compiled but the document that they will now inform will be the five-year plans which were also anticipated in the Infrastructure New South Wales guidelines, which will give a line of sight between the budget processes, the agency plans and a connection with the 20-year strategic plans.

Mr ROBERTS: But these things are still being worked out, that is the thing.

The Hon. PENNY SHARPE: That is what I am trying to understand. I interrupted you. Can you take me through the gateway process?

Mr ROBERTS: The second stage, reading from that document, was the business case review process. The main aim of the business case review is to assess whether project options have been fully explored and assessed. The business case is a reference case to doing nothing compared to doing something and have all the various options been considered as part of the business case review process. The third stage is a pre-tender review process and this is undertaken after a project has been defined and approved, yet before a commitment is made to procure a methodology or a contracting system. The idea is to say: once we have gone through an assessment of options to go forward and before we make a commitment to go forward: "Have we fully analysed all the various parts of the pre-tender?"

The fourth part is a competitive tendering process, which is the tender evaluation process and that confirms that the recommended decision appears appropriate before the contract is entered into essentially, so that confirms the point of all the previous analysis around the various options. Finally, the fifth and sixth is the pre-commissioning and post-implementation phase respectively to look at how it will be delivered going forward. That is the basic architecture, which is outlined in the then Treasury documents. As you know there has been some functions that have gone across to the Department of Finance and Services around procurement and that is a process which we have got at the moment to look at all major projects.

The Hon. PENNY SHARPE: So it will be different again?

Mr ROBERTS: I would say the main essence of the process will stay the same. I do not expect too much change to that, if any.

The Hon. PENNY SHARPE: How long has that gateway process been in place?

Mr LEJINS: I will come back to the year, but I think it is from about 2004. It is a good five or six years.

The Hon. PENNY SHARPE: Obviously the Committee has heard a lot about the issue of cost blowouts in relation to rail projects and other transport projects. Would you like to comment on whether you think there needs to be changes to the gateway process given the difficulties with things coming in on budget?

Mr ROBERTS: I do not really wish to comment. I think that is the current Government policy and I think it has worked effectively to date. So it is the current Government's policy. It is probably something better asked of Transport where they are a lot closer to controlling the costs and the project scope and those sorts of things.

The Hon. PENNY SHARPE: On page 10 of the appendix to your submission you talk about the gateway reviews being short. You say that reviews examine what alternative strategic options have been considered to meet service needs and the social, economic and environmental impacts of the project. When comparing road to rail projects, for example, are there structural issues around the way that we look at rail projects that makes them less attractive to Treasury?

Mr ROBERTS: Treasury basically provides the same framework across all projects whether economic or social infrastructure. The framework and the criteria we use are basically provided across the same projects, the same analysis and the same basis. We have no particular preferences for individual projects. It is just what has the best case put forward as per the guidelines and what presents the best case in terms of an economic

evaluation purely done from an analysis point of view. So the scope and other things are developed by other experts and we just basically provide the same economic frameworks, financial evaluation frameworks, capital cost projects and business cases to assess these things in a very neutral way.

The Hon. PENNY SHARPE: Prior to inviting you here—and we are grateful that you agreed to come before the Committee—Transport presented to us their input into the deliberations of this Committee and this inquiry. Did Treasury sign off on that before it came in? Did Treasury look at it before it came before this Committee?

Mr ROBERTS: What was that, sorry?

The Hon. PENNY SHARPE: We have obviously received a submission from Transport that says it is a whole-of-government submission. I am just seeking to clarify at what point and where Treasury had a look at that submission and who in Treasury signed off on that submission.

Mr ROBERTS: I would have to come back to you on that. A number of people may have looked at the submission.

Mr LEJINS: Just to be clear, we would not sign off on another agency's submission. It would have gone through the Department of Premier and Cabinet.

The Hon. PENNY SHARPE: Can I take you back to Infrastructure NSW and how this is going to fit together. I did not quite understand your answer. The 10-year State Infrastructure Strategies [SIS] that you currently do, are they updated annually or every second year?

Mr ROBERTS: The current SIS, the 10-year SIS, is every two years.

The Hon. PENNY SHARPE: When is that due to run out?

Mr ROBERTS: I would have come back to you on that. The exact date I am not sure.

The Hon. PENNY SHARPE: Is it this year or another year?

Mr ROBERTS: I am not sure. I will come back to you on that one. But the main point is that is the current process. The new process—when I say "new", by legislation Infrastructure NSW have a requirement to do a 20-year strategic State Infrastructure Strategy which is I guess most relevant to the 10-year SIS and then a five-year project based sort of—

The Hon. PENNY SHARPE: As I understand it, basically projects will be prioritised and it will have the infrastructure plan for New South Wales within that?

Mr ROBERTS: Yes. I should say that is consistent with another document that I do not know if we actually tendered but it is relevant to the Committee's discussion. That is the Commonwealth have agreed with all States through the Council of Australian Governments [COAG] what I think is a major capital cities planning framework document which basically prescribes the need to have three types of documents. They are a 20 to 25 year document looking at the strategic reform areas and transport needs and other infrastructure needs of the State, a 10 to 15 year requirement, or around that, some sort of medium document, and a five to 10 year document. What we have picked up is entirely consistent with that approach and that gets assessed by the COAG Reform Council. They have gone through many assessments at the moment. So the approach which we are taking through the State is consistent with the Commonwealth requirements.

The Hon. PENNY SHARPE: In relation to the transport master plan process that the Minister announced last week, what is Treasury's role in that process?

Mr ROBERTS: At this stage that is very new and at this stage there is no process prescribed as yet in terms of formally. I suspect how these things work is there will be some sort of working group to go forward involving key agencies, central agencies and the department and Infrastructure NSW and probably Planning, but at this stage I do not think anything has been announced by the Minister. So that will be subject to Government deciding what those processes are.

The Hon. PENNY SHARPE: Obviously this plan is looking at some big ticket items in terms of costs, things like second harbour crossings and I am sure things like freight and light rail in the central business district and those kinds of things. Are you saying that basically Transport will be able to produce all of these plans but Treasury will not get involved unless it fits into the five-year infrastructure plan?

Mr ROBERTS: No, not at all.

The Hon. PENNY SHARPE: I am interested in at what point Treasury gets involved in the development of these plans and how they get on the list for prioritised funding.

The Hon. JOHN AJAKA: Point of order: Are we talking specifically on the costings and comparing the cost? We are not talking about priorities from the point of view of which is a more important project than another.

The Hon. PENNY SHARPE: No. I am asking how it fits together in terms of costings.

Mr ROBERTS: At this stage it has been literally a week that it has been announced, so there is no process as yet. Mr Lejins and I have both worked on many of these things in the past. The main thing really is the governance around how it is done. That will be a function of what is agreed going forward between the Department of Premier and Cabinet, Treasury, Infrastructure NSW, the Department of Transport and the Department of Planning. There will be a whole-of-government approach to these things, as there always is. That is something to be worked out over the next probably—

The Hon. PENNY SHARPE: So it is not yet clear who is driving that?

Mr ROBERTS: Not yet. The Minister has obviously got some firm views but at this stage I have seen nothing yet. In the next few weeks we will start to see some detail.

The Hon. PENNY SHARPE: You talk in your submission about the guidelines that you prepare in looking at sophisticated rail projects. Would you be able to provide those numbers to the Committee if they are public?

Mr ROBERTS: Yes, absolutely.

The Hon. PENNY SHARPE: We have heard quite a lot of evidence about adopting the P90 versus the P50 approach and the impact that has on costing. Could you talk to us a bit about that?

Mr LEJINS: I think people probably explained to you what P90 means. P90 is an estimate that you are 90 per cent confident, if you like, or the chances are nine in 10 that your estimate will be within your estimate. It is very important for budgeting because you need to make provision for a project within a budget, so generally a P90 estimate will be the one that you use when you are deciding allocations. The one thing I would stress though is an estimate does not necessarily correspond with the cost. An estimate is something that you use for planning purposes to make sure that you have sufficient funds available if necessary to meet the cost, but it does not necessarily mean that you allocate the estimate to a project.

P90 is also quite appropriate in construction projects in which the costs do not have a symmetrical distribution. So rather than there being an equal chance of it being \$20 million below as \$20 million above generally there is a long tail of uncertainty. Again what you are trying to do is to make sure that you are not put in a situation where you do not have sufficient funds available to meet the cost of a project. I think it is something that is pretty well endorsed by most other jurisdictions and most of the literature also supports that approach.

The Hon. CATE FAEHRMANN: Mr Lejins, what is your role in Treasury when it comes to transport projects?

Mr LEJINS: I am the director of the transport and planning branch. My main role is to manage the budget process and support the provision of advice to the Treasurer and to what was formerly the budget committee and is now the expenditure review committee of Cabinet so they can make decisions about allocations of funding.

Mr ROBERTS: Just to give you a quick overview, basically within Treasury there are two deputy secretaries who look after essentially almost all the agencies across government. So I have three directors. Mr Lejins is one of them in the transport space. They are all fairly generic functions around looking at resource allocation, agency relationship, analysis and that sort of stuff. They are very core functions to how Treasury interacts with the agencies.

Mr LEJINS: I might stress though when we are talking about the gateway process we are not actually directly involved in the gateway process. The gateway process is conducted by another part of Treasury and the panels that are assembled to undertake the gateway processes would not include either myself or people from my branch, although we will often be called before the gateway panel and have an opportunity to talk to them and present our concerns.

The Hon. CATE FAEHRMANN: By the gateway process you are saying that, for example, if South West Rail Link cost estimates come before Treasury it goes to the gateway and you do not have input into that?

Mr LEJINS: I think we need to be clear about the process. The gateway process is part of the development of the project; it is not a decision-making process per se. The advice from the gateway process is given to the organisation that is promoting the project but the actual compliance with the procurement policy is a condition to proceed through to consideration for funding and to continue to get authorisation for the process from the expenditure review committee or formerly the budget committee.

The Hon. CATE FAEHRMANN: You provide advice back to the agencies so—

Mr LEJINS: The gateway process provides advice back to the agency; not me.

The Hon. CATE FAEHRMANN: Some people have suggested that Treasury's role on rail projects has been often to suggest that prices should be increased and, for example, provide advice that the South West Rail Link possibly has been costed too low. Does the transport agency, for example, have to accept Treasury's advice for that to go ahead? Is that a blockage if they do not accept your advice to perhaps add more costings on to, for example, the South West Rail Link project?

Mr LEJINS: I think there are multiple layers in that question. Can you restate it?

The Hon. CATE FAEHRMANN: We will use the South West Rail Link as an example. When Treasury received the first cost estimate from the relevant transport agency what role did Treasury play in that cost estimate and did they suggest that the cost should be increased?

Mr ROBERTS: Could I just answer that myself?

The Hon. CATE FAEHRMANN: I am asking Mr Lejins because I am trying to get to what his role in it was.

Mr ROBERTS: I would just like to provide some context first. Basically there are many intergovernmental groups set up when these sorts of projects are formed. For example, for any given project there may be two or three working groups that will work on it over many months and many years. It is not as if something will come into Treasury and we will say that is right or wrong. Over months and months we will be testing assumptions, working very closely with Transport and working very closely with Infrastructure NSW so that we all come to a common understanding around what the right assumptions are for particular parts of the project. That is how it works in practice. There are lots of discussions over many months where we look at patronage which is informed by the department, informed by costs and we have discussions until we come to a common understanding which is a basis for going forward with the project.

The Hon. CATE FAEHRMANN: You just mentioned patronage informed mainly by the department; do you get independent advice on patronage or do you go by rail and road forecasts? Mr Lejins probably knows that detail as he is an expert.

Mr LEJINS: Do you want me to answer the question you asked before?

The Hon. CATE FAEHRMANN: I thought it was semi avoided. If you would like to answer the question I asked before, Mr Lejins, that would be good.

Mr LEJINS: I am reflecting back on something that happened several years ago. There is always an ongoing engagement about the costs of the project and there are significant variables. I cannot ever recollect my judgement or my review of something supplanting the agency's. It is a process of understanding the advice they are giving. The advice they are giving—this is generic—will form part of the funding ask, whether that is in the context of a total program or of an individual project. That advice is provided, at that stage, to the budget committee of Cabinet but at no stage can I ever recollect changing somebody's cost estimate and supplanting my judgement. That is not the approach. The approach is to talk to the agency, to understand what they are doing, to understand the components of their thinking, sometimes to challenge them, sometimes to test them on the basis of reasonableness or common sense but certainly not from a technical perspective. Ultimately it is the agency's advice that forms the substance of the submission to the budget committee or whatever process is considering the cost of the project.

There is a second question about patronage?

The Hon. CATE FAEHRMANN: Do you get independent modelling on transport patronage forecast or do you rely on the estimates given to you by road and rail? I think you referred to other experts.

Mr ROBERTS: A cost estimate for any rail line would be a year of work and that would involve patronage and cost estimates. The agency will have many experienced and excellent people working with consultants from time to time to develop forecasts and estimates. We will look at and work with the agency to see if we are comfortable with the assumptions. Ultimately it is up to the agency that has the experts in this area to do the work around transport. You may have asked the question to the Department of Transport and I am sure they would have said in the past they have used various consultants from time to time as well as their own in-house expertise.

Mr LEJINS: I cannot recollect ever commissioning our own patronage study: that would not be what we do.

The Hon. CATE FAEHRMANN: Another example is Dulwich Hill light rail. I am trying to think where some of the recent cost escalations occurred and the reasons behind some of the recent cost escalations. Before the recent State election Dulwich Hill light rail was costed at \$120 million and the associated green way was costed at \$30 million but recently the Department of Transport has costed it at \$176 million and the green way at \$37 million. What role did Treasury play in that cost escalation?

Mr LEJINS: The short answer is none. The long answer is none. I have not been directly involved in that process.

The Hon. CATE FAEHRMANN: Mr Roberts?

Mr ROBERTS: Not that I am aware of. I am happy to come back.

The Hon. PENNY SHARPE: Will you take that on notice?

Mr ROBERTS: Yes.

The Hon. PAUL GREEN: Earlier you talked about contingencies and you used an example of \$20 million in terms of the P90. In terms of the understanding of that contingency, if nothing goes wrong the tenderer would pocket that \$20 million?

Mr LEJINS: The explanation I gave before is the P90 is an estimate of the cost of the project. That does not mean that is the contracted cost. It is the cost you use during the planning processes to ensure that you have allocated sufficient funding to be able to deliver the project and you do not leave your budget at risk if there is a major cost overrun. When you procure the project you do not put up a sign saying this is the estimate and if you equal the estimate or do better you get the contract. The procurement should go through a separate independent contestable process. Whether that process reveals what you thought was the estimate as right or wrong or whether it is consistent is ultimately a matter for that market test. The risk is if you go with a P50, which is an average cost estimate, and you go to the market you may get a contract price higher than the P50.

The other thing to emphasise is that it is not just the contracted cost which can drive change in the project during its course; there are changes in scope; there might be some of the risks not assumed by the contractor; and there might be changes to planning conditions and other sorts of things. The bottom line is the estimate does not equal the contracted price for delivery of the project. It might be a benchmark to see whether you are getting a fair response from the industry but it does not necessarily follow that because you made a particular estimate that is what the project will cost.

The Hon. PAUL GREEN: When you put out a tender document do you tell them the value of P?

Mr LEJINS: I do not put out a tender document: that would be the agency that is procuring. That would be the kind of information held by the agency and should not be communicated to prospective tenderers. To do that might create a self fulfilling position. Even that is not assured because if you have a competitive market each of the people, if they are keen for the job, are going to take their own view as to what they think they can deliver it for and your opinion as to what it may or may not cost is not going to be relevant.

Mr ROBERTS: I am happy to come back with more of an explanation.

The Hon. PAUL GREEN: You talked about testing assumptions; how do you test that the assumptions are correct? For instance, we see different projects go under well and big and huge when they do go under but where would you say that the crack in the assumptions might be if a project is running hundreds of millions of dollars over budget.

Mr ROBERTS: I want to stress that Treasury is not an expert in costing, we assist with the process.

The Hon. PAUL GREEN: You did say you test assumptions.

Mr ROBERTS: To have some idea there will be studies done around land use and demand. All these things drive and shape the way in which the project cost will be influenced. Treasury will say what has been assumed around demand and as per Treasury's economic guidelines we will do sensitivity testing around the assumptions at 4-10 per cent to get a feel for what the impact on cost will be if some of the assumptions did change. We would flag that back to those doing the costing and say: Have you considered these factors? The information comes from detailed examination of costs and demands from the agency and we will provide testing around the assumptions to see what flex is there and changes in the cost.

Mr LEJINS: What we are looking to do is to test the strategic assumptions. There is no way I would know how many square metres of excavation are required or how much concrete, steel or man hours go into building something. The questions we are more likely to ask are what is the long term view of construction cost inflation and what is the scope of the project that is defined? This is detailed in the gateway process and in the economic valuations. What are the risks attached to this project and how are those risks being mitigated? We are well behind the coal face asking what we hope are sensible strategic questions and trying as far as possible not to extend our expertise into areas where we have none, like the mechanics of engineering and construction.

The Hon. PAUL GREEN: Prevention is better than cure and it seems when these things blowout they blowout big time. One would assume that getting the foundation of the assumptions right the blowout should not be as big as we see them. That is my point.

The Hon. CATE FAEHRMANN: When you are looking at these projects that come your way what benefits do you put on to rail? If you are looking at benefit cost analysis how do you work out the benefits that rail provides?

Mr ROBERTS: Treasury will not say these are the benefits and this is how you do it. We have economic appraisal guidelines and there is a whole set of guidelines we would like to go through because that gives us comfort in the rigor of the project. The guidelines will say, for example, benefits generic to any major rail or road project will be travel time savings, avoided costs, and other things inside our guidelines. I am happy to send the guidelines to you because they will give you insight into the benefits and costing we are looking for. From Treasury's point of view it is the articulation of the frameworks and testing the assumptions to make sure they are robust.

The Hon. CATE FAEHRMANN: At the last hearing we were told that there is a big difference between the Victorian gateway process and the New South Wales Government gateway process—Treasury's gateway process—are you aware of how the Victorian treasury department conduct their gateway review process?

Mr ROBERTS: Unfortunately I am not. If you want an answer I am happy to take it on notice.

The Hon. CATE FAEHRMANN: We heard at the previous hearing from Paul Forward, former head of the Roads and Traffic Authority, that the gateway review process in New South Wales is not seen in the same constructive light as the review process in Victoria. Have you heard that the New South Wales gateway review process may not be as constructive as it should be: Is that a criticism you have heard before?

Mr ROBERTS: Personally I have not. I want to reinforce that the gateway policy sits in another area of Treasury. I am happy to go back and feed it back to my counterparts for comment.

The Hon. PENNY SHARPE: I appreciate your willingness to take this on. It featured in our last hearing and I ask whoever is responsible for the gateway project to look at the transcript from 21 November and respond to some of the criticisms within that. It goes to the questions Ms Faehrmann is asking about. Are you happy to do that?

Mr ROBERTS: If that is what you are requesting I am happy to take it back.

The Hon. CATE FAEHRMANN: We have discussed the costs of tunnelling in Sydney. The costs of tunnelling have been reported as higher here than in other places. In the Sydney Morning Herald on 29 September 2009 there was an advertisement headed "A Better Deal for New South Wales Families", and it was placed by the Hon. Eric Roozendaal. Mr Lejins, were you in Treasury in September 2009?

Mr LEJINS: Yes I was.

The Hon. CATE FAEHRMANN: It says that due to the geographical and population spread of Sydney tunnelling is one of the only options to improve transport and rail links and that the cost of tunnelling through Sydney sandstone is \$400 million per kilometre. Who provided that advice to the Treasurer at the time?

Mr ROBERTS: I will see if I can find out and if it is not Treasurer-in-confidence there may be a reference—I do not know. I will have to come back to you.

The Hon. CATE FAEHRMANN: This was an advertisement placed by the Treasurer at the time. We have not been able to get to the bottom of the \$400 million figure.

Mr ROBERTS: I am not aware of the source. I do not know whether the article says there is a source. That would be handy. If not—

The Hon. CATE FAEHRMANN: No, the source is the Treasurer.

Mr ROBERTS: Okay.

CHAIR: Are there any questions from the Government side? There being no other questions we will conclude. You will need to respond to any questions that you have taken on notice within 42 days. There may also be additional questions from Committee members, which will be sent to you in the next two days.

The Hon. JOHN AJAKA: For clarity, the secretariat might forward to the witnesses those parts of the transcript that gave rise to the questions by the Hon. Penny Sharpe and the Hon. Cate Faehrmann so they know specifically which parts of the transcript they are being asked to look at rather than try to go through the entire day's transcript.

CHAIR: That is fine. Are there any documents that you referred to that you want incorporated or tabled?

Mr ROBERTS: I think we raised capital business case guidelines, economic appraisal principles and guidelines for procurement policy. They are all publicly available so I am happy to share those with the Committee.

The Hon. CATE FAEHRMANN: There was another document relating to the gateways.

Mr LEJINS: There are the gateway guidelines.

Mr ROBERTS: We will package up the main documents. They are publicly available.

CHAIR: Thank you for appearing.

(The witnesses withdrew)

(Luncheon adjournment)

MARCO PETER MARTINOVICH, Executive Director, Infrastructure Planning and Land Services, Public Transport Authority of Western Australia, sworn and examined, via teleconference:

CHAIR: I welcome everyone to the second public hearing of the General Purpose Standing Committee No. 3 inquiry into rail infrastructure project costings. Mr Martinovich, thank you for taking the time to speak to the Committee and assist us with our inquiry. To set the scene for you, this hearing is being held in the Macquarie Room in Parliament House, New South Wales. There are about 15 people in the audience including members of the media. The Committee comprises seven members of the Legislative Council.

Mr MARTINOVICH: I have one of my managers here for the experience. His name is Rod Cousins. He will be an observer.

CHAIR: Hansard also is present and recording proceedings for a transcript, which will be sent to you for correction. Because you are not providing evidence to the Committee within New South Wales you are not formally covered by parliamentary privilege. Whilst I am sure that you will not make any adverse reflections about others I request that you focus on issues raised by the terms of reference and avoid naming individuals.

Mr MARTINOVICH: That is my full intention. I am concerned that I basically have no protection at all as an employee of the Western Australian Government Railways Commission or anything like that. Advice has been given to me to the effect, "Why would you want to risk your superannuation?" I am fully aware of the implications but when Committee members ask me questions I ask them not to put me in a situation where I could even be tempted to make those sorts of comparisons with others.

CHAIR: We will ensure we do not do that.

Mr MARTINOVICH: I made my submission as a private citizen so that I could not cast any risk or aspersion on my organisation.

CHAIR: That is fine. Would you like to make a brief opening statement before we ask you questions?

Mr MARTINOVICH: I say somewhere in the submission I made that every major rail project is a prototype and has to be considered on its merits. One of the things I have been careful about in many presentations I have made about various railways is to say that the railway experience we have in Perth is peculiar to Perth and has to be seen in that light. In considering whether a railway should be built or not I have seen too many comparisons made with overseas examples where the conditions are sufficiently different so as not to apply to Perth. Anything I say is in relation to the experience of planning and building railways in Perth and is not to be seen as a comparative with anything else.

CHAIR: Thank you. We will start with questions from the Hon. Penny Sharpe.

The Hon. PENNY SHARPE: Could you outline the approach taken in Western Australia to rail project infrastructure costing and, if possible, comment on how it differs from the way it is done in New South Wales?

Mr MARTINOVICH: I will comment on how it has been done in Western Australia and other people can make the comparisons with New South Wales. My rail service is about 47 years and since about 1989 I have been heavily involved in the planning of rail projects. I was the planning engineer for the original master plan to extend the railway from Perth to Joondalup. That master plan is basically a development of, I suppose, military thinking that was first applied in Western Australia for the standard gauge project throughout the 1960s. In 1997 I was asked to form a group to produce a master plan to build a railway from Perth to Mandurah, after having been involved in planning since 1989.

I had nobody and I had nothing, so I had to think about this. In the end I came up with a procedure, which basically asked: What is the demand here? What are we trying to do? I appointed a land use planner, one of the best I could find, and a demand modeller. They looked at all the information about land use and settlement in Perth over the coming period. From that we had a pretty accurate understanding of what future demand would be. We had already chosen a route through preliminary analysis and even station locations.

Once we found out what the demand was we asked what sort of services we needed to satisfy this demand. We also decided that it would be what is called a heavy rail system. From that came various things such as infrastructure for the trains. We were able in the final analysis to develop a timetable and from that timetable came the number of trains, and from that came things such as the stabling facilities for trains, maintenance and all that sort of business. The demand and the station locations also gave us a very good picture of what the stations were. What was the function of each station? What was the patronage and how was that patronage going to be delivered to people who walked to the station and through park and ride, kiss and ride, and bus. That started to form a picture of the size of the station. That applied to every station.

Now we were starting to get an idea about the rolling stock we needed. We had information about what we needed to service that rolling stock and we were sizing our stations. The railway engineering aspects were fairly straightforward; I am talking about the civil, electrical and communications aspects. We got involved in a very protracted and deep community relationship to the extent that it was my ambition that the stakeholders along the route owned the railway. They were most concerned with the stations and their communities. There was a lot of consultation and from that came concept design. Then we decided those concept designs had to eliminate as much risk as possible and have a cost.

Then we started looking at cost. The cost was based on a very high definition of scope, understanding exactly what had to be built and then costing it. We also tailored that to what we thought was tenable. For example, the last major railway project we built was finished in 1993 and was only about \$200 million in the money of that day. We were now looking at something above \$1 billion that would just about double the size of the rolling stock. We had to be realistic about bringing the people and the Government along with us, and we finished up with a cost. That cost was arrived at by understanding to the greatest possible extent exactly what was going to be built.

Somebody asked me about this the other day and I said the best railway project to cost is the one you have just built. You do not need to know the cost but you know everything that has gone into it. Then it becomes a cost estimator's dream because you can say, "This was exactly what was built, tell me how much it should have cost me." We should get as close as we can in our planning of a railway to the point where we can ask ourselves: If the project were finished, would what I have come up with be the thing we have finished up with? I think that is probably the hallmark of our project.

I remember the Director General of Transport used to refer to me, and I am using the language as an exact quotation, "That expensive bastard". The reason why he said that is because I just kept coming for more and more money and when he wanted to know why I was able to give him the reasons why. The reasons were that I think you also can get an analogy but at the end of the day Phillip Creek is something you should try to take out at the start of a project and it is too late to address that during the project. I have been a pilot for something like 38 years now. The other night me and a highly experienced man flew a light aircraft down the coast to Busselton. My aircraft we were testing it to have it endorsed for a night certificate and there were thunderstorms along the route. What was interesting about that flight, and every flight a pilot should do and every pilot is a professional pilot when their life is on the line, is most of the time goes into planning the flight. Then you absolutely make sure that when you fly you fly that plan and you do not start becoming creative.

As much as practical I see that as a perfect analogy for major infrastructure projects. You should not be anywhere during the project when things start to surprise you. If that means you have got to do more geotechnical investigation, if that means you have got to do more risk analysis then that is what you must do. However much that is going to cost you must do it because things like using insurance as a factor to mitigate risk is probably an incorrect use of insurance and it should not be done. I think what came out of the costing that we did in Perth—and I was the manager for the principal controlled insurance for the project—we were able to get very good insurance terms for even tunnelling a railway through Perth which was something unknown in soft-soil conditions. Recently when we went to tender, with a public cost of \$607 million in our term dollars for a project to sink a railway and a bus way, the cost of tender price that came in for the railway works was not 90 per cent of what was estimated, it was more up around the 99 per cent.

I think one of the reasons why that tender price came in so close was an appreciation by the contractor of the amount of work that had been done in preparing the final cost estimate which was a very highly defined scope of work, and I take great satisfaction that I think we have been given that respect.

The Hon. PENNY SHARPE: You state in your submission about project management and all the work that went into the plan. Are you able to give this committee an idea of how much of that was done in-house within the department and what aspects of it you outsourced?

Mr MARTINOVICH: The approach that I took, and I was in a situation where I had basically made it clear that if I was going to be associated with a railway there was a certain way it had to be done—I will not go into the details of that but that was accepted. My approach was to establish a team of core expertise in every one of the major discipline elements that were associated with the project. There was a specialist rolling stock manager, a special person to do the railway earth planning—

The Hon. PENNY SHARPE: I interrupt you—

Mr MARTINOVICH: There was a special architectural manager. So all the expertise that I could get in key areas formed a project group and they worked for me.

The Hon. PENNY SHARPE: Were they in-house or did you bring in people from outside?

Mr MARTINOVICH: They were people from outside. In fact, one of the people in the old railway organisation just before leaving and going to Victoria told me that he was going to Victoria. I said, "Why are you doing that?" He said, "I realise that if I work in Western Australia I won't get a job on your project so I think if I go to Victoria I will have a much better chance of working on the project." I looked around in the private sector and wherever else I could and got the people whose expertise I needed. Those people then worked for me and they were given contracts of tenure. We had our own site office established and they went off and, as was necessary, engaged private consultants and in some case contractors. When we start looking at the railway through Perth the actual cutting, we had a very big involvement with a major tunnelling contractor to make sure that we had a peer review and what we were saying aligned with what was going on in the industry.

Basically the people worked for me and they were part of my team. I have had an aversion to giving large slabs of work out to private consultancies. I would rather that we gave the direction as to what was needed and that we managed the delivery of the outcome. I am not saying we had to know everything about geotechnical work because I did not, but I certainly made sure that I had a man who was the best that I could get in Western Australia for that role, just to quote one example,

The Hon. PENNY SHARPE: You have outlined that some of the tasks were outsourced but you also state in your submission that you believe there are critical responsibilities that should be retained by government. Will you outline those to us?

Mr MARTINOVICH: Ultimately the Public Transport Authority is accredited as an owner and an operator of railways under Rail Safety Regulations and the Rail Safety Act and there is nothing that we can do actually pass that responsibility off to somebody else. The key example, I suppose, was one of our design contracts was the design of a railway in the middle of a freeway. The contract documentation as far as I know had all the references to AS4292, or it should have done anyway. When I went up to the contractor and said, "What are doing about a rail safety plan?" He said, "No, you have given me a corridor to work in and as far as I am concerned the validation of the safety of that plan is your responsibility." We were introducing a railway, I think it is about 18 kilometres of which is in the middle of the Kwinana Freeway. I had to go off and personally manage and deliver a safety validation report which had to be accepted by the Office of Rail Safety before the railway could be commissioned.

It was a very unique example. It has been done in a few places I think in the world and certainly it was a decision taken in Perth that if you looked at a traditional railway operator, or a traditional road operator, they may have said, "Don't do it." From what I saw the private sector was very happy to do the design work but the safety implications and the preparation of the Safety Validation Report was mine. The other thing that I think we have to be mindful is that there was pool of thought around years ago, and I hope it decreased, that basically railways are just not an infrastructure project and everybody builds infrastructure projects anywhere so why should railways be different. Where we found that they are different is the integration of the systems that make the railway work—all the signalling control, the communication control, the electrical paraphernalia, all those things have to fit into a civil infrastructure and that is where the problem is.

I think, and experience is that wherever rail projects go over budget that is an area to start looking at. It certainly was in places such as the Channel Tunnel and examples such as that. There seems to be a decreasing

number of people who appreciate that sort of complexity and in that case the risk is the unknown. The risk is that people who do not have that appreciation. It certainly helped us in Western Australia to have people who were intimately involved in railway operation across the board, not just in civil engineering but electrical that could actually tie the whole thing together and when necessary I went out and got a peer review of what we were doing or the organisation did once we start doing it to make sure that we had our bases covered because ultimately we were going to be left holding the baby once the thing was commissioned.

The Hon. CATE FAEHRMANN: When did the Government announce how much the project was going to cost? In the Perth to Mandurah example when the Government first announced the project did it say how much it was going to cost?

Mr MARTINOVICH: As far as I know, and I am just going back from memory now, the decision to build the railway from Perth Mandurah was taken by the Court Liberal Coalition Government. I think it was in about October 2000-01 and to my best recollection it was a cost of \$1.242 million, in dollars of the day, or somewhere around that. I think that was public knowledge because we produced a master plan. As far as I know it is public information.

The Hon. CATE FAEHRMANN: The department did a lot of internal work for the process you just outlined in terms of getting to that master plan before the Government went public with it?

Mr MARTINOVICH: Yes, I remember a couple of times during our project when another government agency came in and told us that it believed we were going to be closed down. Our master plan, and I think you raise a good point there, had to do a number of things. Previously master plans as I saw them had been very technical and cost implicated documents. Our document had to be a persuasive case as well to actually have the Government build it. I remember that at one of my first meetings with the then Premier we told him about where we had been and what we had done. It was his introduction to the project in December 1998. He said, "This is great; this is fantastic. I think this can be really good for the Government. Who else knows about this?" He was stunned when I said "everybody". It was lucky that it was the end of the year and everybody was a bit tired. By the time he got back from his holidays at Rottneest he was enthusiastic. That is a good indication of how we went.

We had to convince people that there should be a railway. One of the major reasons it was built was that there was a very high stakeholder involvement in the project. There was a couple of local authorities, and one in particular, that wanted things done their way, but that did not happen. There was a unity of purpose and ideas across the stakeholder range that the Government seriously took into account. Even when we do a master plan, we establish steering committees and try to involve the chief executive officers of the major government agencies to ensure there is a cross-government buy-in. Local government representatives are invited along to ensure that there is buy-in across government about what is being done and that there is a unity of purpose. Those people help to facilitate the resolution of issues as they arise both in our planning and during construction.

The Hon. CATE FAEHRMANN: You mentioned that as the project went along you eliminated risk.

Mr MARTINOVICH: Yes.

The Hon. CATE FAEHRMANN: The Committee has heard about the P90 method used by some agencies. Can you explain how risk was allocated on the Mandurah project and what you did to eliminate it throughout the project? What is your opinion of the P90 method?

Mr MARTINOVICH: I will not comment on the P90 method for the reasons I outlined at the outset and I will not use comparatives.

The Hon. CATE FAEHRMANN: Okay.

Mr MARTINOVICH: If I had parliamentary privilege I could be a little more expansive. However, I will provide an example. I was in charge of a master plan to sink the Fremantle line through Perth. In that case we had two bore tunnels of two diameters below the surface of the ground. We had to sink a railway to sit on top of them. If we simply excavated across the top of the tunnels, they would have popped out of the ground and we would have destroyed the Perth-Mandurah railway. The tunnels are in subsoil conditions and completely below the watertable. The weight of the soil and water around them keeps them stable. That was probably the biggest risk on the project. The cost all up was about \$300 million, but that is in dollar values of the time.

We spent a very large amount of time and effort examining how we could actually build that railway and how to safely excavate and build something on top of it while ensuring that that vital service kept operating throughout the day. People went to Singapore and London and we gathered all the data we could on that type of operation. We did not find many precedents—I think it was fewer than five. People sat down with that expertise and with external consultants to determine what to do. We told the Government that it was a big risk but that we thought we had it covered and that it was safe to go ahead and do it within the cost estimate.

As I said, the best cost estimate you can do is to imagine something that has just been built and to tell someone to cost it. You might say that that is a ridiculous example because it would be easy to do because you know exactly what has to be done. That is what we tried to do in this case. As I said, you have to be very careful that you know exactly what is going to be built—as far as is humanly possible. Whatever effort it takes, you must do it. That was one example of where you do not start doing that sort of work until you are absolutely sure of the outcome. If you are not, you put the entire community at risk and you could paralyse 60 per cent of the daily users of the Perth rail system.

The idea was not to come up with a cost that was based on probabilities; it was a cost based on what we had to do to overcome the risk, and this is the type of infrastructure that is needed to do that. We could then give that to the quantity estimators to cost. I think P90 is trying to give certainty of costing. Because we did that Perth work for the Commonwealth it had to be convinced that although we did not use the P90 method our costings were reliable. I engaged a private consultant with broad experience in Australian national railways project management. He said that although we did not use the P90 method we achieved the results that it demands. That is as much certainty in costing as possible and it was vindicated when the tenders came in.

My concern is what can happen if work has been costed on a scope that is not properly defined. If you take the ridiculous scenario where no-one knows anything about anything, especially the client, every time you do a risk analysis you are not sure what will happen so you allow a contingency. Then you probably start adding contingencies to contingencies. The only way you can guarantee to your patron—be that the Government or whoever—that they are going to get a cost that will not be exceeded is to give them a very high initial cost and ask whether they are prepared to wear that. My concern is that if that cost gets out into the general community and is accepted as realistic then it becomes the baseline for the tendering process.

The Hon. PAUL GREEN: What role should project cost-benefit analyses play in determining whether a project should go ahead?

Mr MARTINOVICH: I worked for Australian Railway Research and Development in Melbourne 30 years ago—I am an old man. Cost-benefit ratios are what you want to make of them. I was at a conference in Sydney a couple of years ago representing the chief executive officer and one of the issues was the justifiable cost for rail commuters in Sydney. I think the answer was 30 per cent of the operating cost because 70 per cent of the benefits were derived by other than rail users. The rail system was freeing up 35 freeway lanes for the morning traffic. The major beneficiaries in Perth are those making commercial trips and those who can use the freed-up road space.

It is a case of being able to understand all the implications of what you are doing and then quantifying them in a convincing way. That sometimes requires imagination, and I am not saying that in a spurious way. You really have to think outside the box. I was involved in costing a project many years ago. If we took a 7 per cent annual depreciation or discount, which in my day was the long-term value of money, once you reached 20 years the residual value was zero. So you had no value in your asset. What you do not cost is the value of the right of way. If you discount the cost of the highway between Penrith and Sydney—the Great Western Highway—and the freeway that has been built out there, the residual value of the actual asset is one thing. The residual value of the right of way and amenity for daily users does not reduce over time; in fact, its value increases over time. The value of many rail corridors is increasing daily.

Cost-benefit analyses must be done very carefully by broad-minded people who are prepared to think outside the box. One of my roles in Western Australia is not to have people think that a heavy railway is a solution to every maiden's prayer. In fact, we have gone against policies announced during election campaigns about railways being built. Our advice, developed prudently using government processes, is that perhaps a railway should not be considered in that context.

The Hon. PAUL GREEN: What is the life of the railway you have built—50 years, 10 years?

Mr MARTINOVICH: I do not know.

The Hon. PAUL GREEN: If you build a road you might give it 10 or 15 years.

Mr MARTINOVICH: I do not have those figures at my fingertips.

The Hon. PAUL GREEN: Has patronage increased according to your predictions?

Mr MARTINOVICH: We predicted that the railway would carry 24,000 passengers in 2006. The latest figure, which is for March 2011, is 44 per cent above the predicted patronage.

The Hon. PAUL GREEN: If you had your time again, what would you do differently?

Mr MARTINOVICH: I would probably ask for a bit more money. Project management was very important. I was the deputy project director and Gary Willox was the project director. He put 10 per cent of everyone's budget in his bank and he would release it only if there was a good reason to do so. As a result, people had to work hard to maintain the master plan. The final letters that went out announcing the opening of the railway said that the project had been done in accordance with the supplementary master plan and so on. What we found in a couple of cases was that people got nervous and they could see costs going over their allocated budget so they reduced the scope of the original works.

What we found is that that did not reduce the cost at all because the contractors found another way of getting that money anyway, so one thing I would do is I would not start cutting back on the scope of works—and these were not in any great sort of areas but they were in some areas. I would make sure that we were able to build a robust case to sort of keep the nerve and say, "Look, we will go with the risk of an overspend. We think it might be this much. Government, can we have this additional money?" Because I think in the final analysis between what Richard Court allocated for the railways, and it was not just the railway for Mandurah; it was also an extension of the northern suburbs and other works. I think the annual rate of escalation of the project out to the current dollar values is about 6 per cent. That is all it was.

CHAIR: We will now hear questions from the Deputy Chair.

The Hon. NIALL BLAIR: Peter, I was just curious. You mention at the start you having to establish your team of people.

Mr MARTINOVICH: Yes.

The Hon. NIALL BLAIR: Did you have to justify the setting up of this department and, if so, did you do a comparison of the cost involved in setting up this expertise and getting these people on board in house versus putting the actual works and scoping works out to the market?

Mr MARTINOVICH: To be blunt, it was a case of my way or the high way and I had already taken the high way and then I was asked to come back to establish a team. That was the genesis of it. What I did is I looked at projects such as the Darling Harbour tunnel and other works that had been done around Australia and I got people who had been involved, and one person who had been involved from the Darling Harbour tunnel and I had the Commissioner for Main Roads from Western Australia and I had this audience of people. I was going to have something like a workshop and I was going to outline what we were going to do with our master plan. This stuff was pretty simple and so I gave my spiel and one of the leading bureaucrats in the audience said, "Well, I don't think we should do this. I think we should give this all to the private sector and let the private sector take care of this for us"—we are talking 1997 I think, early 1998; I am not quite sure when but I think it was 1997—"That's what we should do".

Also sitting in the audience was the Minister for Transport, Mr Eric Charlton. This guy said, "We should put this out to the private sector" and sat down. I thought: this has been a great day in my career; I really have to think about what I will be doing next with my life. I did not know what to do. Then a man got up and said, "Look, I think you really have no choice but you have to go out and you have to articulate what it is that is required for the citizens of WA. We can't do that in the private sector and depending on which part of the private sector"—and we were talking about consortia at that time, about banks, a bank might team up with a

development group or something like that—he said, "We don't know that and if you do engage a consortia then don't be surprised if your final outcome reflects a benefit to that consortia".

I know the man's name and it was a very powerful organisation he represented and it was one of the leading Australian development groups that had worked both in Australia and overseas and it is still very active. He said, "Your job is to do the best master plan you can on behalf of government, if you like, and then give it to us in the private sector to actually deliver it." That is an accurate representation of the process that I certainly went through.

The Hon. JOHN AJAKA: Peter, John Ajaka, how are you?

Mr MARTINOVICH: I'm good, thanks, John. The thunderstorm has passed here so I feel safe now speaking on the phone.

The Hon. JOHN AJAKA: Good on you. In your opening statement, if I could summarise it, you indicated that every project should be based on its own circumstances and that one really should not compare, for example, your project in Perth to, say, a project to be undertaken in Sydney?

Mr MARTINOVICH: Yes.

The Hon. JOHN AJAKA: Because there can be such varying topography, different values of land, whether the land is being reserved or being acquired, tunnelling or no tunnelling, greenfield or brownfield, do I take it that to try to compare one to another is to compare apples to oranges?

Mr MARTINOVICH: It can be and the reason why I say that is the only reason I could go to the Government with any sort of confidence in the costing is because we have been through all the risk analysis and we had done all the definition of the scope.

The Hon. JOHN AJAKA: I understand that. If I can stop you there, Peter—and I appreciate what you said earlier—what I am trying to get at is this: it is more the methodology that you use that is important, the pre-planning if I can call it that, as well as bringing in some in house, but to simply compare, for example, that in your line it may cost \$X million per kilometre whereas in a Sydney line it could cost twice or three times that per kilometre is not really an appropriate comparison to make?

Mr MARTINOVICH: Unless you consider a whole lot of other factors you are absolutely correct, you are spot on. I think I made it clear in my submission it is the methodology, it is how you go about defining what has to be done and examining in great detail why and how things are going to be done and at what cost; that is the area where I think we really need to concentrate.

The Hon. JOHN AJAKA: Just a final part of the question: it may well be that if, for example, Western Australia and New South Wales followed the exact identical methodology, you may still in Western Australia end up with \$1 million per kilometre and we in New South Wales could end up with \$3 million per kilometre because of the other varying changes in the circumstances?

Mr MARTINOVICH: Let me make myself quite clear on this: To me the ultimate price is not the important factor. The ultimate factor is how did you get that price and to what certainty do I know that in getting that price you really understand what the demand factors are, what needs to be done, how it will be done, and how it will be done with the minimum amount of risk and how much work have you really done? I remember talking to one of the prospective contractors under the old Court Coalition Government who looked at me and said—and this was at a time of design and construct and all this other business that was going on—"Gentlemen, more information not less". He was asking for as much information as we could possibly give him about what had to be built, and I think that is the crux of the matter; how much do we really understand what we have to do and how much work have we done to make sure that we can back that up?

The Hon. JOHN AJAKA: Thank you, Peter, I appreciate that.

CHAIR: Are there any other question? As there are no other questions from Committee members, I thank you very much for participating in the hearing. If there are any additional questions from Committee members they will be sent to you in the next two days and you will have up to 42 days to respond.

Mr MARTINOVICH: Okay.

CHAIR: Thank you very much for appearing today.

Mr MARTINOVICH: Thank you and merry Christmas.

CHAIR: Same to you.

(The witness withdrew)

(Short adjournment)

CHRISTOPHER DECCAN LOCK, Deputy Director General, Transport Projects Division, Transport for NSW, and Chief Executive Officer, Transport Construction Authority, and

LESLIE ROBERT WIELINGA, Director General, Transport for NSW, on former oath:

The Hon. PENNY SHARPE: This morning we heard from Ernst and Young about their report "Infrastructure - Project Cost Benchmarking Study" which was very interesting. In their study they basically got a lot of information from all the States to do the benchmarking and each State is compared against the average of the rest of Australia. They indicated that New South Wales is in possession of a copy of a report that has broken down all of the projects for comparison that has not been made publicly available. Would this Committee be able to have a copy of that report?

Mr WIELINGA: Mr Lock says he does not know if we have got it. We will check. If we have not got it we will try to get it. If we have got it we will provide it to you.

The Hon. PENNY SHARPE: You will give it to us if you have got it?

Mr WIELINGA: Yes.

The Hon. PENNY SHARPE: They tell us you have got it.

Mr WIELINGA: We will even try to find it if we have not got it. We will do what we can to get it.

The Hon. PENNY SHARPE: The Ernst and Young report noted that agencies use a range of approaches in allocating corporate overheads to projects. Can you take us through how Transport for NSW treats corporate overheads in relation to rail costings?

Mr LOCK: If I can start perhaps with the Transport Projects Division as it was when it was the Transport Construction Authority [TCA] and then a wider view of Transport for NSW as well. In respect of the Transport Construction Authority, the entire cost of running that authority is attributed to projects because it is a capital works organisation. All it does is deliver capital works. In the new structure of Transport for NSW the Transport Projects Division is again a capital works entity, so the cost of running the division is charged to projects, to the capital works projects, but the overhead of Transport for NSW is not charged to the division.

The Hon. PENNY SHARPE: We explored that issue in the previous hearing. Would you say that the way in which you believe you will be treating corporate overheads is not excessive compared to other States, or would it be about the same?

Mr LOCK: In terms of the amount of money?

The Hon. PENNY SHARPE: Yes.

Mr LOCK: No, I think we are quite cheap here in New South Wales.

The Hon. PENNY SHARPE: As compared to?

Mr LOCK: I just believe we are quite lean and mean.

The Hon. PENNY SHARPE: The Ernst and Young report says that New South Wales can build roads at about the same cost as the rest of Australia. Why is it that we cannot build railways at the same cost?

Mr LOCK: I do not know why we cannot, and even if we do not actually.

The Hon. PENNY SHARPE: This is about that benchmarking study. I know you presented to us that we are about the same and those kinds of things but for the record, after all of the submissions we have heard, I would like to give you the opportunity to tell us what specific issues you believe operate in New South Wales that make rail projects more expensive than in other places.

Mr LOCK: Again I will say I am sure that on a like-for-like basis, and there are lots of apples and apples and pears and pears—

The Hon. PENNY SHARPE: Yes, we have had lots of fruit discussions.

Mr LOCK: I think when you actually get to the same benchmark position I actually do not think New South Wales is any more expensive than any other State. There are circumstances in New South Wales around operating in a brownfield environment that may not apply in other States. There are circumstances around the general cost of living and so on in New South Wales compared to other States. But I do not think there is anything inherently different in a rail project in New South Wales compared to another State. For example, the cost of concrete or the cost of rail is pretty much the same wherever you are in Australia.

The Hon. PENNY SHARPE: We heard from Treasury this afternoon about the gateways process. I am still not clear about how the new 20-year infrastructure process then replaces the 10-year Treasury State Infrastructure Strategy with the five-year infrastructure process and transport projects. Using the North West Rail Link as an example, could you explain to us Treasury's involvement in the process as the North West Rail Link will rollout through the gateways process?

Mr WIELINGA: Yes, I will certainly try. The first thing to do is to distinguish between the five and 20-year program that is being prepared by Infrastructure NSW. A gateway process is not associated with that; it is associated with an individual project. When you reach key milestones in the delivery of the project there is an independent assessment done of are you meeting the project objectives, is the scope of the project that you are delivering appropriate for those objectives, is it meeting the community requirements for the project? It is a value engineering exercise to make sure that you get the right sort of quality outcome, the right cost-effective outcome. It is a time to think about what you are trying to do and how the project is being delivered, that you are delivering the best possible outcome and that you are using the appropriate methodology and approach and all of those sorts of things. Usually officers from other departments come in as part of the process. Like Treasury officers would attend that one-day or two-day workshop and they would get an opportunity to give input. In the new arrangements Infrastructure NSW would also be involved.

The Hon. PENNY SHARPE: It will be Infrastructure NSW and Treasury, you think, through each of the projects?

Mr WIELINGA: Certainly for the larger projects I would expect that to be the case. Treasury gets involved in the larger projects. The smaller projects, the couple of million dollars or \$5 million or \$10 million, they tend to not get involved in those. It is the larger ones, the billion dollar plus type projects.

The Hon. PENNY SHARPE: We heard some evidence about the gateways process and the way it differs in Victoria to New South Wales. Are you familiar with the differences in the way that operates?

Mr WIELINGA: I was under the impression that the gateway processes that Treasury initiated were similar to the Victorian Treasury processes but I cannot confirm that. I had heard Treasury officers say that. But it depends on the project. Those gateway processes are actually adjusted a little bit depending on the nature of the project. There is a bit of a focus on the risks associated with the project. You would be aware that if it was an information and communication technology project that would be different from a major earthworks road project. You would be looking at different things. There is a tendency to take a retail approach, 80 per cent of the risks are associated with 20 per cent of the activities and, as I said, they are tailored depending on the type of project.

The Hon. CATE FAEHRMANN: Looking at the Dulwich Hill light rail project for a moment, I think under the previous Government it was costed at \$120 million. Is that your recollection?

Mr LOCK: No. It is not my recollection, I do not have a recollection, but I could go and look it up for you.

The Hon. CATE FAEHRMANN: I have been informed that it was costed at \$120 million and the greenway with that was about \$30 million. The most recent estimate of just a few months ago, I believe, was \$176 million and the greenway was \$37 million. Do we have two different estimates taking place within the department within the last year, two different processes, or has that project changed significantly to justify that increase?

Mr LOCK: I am not conscious of a change in process. As I have said previously at this and other hearings, the light rail is actually a private sector proposal and the department has received estimates at different stages of the development of the inner west extension proposal from the private sector proponent, Metro Transport Sydney [MTS]. I am not aware that the process has changed at all.

The Hon. CATE FAEHRMANN: Would you be able to inform the Committee of the reasons behind the increase if in fact it has increased from \$120 million to \$176 million? If you cannot inform the Committee today you may take it on notice. The Committee is struggling to get tangible examples.

Mr LOCK: I can certainly take that on notice.

The Hon. CATE FAEHRMANN: Mr Lock, have you previously been an employee or director at Evans and Peck?

Mr LOCK: Yes I have.

The Hon. CATE FAEHRMANN: When was that?

Mr LOCK: That was 1998 to 2005.

The Hon. CATE FAEHRMANN: Have you been with the government since then?

Mr LOCK: With various entities owned by the government, yes. So Transport Infrastructure Development Corporation, Transport Construction Authority [TCA] and now Transport for NSW.

The Hon. CATE FAEHRMANN: How many employees did the Transport Construction Authority have before the recent merger with other transport agencies, if you can recall?

Mr LOCK: TCA still exists as an entity. It has not actually yet been abolished. From memory, but I will get back to you with the exact number, it is around about 250.

The Hon. CATE FAEHRMANN: Can you confirm that the information on your salary in the last annual report for TCA was correct?

Mr LOCK: I hope it was, yes.

The Hon. CATE FAEHRMANN: That was \$458,640?

Mr LOCK: Which is the last TCA annual report you are looking at?

The Hon. CATE FAEHRMANN: The 2009-10 might have been the last one I was looking at.

Mr LOCK: There is a 2010-11 report out which has been tabled in Parliament.

The Hon. CATE FAEHRMANN: So it is probably a bit more than that. Does any part of your contract with the New South Wales Government include any performance bonus or incentives in any form?

Mr LOCK: No it does not.

The Hon. CATE FAEHRMANN: Within the Auditor General's report on transport of 30 November it talked about the high use of contractors within TCA. Can you explain why this is and why TCA relied on the services of 42 contractors? Was that 42 contractors out of the 250 employees or are the 250 employees separate to the contractors?

Mr LOCK: No, the 250 approximately, I will get back to you with the exact number, is full-time equivalent employees and the contractors are on top of the full-time employees.

The Hon. CATE FAEHRMANN: Do you have the average salary for those contractors?

Mr LOCK: Not in my head but I can get back to you on that.

The Hon. CATE FAEHRMANN: Would you be able to take that on notice?

Mr LOCK: Certainly.

The Hon. CATE FAEHRMANN: In the TCA's annual report it lists the income for other TCA executives. How many senior executives do you have within TCA?

Mr LOCK: I am not wishing to be awkward but could you define senior executives? Do you mean as in the senior executive service, because that is not the way TCA works; every individual has an individual contract of employment. If you mean the direct reports to me as senior executives, I think it is 11.

The Hon. CATE FAEHRMANN: The annual report I am referring to, which is the one before the most recent one which I have not looked at, says that there are about 19 senior executives for 250 employees and the salaries range up to about \$360,000.

Mr LOCK: I think you are referring now to a benchmark level that all Government annual reports must say if people earn over a certain amount of money. Nineteen would be right from that report and \$360,000 would be about the number. I would have to look at the report.

The Hon. CATE FAEHRMANN: Actually it is \$380,000. The Office of Environment and Heritage, if you use that as an example, they have six people within their employment that they list above that amount. You said that was above a certain amount, what salary was that?

Mr LOCK: I do not know.

The Hon. CATE FAEHRMANN: Judging by this I think every salary here is above \$250,000. Is there a reason why the Transport Construction Authority seems to have a high number of employees earning a lot of money compared to other Government agencies with a lot more employees?

The Hon. JOHN AJAKA: Point of order: As fascinating as all this is, and a lot of this is on public record, I do not know how this is assisting us as a Committee to come within the terms of reference in relation to rail costing concept estimates for rail projects or the differences between rail and road project cost methodology et cetera. I think we are well outside the terms of reference.

The Hon. CATE FAEHRMANN: To the point of order. If we think about the previous answer in relation to the corporate overhead costs associated with rail projects in New South Wales, the salaries of Transport Construction Authority employees do line up. It is directly relevant because we are hearing that they are contracting themselves out as a service and we need to know the overheads. I think that would be in the overheads.

The Hon. AMANDA FAZIO: To the point of order. The issue of the on-costs of salaries within an agency cannot be separated out from the general costs of providing services. The point of order is not valid. It is impossible to ignore the fact that the on-costs and salaries in the Transport Construction Authority contribute to the costs of providing rail services and an equal comparative could be drawn by looking at the on-costs in the provision of roads.

The Hon. JOHN AJAKA: To the point of order. I had not sought a point of order when the earlier questions were asked. The point of order is raised when the witness is being asked to give an opinion as to why the environment office has X number of employees compared to the rail office; that is the point of order. How is that relevant, comparing the environment office to the transport office?

CHAIR: The point of order is upheld regarding the comparison between departments. The question in regard to salaries is appropriate.

The Hon. CATE FAEHRMANN: Mr Lock, could you explain why at last count in the last annual report 19 employees out of 190 within the Transport Construction Authority have salaries over \$250,000? Those salaries are factored into the costs that the Transport Construction Authority is charging. What is your reasoning for that many employees on those salaries? Are a lot of them contracted from the private sector?

Mr LOCK: There are a number of questions contained in that statement. The way the Transport Construction Authority's predecessor Transport Infrastructure Development Corporation and its predecessor, the Parramatta Rail Link Company, were set up were as entities that were required to deliver major capital works using the best available resources in the market place. A decision was made way back in 2000-01 that the benchmarking of salaries would be done in relation to the private sector rather than the Government sector. We were expected to and are still expected to deliver projects using a pool of resources that are market constrained by other alternatives, for example the north-west shelf or West Australia or Victoria or Queensland. Our resources, generally speaking, even my own career, are out of the private sector.

That is not to say that they are contracted as private sector people but their background, heritage, genesis is out of the private sector, so we pay market competitive salaries. We do an annual review. We use a firm called Mercer to benchmark our salaries and we have a benchmarking process to make sure we are in line with the general construction group in New South Wales. People are on individual contracts of employment, they are not on awards or contracted in the sense that you mean and that has been so since 2000-01. As to charging: You are right that the total salary bill is charged across the capital works program. In terms of the size of the program, it is around \$700 million per year. These guys are looking at a throughput through the entity Transport Construction Authority of \$700 million per annum.

Mr WIELINGA: What is important to recognise is, first, the nature of the projects that are delivered and the engineering risks and the planning complexity associated with that. The second thing to recognise is the typical organisation structures that are put in place to deliver a sequence of large projects or pipeline of projects. Dealing with the second one first. The organisational structures that have been in Transport Infrastructure Development Corporation, now in transport projects and the Transport Construction Authority, has been a matrix type structure where there is a group of technical people that provide services to all projects. They include things like survey, property acquisition, community consultation, engineering specialists, signalling, mechanical, structural and civil engineering.

There is a project structure where teams are put together lead by a project director to deliver these major projects and the engineering complexities, risks and safety issues associated with these projects require high quality people to deliver the projects. The teams are created for the project. When that project finishes that group evaporates. If there is additional work for them they are put on it and if not they are finished with the organisation and they move on. It is a typical project environment that is set up to deliver the projects. The structure is consistent with how it is done in many other places. There is a large program of works going on at the moment and there has been for many years.

The Hon. PENNY SHARPE: Do you have all the people you need for these projects?

Mr WIELINGA: We are struggling to get all of the engineers we need. There are particular disciplines in engineering that we have a shortage of and that is mainly in the railway area, particularly with signalling and electrical engineering. There has been numerous strategies tried to overcome that shortage including in-house training and working with the universities to try and get those people, but there is a significant shortage of high quality engineering skills in this country.

The Hon. PENNY SHARPE: Would you provide to the committee a more detailed organisation chart of the Transport Construction Authority and give us an indication of how many of those positions are filled?

Mr WIELINGA: Yes.

The Hon. PAUL GREEN: The Committee has heard a comment about New South Wales freight strategy; do you have any comment on that?

Mr WIELINGA: An announcement was made within the last week. The freight strategy is part of the master planning work that is going on. A new deputy director general has been appointed, Rachel Johnson, to have a look at the freight and regional development area. When we made the presentation a few weeks ago I went through that organisational structure. It is in its early days. The work being done at the moment includes recent visits to the country areas to talk to some of the freight people at Dubbo, Narrabri and a couple of other places.

The Hon. PENNY SHARPE: Have you looked at the Blayney-Demondrille line?

Mr WIELINGA: Where is that?

The Hon. PENNY SHARPE: There are people interested in that line.

Mr WIELINGA: They are interested in the rail network generally. I cannot confirm whether they have been out to look at that particular line, but I am happy to take that on notice. Freight is about logistic and supply chains and you need to look at the warehouse, intermodal terminals, railroad connection, and port facilities, where the goods are being delivered. The best way to summarise it for you is the work is under way.

The Hon. PAUL GREEN: There were comments about the cost of securing rail corridors and one of the reasons rail does cost so much is that buying the land is expensive. Has the department made or is it going to make any submission to the review of the Environmental Planning and Assessment Act?

Mr WIELINGA: There have been a number of interactions with the department of planning. I cannot confirm we have made a formal submission. I will take that on notice.

The Hon. PAUL GREEN: We spoke earlier to Mr Peter Martinovich from Western Australia and he said that they ran that project without P90 contingency. Is there any project that you are aware of that has been run by the department without using the P50 or P90 contingency frame work?

Mr WIELINGA: I am going to sound tongue in cheek here and I will not apologise for it. There are two types of project managers: there are old-school project managers and new-school project managers. The old style project managers when they look at contingencies and risks take a simplistic approach to it. They look at the risk of the project and they will determine upper, medium or low risk and they will put a broad number on managing it. The younger folk that understand computers get into Monte Carlo simulation and crystal ball analysis and do cumulative risk analysis. They will do a whole lot of risk assessments for the project, they will determine the Monte Carlo and run a simulation of 10,000 bills of the project and generate the curve and pick P50 or P90. The objectives of the two approaches are essentially the same. They are trying to create an estimate that you will achieve a certain percentage. One tends to be a broad brush approach and one tends to not be. It is not uncommon for older style project managers to not be totally enamoured with sophisticated risk assessment processes. Due to their knowledge and skill they are confident in their own ability to make those projections.

The Hon. CATE FAEHRMANN: The old school approach to contingency does work?

Mr WIELINGA: Both systems work. It depends on the experience of the project managers and the nature of the project, its level of complexity, the amount of arithmetic you have to do and a whole bunch of other things but both approaches do work, yes.

The Hon. CATE FAEHRMANN: Are you aware of the final escalation rate for the Perth-Mandurah line? We have heard from Peter Martinovich and he gave us a detailed rundown of how he allocated risk and how he worked to eliminate risk throughout that project, which sounded to me like a very thorough way of assessing risk. Are you aware of the escalation rate within which they managed to contain that project?

Mr WIELINGA: No. Mr Lock may be able to help you with the details.

Mr LOCK: Mr Martinovich's submission was 23 per cent. That was escalation in the sense of CPI rather than project budget.

The Hon. CATE FAEHRMANN: Yes, the cost escalation for the project was 22 per cent compared with a 68 per cent rise in the Perth building index.

Mr LOCK: He has taken the computation of how much the increased costs were, not due to changes in scope or variations or risk or anything but simply the value of a dollar over time for the life of the project. So he looks at his own project and says 23 per cent is the number for escalation—you might call that rise and fall or increased costs or something—compared to 68 per cent for Perth's central business district at the same time.

The Hon. NIALL BLAIR: One thing we have heard a lot about from previous witnesses is the importance of having an informed purchaser of services and particularly scoping of projects. We have also heard, particularly today from the Australasian Railway Association, of the demand on resources, particularly

key personnel, which you also have mentioned this afternoon. Many people are going to the mining sector to work on rail projects. I refer to conversation about wages and paying market rates for some of these key personnel. I am assuming that is part of the department's strategy—keeping key personnel and having those informed purchasers. What else is the department doing? You mentioned working with universities to ensure we have the right expertise in the department to make sure we have an informed purchaser and the key personnel.

Mr WIELINGA: The university involvement has two aspects. We sponsor students to university cadetships and we also provide internships and training for students over the Christmas holiday period. We work with the research centres that some universities have, their students and our staff on research exercises on various topics including project management, various road disciplines and electrical engineering. RailCorp is heavily involved with one of the universities and it sponsors one of the professorial chairs to help increase the number of students by attracting them to that area, and for the university to provide good dedicated facilities. Quite a bit of this goes on. Having the right sort of people is just one of the factors in a suite of things that we need to do to address the issues that this Committee is looking at.

The Hon. NIALL BLAIR: Another comment made earlier was about getting consistency across the States and starting to break down some of the barriers, including different signalling systems, different specifications for rolling stock and even different gauges between the States. Where is the department at in trying to get some agreement in the Council of Australian Governments to reduce some of these barriers?

Mr WIELINGA: A national rail safety regulator is being put in place at the moment, based in Adelaide. There is also a national regulator for heavy vehicles and a national regulator for maritime safety. There is quite a bit happening in the national harmonisation process. It is a fairly slow process but it is addressing these issues. You made some very good points about the importance and the benefits of national harmonisation in this regard. We strongly support it. We are doing what we can to help it. When the States get together the size of the differences sometimes makes the problem difficult to solve.

The Hon. NIALL BLAIR: The other interesting point raised by the Australasian Railway Association this morning was the benchmarking project they are working on with most of the contractors in the sector looking at the river crossing project in Brisbane. The industry is getting together to benchmark elements within a project such as that and coming up with a consistent approach to costing the project. Is the department aware of this or has it had anyone involved in reviewing what they are doing there?

Mr LOCK: No, we are not involved or reviewing what they are doing at the moment. They are in fact doing industry soundings; I think that is the proper term for it. We in New South Wales also do industry soundings for our projects, for example the North West Rail. There is a degree of debate going on in the Australasian Railway Association about how to deal with a number of these issues. There is a subgroup in the association for the constructors and I sit on that, so we are having numerous conversations. We probably meet four times a year or something of that order to talk about getting some consistency throughout Australia in the way these issues are dealt with.

The Hon. JOHN AJAKA: From what I can gather from the evidence—please correct me if I am wrong—every project has to be based on its own circumstances. Simply comparing one project to another or the cost per kilometre of one rail line as against another is not feasible. Looking at the example of the Perth-Mandurah line given in evidence compared to an inner city suburban line, the reality is that differences in topography, tunnelling or no tunnelling, greenfield or brownfield can have a huge impact on the cost. Is that a fair assumption for me to make?

Mr WIELINGA: Yes it is. Some people would argue that the differences tend to be fairly stark particularly with rail projects. They tend to be unique and have their own set of circumstances. It is true, however, that while there are those differences the major components of those projects such as tunnels or bridges have some commonality about how they are constructed, delivered and designed. The combination of geography, topography, the engineering circumstances and the underground conditions all tend to be unique to the project and make comparisons difficult. The size of the infrastructure and the number of people it is carrying, the type of rolling stock utilised and design standards that differ between States all serve to make comparisons difficult. It does not mean you do not try to benchmark.

The Hon. JOHN AJAKA: From the evidence it seems that it is a mistake to look at a dollar sign comparison for rail projects. It appears to be more appropriate to look at the methodology, the history, how it was put together and what resources were utilised. That appears to be a far more effective starting point.

Mr WIELINGA: Yes it is. When I talk to young project managers about this there is often discussion about the best way to deliver the project—the type of contract, the methodology, the risk profile on a contract. There are always discussions about the best way to do a particular project. The reality is that once we choose a way to deliver it we will never know because you cannot deliver exactly the same project twice.

The Hon. JOHN AJAKA: Going back to the P90 contingency, which is continually raised, the reality is that P90 is an estimate only for budgeting purposes. It is never the actual figure that is going to be paid. The figure to be paid is the contract sum once a contract is entered into. It may or may not correspond to the P90 budgeted figure.

Mr WIELINGA: There are a couple of ways to deal with that. The first is that estimating projects is about predicting the future. There is an inherent uncertainty because of that. Right at the very start of the project you do not have a design, you do not have detailed technical investigations and you have not established a program for delivery because you do not know the major components of the project. You do not have absolute prior knowledge about the market conditions that are going to be in place at the time you deliver the project. The construction start might be two or three years down the track. The state of the contracting market, inflation, labour supply, cost of raw materials, manufactured components, land prices, foreign exchange rates, weather conditions, design standards, community expectations, legislation and regulatory change are all possibilities. That uncertainty is the reason you do contingency planning and risk assessment on projects.

When you are looking at the sort of regime or framework you need in place to try to control the scope and cost of projects what do you actually need? I think you need a fairly solid set of estimating procedures including contingency calculations. You need pretty solid tendering processes that maximise competition for projects. You need strategies that broaden the number of contractors at all the financial levels in the market to grow those particular constructions. You need a good mix of contract sizes to help grow the industry. You need to tailor the contract types to the project conditions that you are dealing with—the engineering uncertainty, are alliance contracts the right thing in certain circumstances, design and construct in another and public-private partnership in another?

You need to understand the sorts of rules of thumb around that and use them effectively. You need to carefully consider efficient delivery of projects; having 10-year and total envelopes and fitting capital works programs inside them is an important consideration to get a cost-effective outcome. You need to establish a core of estimating expertise and some questions have been raised today about that and what is the best model to do that. Do you put in place a group of in-house people combined with outside estimators? What is the right model? I think you need to put in place a fairly detailed estimative database, leverage off the work you do in estimating and leverage off the information that comes into your organisation about prices and so forth.

You mentioned solid gateway processes. I think that is very important in controlling the scope of the project. But it has to be associated with very good planning up front. That is one of the key factors—investing more up front to properly plan projects and satisfy the needs and outcomes. I think we need to give some serious consideration in the future to the time and the level of information we have before we put a firm price and a delivery schedule on projects. We need to resist the temptation to jump out there on day one and say, "We're going to build this. It is going to cost this and it is going to take this long", without the benefit of any community consultation or environmental assessment and those sorts of things. It is time we looked seriously at the right time to put a price on a project. The private sector would never entertain the idea as a business of announcing to the market that they have a firm project when they have not even looked into it. They do it when they know what they are actually going to do and they have done all the appropriate work.

The Hon. JOHN AJAKA: From the evidence—you are not the only person to say it—there clearly is a shortfall in expertise in engineering and similar professions not just within New South Wales but in Australia as a whole. I understand that that applies not just to the private sector but to the public sector as well. Is that your understanding?

Mr WIELINGA: It is. I emphasise that it is not just engineers. I am short of good transport planners, particularly active transport planners and light rail planners. There has not been a lot of activity in that area and we have to find a way to build up those skills. There are a number of key areas where there are significant shortages of skills, knowledge and experience.

The Hon. JOHN AJAKA: Does having overseas international companies come here and successfully tendering for contracts bring an additional wealth of engineers and suchlike that are not available in Australia?

Mr WIELINGA: Yes, if you can find a way for them to come into the country and do that.

The Hon. JOHN AJAKA: That is a visa question that we will put to one side for the moment. One of the matters raised previously is that sometimes the tendering process has too many strict pre-conditions, for example that you must have built within New South Wales in order to be eligible to tender, which tends to eliminate many interstate and overseas companies that have not built in New South Wales. Does that apply to us?

Mr WIELINGA: No, we have already announced that we are shifting them inside Transport for NSW to the new transport projects division for that and other purposes.

The Hon. CATE FAEHRMANN: Mr Lock, at the previous hearing you were asked whether RailCorp had been charged a fee and I think you said it had not. Has it ever been charged fees? Was that an answer for all time or did it apply only to the present? Has it been charged previously? You have been with the Transport Construction Authority and the Transport Infrastructure Development Corporation since 2005.

Mr LOCK: What do you mean by a "fee"? I want to be very clear in my answer. The whole cost of the project is charged. That is the actual cost, not a dollar more. There is no fee on top of the cost and never has there been a fee.

Mr WIELINGA: It is an interesting question. In the past the actual budget for the project was often held by RailCorp and the Transport Infrastructure Development Corporation did work on its behalf. It is a symbiotic relationship; it is not one versus the other.

The Hon. CATE FAEHRMANN: One of the submissions, which I do not have in front of me to cross reference, mentioned a 12.5 per cent fee. What was that referring to?

Mr LOCK: You asked me that question last time. I truly have no idea. The Transport Construction Authority has not charged RailCorp a 12.5 per cent fee.

The Hon. CATE FAEHRMANN: Has there been a fee in your time since 2005?

Mr LOCK: No.

Mr WIELINGA: If someone has some detail about that we would be more than happy to look at it.

The Hon. CATE FAEHRMANN: This morning I asked the Australasian Railway Association about the transparency of rail projects and how they are costed in New South Wales compared to other States. The response was that the process in New South Wales was not as transparent as the process in other States. Another submission that the Committee received late states that the Transport Infrastructure Development Corporation's 2010 annual report provided no breakdown of project costs, forecast costs and reasons for variations. Given that the Transport Construction Authority's purpose is to construct transport projects, how transparent does it need to be for New South Wales taxpayers? Do you think you need to provide more of this information than is currently provided?

Mr WIELINGA: There is a process associated with large contracts called the "contract summary". That is a good way of getting out material about price, delivery and the risk profile associated with projects. That could be looked at for some of the larger projects as well.

The Hon. CATE FAEHRMANN: Are you suggesting that they are not currently made public?

Mr WIELINGA: A basic pro forma about contract details is placed on the website for each contract. However, a more comprehensive contract summary is provided for larger projects, particularly public-private partnerships. That is a possibility. There is an element of damned if you do and damned if you do not in this area. When you release all the information you get accused of telling the market the price and tenderers tailor their project price to that price and if you do not provide the price you are accused of not being transparent. There are some policy issues that we need to work through to resolve that dilemma.

The Hon. CATE FAEHRMANN: Some of this is money spent as well and what would be in the annual report for each project that has been worked on in any given year. We have been trying to get information to be able to ask you questions about some projects and it is hard to come by.

Mr WIELINGA: We welcome any suggestions you might have in this area.

The Hon. CATE FAEHRMANN: We will see what we can do with recommendations.

The Hon. PAUL GREEN: The fee relates to a question I asked about internal job numbers to which you charge work done for other agencies to achieve full cost recovery. You said that you do that as part of the project planning.

CHAIR: If you took any questions on notice or if the Committee forwards further questions within the next 48 hours, you have 42 days in which to respond. Thank you for appearing at this hearing.

(The witnesses withdrew)

(The Committee adjourned at 4.35 p.m.)