

PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO PROJECT PLANNING AND FUNDING APPLICATIONS FOR MAJOR WESTERN AUSTRALIAN INFRASTRUCTURE PROJECTS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 18 AUGUST 2010**

Members

Mr J.C. Kobelke (Chairman)
Mr J.M. Francis (Deputy Chairman)
Mr A. Krsticevic
Ms R. Saffioti
Mr C.J. Tallentire

Hearing commenced at 10.30 am**PALANDRI, MR CHRIS****Regional Managing Director, Brookfield Multiplex,
examined:**

The CHAIRMAN: Chris, if I can start with the formalities: on behalf of the Standing Committee on Public Administration, I would like to thank you for coming before us today to help us with our inquiry. The purpose of this hearing is to assist the committee to gather evidence for its inquiry into project planning and funding applications for major Western Australian infrastructure projects. You have been provided with a copy of the committee's specific terms of reference. I have already introduced the other members of the committee. The Public Accounts Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This hearing is a formal procedure of the Parliament and therefore commands the same respect given to proceedings in the house itself. Even though the committee is not asking witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as a contempt of Parliament. This is a public hearing and Hansard will be making a transcript of the proceedings for the public record. If you refer to any documents during your evidence, it would assist Hansard if you could provide the full title for the record. Before we proceed to the questions we have today, I need to ask you a series of questions. Have you completed the "Details of Witness" form?

Mr Palandri: Yes.

The CHAIRMAN: Do you understand the notes at the bottom of the form about giving evidence to a parliamentary committee?

Mr Palandri: I do.

The CHAIRMAN: Did you receive and read the "Information for Witnesses" briefing sheet provided with the detail of witness form?

Mr Palandri: I did not.

The CHAIRMAN: Perhaps we could deal with that in a moment.

Mr Palandri: Sure.

The CHAIRMAN: Do you have any questions about the hearing today?

Mr Palandri: Some background on the terms of reference would be useful. I think I understand it, and I have read it, but some background would be helpful.

The CHAIRMAN: The last formality is for you to state your full name.

Mr Palandri: My full name is Christopher John Palandri. I am the regional managing director for construction and development in Western Australia for Brookfield Multiplex.

The CHAIRMAN: We have a series of questions, and you may actually like to make an opening statement, but I will respond to your question. The committee is looking at the way in which the state develops its proposals for major infrastructure—what sort of assessment analysis is done as to the solution being proposed, through to the actual contracting out, the cost benefit analyses that are done, and also at the fact that we seem to get less than our fair share of federal money. I suppose a subsequent issue is whether the cases are developed as best as is possible and presented in such a way that we can maximise the money.

Mr Palandri: I am sorry I did see that sheet. I thought you were going more to the terms of reference, which you have just explained.

The CHAIRMAN: So you have seen that document?

Mr Palandri: Yes, thank you.

The CHAIRMAN: Before we ask you some questions, do you have anything you would like to say by way of your company's engagement with government or on issues that would go to how projects can be best planned and assessed before being committed to?

Mr Palandri: I imagine a lot of that will come out in the questions, so that will be helpful. From Brookfield Multiplex's point of view as a major deliverer of infrastructure assets for the Western Australian government, and particularly in the current circumstances, we are more than happy to be contributing in any way we can to assist your inquiries.

The CHAIRMAN: I thank you for that. Clearly we have been talking to people in government, and it is useful to have a major company that is a deliverer of projects to get an outside view of how government actually prepares and presents the issues that you have with the procurement process and the approvals process. Do you have any general overview? Given that your company does work internationally, what perhaps are some of the good aspects of your relationship with government projects in Western Australia and what are some of the areas where you think we should be doing a lot better?

Mr Palandri: I am a Western Australian originally. I have been residing in Sydney for some years now, and I moved back to Western Australia in February this year. I have been very impressed with the process that the state planning authorities—or the authorities that Western Australia has that are delivering infrastructure. I have been very impressed with the manner in which they provide information through to the contracting industry, CEIID, in particular, and the Office of Strategic Projects—their information flow and the information session they had at one of the ballrooms at Burswood casino about a month ago now, and being very open and clear about what the intentions were in terms of the program for delivery of infrastructure. I thought that has been a very good, clear, concise way of government letting industry know what its intentions are and what its program is for delivery of assets. That is very useful for us and assists us greatly in our planning for the projects that we would like to participate in and bid for. That is an overview, I guess. From my point of view, not being here for many years now and not having worked here for many years now or not in a full-time capacity, I thought that was very good. I would also comment that the process that we went through with the state government to negotiate and ultimately be awarded the Fiona Stanley Hospital project was a very smooth, clear, well thought-out and well set-out process that enabled the result that the state government was trying to achieve on time and within budget. We are proceeding down a path which looks like we will have a very successful delivery of a project in a timely manner and strictly in accordance with the contractual requirements and the goals of the state government.

The CHAIRMAN: We might return later to Fiona Stanley Hospital, which I think is the project that you are talking about.

Mr Palandri: Yes.

The CHAIRMAN: I refer to the comments you made about that presentation that was done recently, which I think is one of a number that has been done. Is that giving the degree of clarity you would like with respect to the pipeline of projects that the government is putting forward? Subsequent to that: is there, at an early enough stage, indication of the procurement mechanism?

Mr Palandri: Generally, yes. It is generally enough information. The schedule that was put up on the presentation by Richard Mann, for example, had a couple of projects that had some question marks around them in terms of the delivery methodology. To answer your first question, yes, it is enough information, and, yes, it is being delivered in a timely manner to enable the industry to bid

for opportunities. For the second part of your question with regard to clarity around the delivery methodology or the contracting methodology, it is fair to say there has been some confusion in the PPP area of projects. I guess the most obvious example there would be the procurement methodology for the children's hospital where, initially, it was announced as a full PPP project that included funding, and the Premier's subsequent announcement that it would be funded via one of the royalty schemes with some of the bigger miners in Western Australia. That probably added some confusion around that project. The presentation that Richard Mann put together had a lot of TBAs against the procurement methodology, the time frame and other aspects of that project. But that is one of the major projects, I guess, that we are interested in. Also, for probably 95 per cent or the majority of the other projects there was fairly good clarity, and enough for us to do our planning and preparation.

The CHAIRMAN: From your company's perspective do you have preferred procurement arrangements or models? Or, if there is a range of them, would you like to make some comment on the strengths or advantages you see to the delivery companies, such as yourself, and to government with the various models available?

Mr Palandri: I would not say that we have a preference as such. We could have a preference, but it depends on the circumstances really. It is quite difficult to say. We are the sort of organisation that will adapt to whatever the procurement methodology is that government puts forward. But some of the procurement methodologies can be, to give an example, quite expensive. Given whatever methodology the government is proposing, we would take an assessment of that, how well the project would fit with our skills and our competitive strengths and the cost-benefit analysis of the bid costs of bidding for a project. The PPP is probably the best example. A full PPP project is probably one of the most expensive and time-consuming ways of delivering a bid for any of the bidders. So, given that cost issue, we have to take a fairly concise view of our likelihood of success, because the cost of entering the bid phase is expensive. We just make an assessment on a project-by-project basis. If we think there is going to be a large number of competitors or that the government is going to short list more than a very small number of parties, we make an assessment as to whether it was a worthwhile investment for us to look at whatever the project might be.

[10.40 am]

The CHAIRMAN: Rather than ask the question in the abstract, perhaps you might like to tie it to some specific examples, even if they are not in Western Australia. What are some of the aspects with respect to the very early involvement of your company with a project? Is it useful to have a very small short list, perhaps two companies? Perhaps this was before your time, but I am thinking of desal 1 down in Kwinana, which your company was involved in, again as an alliance-type arrangement, but it was narrowed down to two fairly early on. Can you give us some indication of that very early involvement, even before perhaps the specifications are defined, where there is a clear output or outcome that is required, and how your company responds to that and the advantages you see in that approach, as opposed to a design being put on the table and simply tendering for it?

Mr Palandri: I think that the early involvement of contractors is very beneficial. As a developer and builder, what we do when we develop our own projects is that, effectively, there is a development team and a construction team. We involve the construction team with the development team very early to ensure that we get a buildable outcome that is an efficient outcome to deliver. I would liken that to early involvement with the state in trying to come up with the same sort of efficiencies, so that we can meet the state's brief but work with them on a design that ensures that they get the best value for money, whilst meeting the brief. So early involvement is something that we are very interested in. It is something as an organisation that we have skills in and we develop skills in those areas by bidding for projects and trying to make them as efficient as possible; we can bring that to the table and give ourselves an advantage. We do that in terms of our own projects as well. I think that is answering part of your question.

The other part of your question goes to the number of short-listed parties. If the government is announcing—or giving clarity to the market on how many it might be short listing, that also has a big impact on how we would assess our interest on a project. In projects where there is a large spend in terms of the bidding process and a long short list—let us say more like three or four—we would take an assessment of the risk that we are taking in spending sometimes million of dollars and our likely outcome, just on pure mathematics. From the pure mathematical point of view, the probability is better in one of two than it is in one of four, of course.

The CHAIRMAN: You have certainly come to the issue I was going to ask, but you might like to take it a bit further in terms of the various scenarios where your bid costs become a major factor and you simply do not proceed, or in cases where perhaps you feel you have been burnt because you had an expectation that was not delivered and you are left with all the costs of that bid as a loss on that project if you do not get it?

Mr Palandri: In the second example, our major concern is around governments embarking down a process and then not proceeding with a project. That is the obvious one. The risk for us can be if there is a change of government. There is a hospital being bid in South Australia at the moment—to give a relative example. We went to the government, as did some of the other contractors, and said, “Can you give us some comfort that if there is a change of government and the project does not proceed that you will reimburse the tenderers for the funding that they put forward to bid for the project?” They said, “No, it is a sovereign risk.” So we took a view on that, and the risk of there being a change of government and of the project not proceeding with the then present government, and we decided not to bid on that project because we thought the risk of putting what was probably somewhere between \$5 million and \$10 million for bidding on the project did not warrant the risk of the project not proceeding, on top of the risk of us potentially not winning the project. We decided that it was not something where we wanted to invest our money.

The CHAIRMAN: As background to that particular case, do you see major hospitals as an area where Brookfield Multiplex has a key expertise and already a well-established track record or is it a new area that you are getting into?

Mr Palandri: No, no—it is something where we have a very experienced track record. We are currently delivering, on top of the Fiona Stanley Hospital, two to three major hospital projects around the world. It is something in which we think we have a very strong competitive advantage and a very strong pedigree in terms of delivering projects of that nature.

The CHAIRMAN: Again, using the hospitals as an example, is it your preference to be engaged at a very early stage, at the design stage, with these projects, and is that what is happening with most of your projects?

Mr Palandri: Yes, it is what is happening with most of our projects; and yes it is our preference to be engaged very early in the piece. We think it gives everybody the opportunity to deliver the best outcome. It really does, because you have all the expertise sitting at the table from day one, or close on day one, after the government has outlined its brief, which can be very high level. You have all the people sitting at the table with the expertise to meet time, budget and brief directly to the requirements of the state.

The CHAIRMAN: In those cases where you are involved early, do they tend to be PPPs, or would you characterise them as an alliance, and what are some of the drivers from your company’s point of view; that is, in terms of the procurement contracting mechanism, which really are going to deliver the best benefit to your client, as well as to yourself?

Mr Palandri: They are generally described as early contractor involvement, which was the Fiona Stanley Hospital example. The driver for us in terms of an outcome that works for us and an outcome that works for the state is the driver, I think. The state comes along with a brief and a budget and says: “We need to hit that brief and that budget. We are involving the contractor with

our consultants”—or the contractor’s own consultants—“early in the process to ensure that we can meet the budget and the brief.” By doing that very early you have the best opportunity, in our view, of getting the desired outcome

The CHAIRMAN: Where is the real win for your company in delivering to that budget and fulfilling the brief?

Mr Palandri: Being awarded the project. That is the real win—if we have delivered the brief and met the budget, and then we have the opportunity to deliver the project. That is the only way we make money. All profits from our company come from the delivery of projects. We do not make money any other way; the delivery of projects is where we get a profit outcome.

The CHAIRMAN: I understand that, but the point I am trying to get at is that the government at times gets burnt because there are cost overruns, which may also burn the company, or it may mean that they pick up extra profit. There are also instances with a fixed price where a company may find there has been an escalation of costs and they get burnt and the government gets a cheap project. It is around those issues.

Mr Palandri: I understand.

The CHAIRMAN: And, again, another case is the highway to Bunbury. The issue was that it was delivered under budget, and the arrangement was that the savings were shared between the contractor and the government, so there was a direct incentive to finish early and below budget and to take an extra profit.

Mr Palandri: To use Fiona Stanley Hospital as an example; it is a good direct example. The early contractor involvement with Fiona Stanley Hospital has been a process that we went through for about 18 months, which culminated last week in signing the contract with the state. But what we signed was a fixed time, fixed price, design and construct contract, so all the risk associated with delivering the project within the time frame based on the documentation, which is a very detailed set of documentation, rests with Brookfield Multiplex. By going through that early contractor involvement process we are able to take that sort of risk with a great deal of confidence that we can deliver within the time frame and within the budget.

To go to your shared savings example, there is a shared savings arrangement with the state on that project. There is an underlying profit, which is our base profit. If we have issues—there are issues—we make less money. If we have a good outcome, we will make more money and we share over a certain threshold. We share 50 per cent over a certain number. We share 50 per cent of that benefit with the state, yes. Really what we prefer to do as an organisation is to get ourselves into a position where we have a defined set of documents so that we know with certainty what we are delivering, which then gives us the ability to fix a time and fix a price with the confidence that the numbers and the time frame is reasonable. By being part of the process all the way through, we are clear and comfortable that the project can be built, that there is a subcontractor market that can deliver the skills and services necessary to deliver the building, and that we will get an appropriate outcome.

[10.50 am]

The CHAIRMAN: With respect to Fiona Stanley Hospital, are there any ongoing servicing or maintenance commitments, or further contracts, which flow from construction?

Mr Palandri: Not from the construction, no. Our requirement is to deliver the project to the brief by a certain date. The state is walking through a process at the moment—I think they have short-listed down to two—for the ongoing facilities or services management, so, the maintenance and management of that project long term. But that is not something that my division of Brookfield Multiplex is tendering for. There is another division within our business, which I do not look after, that is one of the short-listed tenderers for that scope of work.

The CHAIRMAN: Are you able to share with us any projects with which you have been involved in here—or even not in Western Australia—that have not been as smooth or looking at as good an outcome as you hopefully have here or have been a bit of a disaster for the company? If you want this in confidence, we can have your evidence as confidential, if you feel talking negatively about something is not good for your company's image.

Mr Palandri: It does not have to be in confidence, primarily because we do not have any examples of that. I am not saying that from a boastful point of view. What I am saying is that we do not enter into contracts where there is an uncertain outcome. We do not think that is a very good way of contracting.

The CHAIRMAN: Wembley Stadium might have been one, which was before Brookfield came in.

Mr Palandri: The problem at Wembley Stadium was not around the brief and contract. We had a fixed price, fixed time contract, and we ran over time and over cost. But the cost was not a run over for the client, which was the football association; the cost was an issue that we met. There was a very succinct set of documents there. There was a succinct contract, and we were part of the process of designing that building. Yes, we had some problems, but none of those problems flowed on to the football association—financially or otherwise. They got their building delivered late, but ultimately their building was delivered exactly to the brief and it operates exactly in accordance with how it was supposed to operate. So there were unfortunate circumstances. We had issues there. We had issues with subcontractors and some cost overruns; it was that simple. Generally speaking, even in that example, it is still relevant to the comment I am making because we will always enter into a fixed time, fixed price contract where the outcome is known. That is because the issues that it creates down the track on projects, like the multipurpose arena over here, tend to become quite all-consuming for the business, and it is not a preferable way of us managing our business because it could become a very big distraction for the business. We prefer to get ourselves in a position where we have very clear documents, a very well structured contract, and great certainty as to how we will deliver the outcome.

Mr C.J. TALLENTIRE: I can understand from a business point of view that you want a project to be well defined and well scoped out and, whether you come into it as a design and construct type project or any other particular model, that you want that degree of certainty. What about projects where because of their very nature there are certain technical unknowns or perhaps economic circumstances that might change that are going to require the project to evolve, even in its construction phase? How do you deal with that? Is there a model that can deal with that?

Mr Palandri: There is. Those circumstances, I would say, are unusual. That is not the norm. Depending on the time frame of a project and the circumstances, as I said that would be unusual, but the early contractor involvement process gives us the ability to do our best to quantify that. And, if there are other issues that are outstanding, it can often be a matter of bringing as much certainty to the issue as we possibly can. We have those sorts of issues out at Fiona Stanley Hospital. But some of those issues we have put some risk against, or some contingency against, and we have defined them as well as we can and we have locked them into the bid. We have clarified it as much as we can. If the brief changes significantly from what we have defined with the state's consultants and the state, there may be an issue. But, generally, we try and define it as much as we can. It would be an unusual circumstance. But on a project like Fiona Stanley Hospital, which is four years' long, technology can change, for example, and there are those issues on that project, and we have dealt with them pretty much in the manner I have just described.

Mr C.J. TALLENTIRE: Even something like the construction of a road, you could find that there were geotechnical information that comes up in the actual construction phase that had not been anticipated?

Mr Palandri: Yes. That is our risk. By the early contractor involvement there, we can go through all the geotechnical information, do additional bore holes or additional testing as required to get

better comfort on whether we have allowed enough money to deliver the outcome. Again, that circumstance exists at Fiona Stanley Hospital, and we have taken the risk on that by being part of that process for a longer time, getting certainty on it, and locking in a price.

Mr C.J. TALLENTIRE: Which model deals with that potential for uncertainty best? Is it this design and construct type model?

Mr Palandri: Yes, early contractor involvement and the design and construct type model deals with that better.

Ms R. SAFFIOTI: Can I ask about the pipeline of projects that you mentioned before and the presentation given by Richard Mann?

Mr Palandri: Yes.

Ms R. SAFFIOTI: How important is it to the private sector, to companies such as yours, for government to plan a steady supply, in a sense, of projects in respect to availability of subcontractors and the like?

Mr Palandri: It is an excellent question. I think it is very important. To bring an example to that, in Western Australia at the moment we can see the amount of public-funded work or the work coming out of the public sector on the increase, and the work coming out of the private sector on the decrease. It is timely, from an industry point of view, to see the government stepping in and spending more money on projects when that pipeline from the private sector is dropping off, because it does cause issues. In the middle of boom times in Western Australia, before the GFC I guess, there were issues around supply and subcontractors and delivery of projects, so having a pipeline of projects out that is somewhat regulated and having as much notice as we can around that pipeline gives the industry as a whole the opportunity to prepare itself.

Ms R. SAFFIOTI: Is that from a government consideration or the advice to government should be less about making big promises about time frames or political promises but to ensure more value for money for taxpayers and that it is better to have a consistent timetable of works over a longer period than maybe trying to artificially create some sort of time frames?

[11.00 am]

Mr Palandri: Consistency is certainly important. But certainty is probably the most important thing, because the industry will react to whatever the opportunities are. I think you will find that the workforce is somewhat mobile. It is not ultimately 100 per cent mobile. But the workforce will move in some respects to where the work is. You will find that, from our national business point of view, there is more work in Western Australia at the moment than there is in New South Wales. So we have a lot of people from New South Wales working on our projects in Western Australia. We have a lot of subcontractors, and we have a lot of supervisory staff and the like, working on our projects. So certainty of time frame and certainty of projects, and the sort of presentation that Richard did, really gives the opportunity to the industry to prepare for upcoming opportunities. In that regard, I think certainty is probably more important than having a steady flow, because when the certainty is there, people can build their businesses around what the opportunities are.

Ms R. SAFFIOTI: In relation to the office known as Strategic Projects, that deals with a big portion of government work. But it does not include some agencies; for example, I do think it includes Main Roads, the Public Transport Authority, the Water Corporation and the electricity corporations. Would it be more helpful for industry if there was one office, whether it be that office or another office, that could give you a whole-of-government look as well? I know that Strategic Projects covers probably 50 per cent of the major projects out there. But, again, would it be of more benefit to have a whole-of-government analysis provided?

Mr Palandri: Well, it would, but the government is already doing that. The presentation that I referred to that Richard Mann did was the keynote presentation, I guess. That conference was put

together by CEIID. That is Strategic Projects, it is Main Roads, it is the Water Board. It is many government agencies coming together. He gave the keynote presentation. There were also two groups that were set aside, one on infrastructure projects, and one on building projects, where those other agencies gave more detail about their programs. All the information and all the presentations were available on the CEIID website. So, four days after those presentations, we went to the CEIID website and pulled down all the information. It is the pipeline of work for government as a whole in Western Australia, across the whole industry.

Ms R. SAFFIOTI: Okay.

Mr Palandri: So, yes, that is very helpful.

The CHAIRMAN: To what extent do you have a bit of a window into how government works in this area? The whole government works reform program, are you familiar with it, or do you really see only the front shop that you deal with?

Mr Palandri: We would be more at the front shop end, I guess. But really, around the country, and in Western Australia in particular, in excess of 50 per cent of our work comes from the state government or from governments. So we do get a fairly good insight into it, just by being involved with government regularly. But we are more at the front end of that understanding.

The CHAIRMAN: Okay. Are you able or willing to make any comments on what you would see as the positive things or the not so positive things in terms of that approach by the government here now in interfacing with you, offering work and making sure there are clear messages and that you understand how it has assessed things and what it is expecting?

Mr Palandri: Well, I do not think my comments would be any more than what I have previously stated. I think that the information flow and the manner in which, in our experience, the government is letting its contracts and awarding its contracts and bidding for and putting together its opportunities is quite well run in Western Australia.

The CHAIRMAN: Would you like to make any comparison with the other states in terms of what we might want to avoid, or what we can do to make sure that we do not slip into doing what some of the other states are doing, or about how other states may be doing it better and we could learn from them?

Mr Palandri: Well, New South Wales is not doing anything, so you can take that state out in some respects. I have been in New South Wales for the last 18 years, so in terms of my detail around that, there have not been, particularly in the more recent period—the last eight to 10 years—a lot of government projects. The government projects in New South Wales have had all the greatest ills of things that we would like not to see happen in Western Australia. The New South Wales government pulls projects regardless of there not being a change of government. It just changes its mind. It changes Premiers and pulls projects, and it puts in new Premiers and starts projects. The industry has no confidence whatsoever about what the New South Wales state government is doing. As a result, you will find that the resources of organisations like ourselves are better invested in Western Australia and bidding for projects than they are in New South Wales, because there is no certainty there that there will be any outcome at all or any project delivered. So that would be a case study in point of what not to do, I guess.

The CHAIRMAN: What about Victoria and Queensland?

Mr Palandri: Victoria seems to be a lot better. Again, I have not been responsible for those states, but the feedback we get is that Victoria has better clarity. Victoria has been a big adopter of the PPP model—the full PPP model—and it is delivering quite a number of projects using that model. But certainty has been fairly well fulfilled in Victoria. They have not been stop and start and in and out of projects.

The CHAIRMAN: When you do PPPs, do you have pretty much a standard partner that you work in terms of funding or do you do it with a whole range of companies?

Mr Palandri: We do it with a range of companies.

The CHAIRMAN: My final question is: What is the state of the construction industry in Western Australia at the moment? You have said that there is a reasonable amount of government work but not so much from the private sector. What is the prospect for the next year or two?

Mr Palandri: The contracting market in Western Australia is good. It is well resourced. There was concern from a commercial building point of view, which is the area that I am in, about the pulling of resources into the north, and there are still some lingering concerns about that. But we are not having resourcing problems at the moment. We have got three major projects on at the moment that are all being well resourced and we are not having issues with fulfilling those projects. Generally the industry is in fairly good shape.

The CHAIRMAN: Good.

I have some brief formalities to close off with. Thank you very much for presenting today and giving your evidence to the committee. A transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached to the transcript. If the transcript is not returned within this period it will be deemed to be correct. New material cannot be added via these corrections, and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. Again, thank you very much for providing us with your valuable information.

Mr Palandri: Thank you for your time.

Hearing concluded at 11.07 am