

2 Melbourne Convention Centre Development

At a glance

Background

In April 2004, the Government committed to develop a “world class” convention centre on the banks of the Yarra River, adjacent to the existing Melbourne Exhibition Centre. The new convention centre’s plenary hall will accommodate 5 000 delegates, with the project also acting as a catalyst for commercial redevelopment of the surrounding area, including a riverfront entertainment/lifestyle precinct, and hotel.

The development is being delivered under the *Partnerships Victoria (PV)* framework and has received State funding of \$367 million for capital components of the project.

Key findings

- There was adequate analysis of the need, and options for delivery of the development. The business case was comprehensive and evidence-based, and a detailed analysis of procurement options was conducted.
- The procurement process used for the development complied with the required Victorian Government Purchasing Board and PV policy and guidance. Probity was enforced and maintained through all key procurement stages, including structured negotiations. Risk allocations were consistent with the PV guidance.
- The design and construction phase of the project does not operate within a published project management framework. However, the project is progressing in a controlled manner in accordance with the agreed schedule after some 14 months of construction.

Key recommendation

- 2.1 That MPV (and the Department of Infrastructure) should continue their efforts to formalise and document a project management methodology, such as the proposed “Project Management Framework” to assist the effective implementation of major projects on behalf of the State.

2.1 About the development

2.1.1 Introduction

In April 2004, the Government released, *Victoria: Leading the Way*¹, a key economic statement on Victoria's role as a competitive force in the global marketplace. The statement included a commitment to develop a "world class" convention centre on the banks of the Yarra River, adjacent to the existing Melbourne Exhibition Centre.

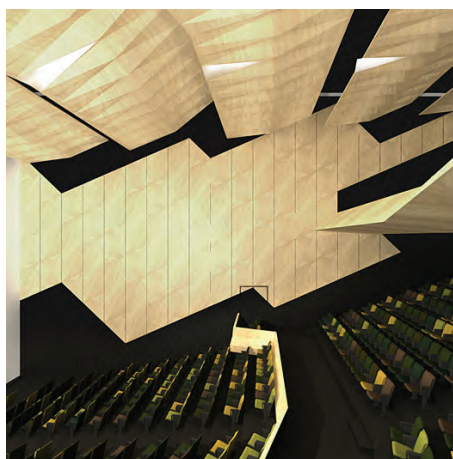
The Melbourne Convention Centre Development (MCCD) is being delivered under the *Partnerships Victoria* (PV) policy² by:

- Major Projects Victoria (MPV), a division of the Department of Infrastructure (DOI)
- the Department of Innovation, Industry and Regional Development (DIIRD)
- the Melbourne Convention and Exhibition Trust (MCET).

The Melbourne City Council has provided funding towards a new pedestrian bridge across the Yarra, and various public domain elements of the project.

The new convention centre's plenary hall will accommodate 5 000 delegates. It will also have the capacity to be subdivided to cater simultaneously for up to 3 smaller plenary configurations of 2 500, 1 500 and 1 000 persons. The centre will also include:

- a ballroom
- an 18-metre high glass wall façade fronting the Yarra River
- 32 meeting rooms of various sizes
- a ground-level foyer for 8 400 guests.



Artist's impression of an internal view of the plenary hall.

¹ Information on *Victoria: Leading The Way* can be found at http://www.diird.vic.gov.au/CORPLIVE/STANDARD/1001/PC_65135.html.

² The *Partnerships Victoria* policy is the State of Victoria's policy approach for Public Private Partnerships and can be found at www.partnerships.vic.gov.au.

In addition to the convention centre, the project is a catalyst for redevelopment of the surrounding area, including:

- a 10 000 square metre riverfront retail promenade that will include cafes and tourism retail
- a 396-room hotel
- an 18 000 square metre office tower (with some adjoining residential apartments)
- a 50 000 square metre “homemaker” retail complex.

The heritage protected maritime precinct incorporating the Polly Woodside Maritime Museum will be revitalised as part of the development. It has also been agreed in principle with the developer to incorporate remnants of the old South Wharf docks and associated cargo sheds into the commercial development.

The public-private partnership (PPP) contract was awarded in early 2006 to a consortium led by The Plenary Group³, which includes Deutsche Bank (debt), Multiplex Group (builder and facilities manager), Austexx (commercial precinct developer) and NH Architects/Woods Bagot/Larry Oltmanns (architects and designers). Construction of the new centre is due to be completed by the end of 2008, and is expected to open for business in 2009.

After completion, MCET will market and operate the centre and The Plenary Group will be responsible for the upkeep of the facility and operation of ancillary services for 25 years.



Aerial view of the Melbourne Convention Centre Development site.

³ Details on The Plenary Group’s involvement in the project can be found at their corporate web site <<http://www.plenarygroup.com/Projects/Melbourne-Convention-Centre-.html?Title=Melbourne%20Convention%20Centre>>.

2.1.2 Benefits and costs of the development

The State Government has committed \$367 million in capital funding to construct the new centre. The City of Melbourne is contributing a further \$43 million which will be spent on municipal works around the precinct, such as roads and street lighting, a new footbridge to the north bank of the Yarra River, and marketing of the new centre.

The new centre is intended to bring major economic benefits to Victoria, including an estimated increase to gross state product of \$197 million a year and an additional 2 500 jobs during the construction phase. Due to the extensive commercial developments being implemented in conjunction with the core development, the overall project is also a catalyst for a \$1 billion redevelopment of the area adjacent to the Melbourne Exhibition Centre.

As part of the PPP arrangements, the State received \$93.2 million from The Plenary Group for development rights of the precinct. A subsidiary of the group, Austexx Plenary Melbourne, will receive a 99-year leasehold for the commercial areas and a 25-year leasehold for the land relating to the convention and exhibition centre, once the convention centre is accepted by the State.

In addition to the main PPP deal, the State recently agreed in principle to contribute \$5.2 million to the commercial development partners (Austexx Plenary Melbourne) towards the cost of the restoration of the old South Wharf docks and sheds, and integration into the commercial development. The State has also agreed to pay compensation to existing lease owners to relinquish their rights to the sheds.

2.2 About this audit

2.2.1 Audit objective and scope

The objective for this audit was to assess the State's investment planning, procurement and management processes for the MCCD project by assessing whether:

- the needs analysis and business case for the development was adequate
- the procurement was conducted in line with relevant policy and guidance
- the project is being adequately managed.

This audit includes the following departments and authorities:

- Department of Industry, Innovation and Regional Development
- Major Projects Victoria, a division of the Department of Infrastructure
- Melbourne Convention and Exhibition Trust.

2.2.2 Acknowledgements

We acknowledge the cooperation and assistance provided by staff from the Office of Business Innovation and Strategy (Department of Innovation, Industry and Regional Development), Major Projects Victoria (Department of Infrastructure) and the Melbourne Convention Centre and Exhibition Trust, during the conduct of the audit.

We also appreciate the work by Codarra Advanced Systems who assisted with aspects of fieldwork for the audit and Associate Professor Colin Duffield of the University of Melbourne, who provided specialist advice to the audit team.



Artist's impression of the foyer of the new Melbourne Convention Centre.

2.3 Overall conclusions

2.3.1 Analysis of need for, and options to deliver, the project

We found that there was adequate analysis of the need, and delivery options for the development.

In particular, we noted that:

- the business case was comprehensive and evidence-based
- a detailed analysis of procurement options for delivery of the development was conducted
- a project brief provided the market with detailed information on the required deliverables for the project, including design and functionality expectations.

2.3.2 Procurement process

We conclude that the procurement process used for the development complied with the required Victorian Government Purchasing Board⁴ and PV policy and guidance.

We also conclude that there were no material scope changes to the core project, and that interactive bidding and structured negotiations assisted in refining the proponents' bids. The post-tender project scope change (agreement in principle to integrate the old South Wharf, docks and cargo sheds into the project precinct) has not had any material impact on the tender put to market, and a fair tender process was maintained.

We further conclude that risk allocations in the contract are consistent with the allocations recommended in PV guidance, and that the contract for the facility protects the State's commercial and residual interests.

2.3.3 Probity of procurement

On the issue of probity of the process, we conclude that:

- probity was enforced and maintained through all key procurement stages, including structured negotiations
- probity and other relevant procurement requirements were met
- appropriate records on the procurement were being maintained.

2.3.4 Project management systems

As the development is still underway, our observations on project management are preliminary, and cannot be confirmed until the development has been fully commissioned and delivered.

Our fieldwork revealed the following:

- the overall governance and structure of the project is complicated but well defined in the project documentation
- key project stakeholders are regularly consulted regarding the project in accordance with an approved communications strategy. Communication is primarily through media releases, stakeholder newsletters, signage around the development site, a large presentation in the existing exhibition facility and a project website⁵
- the design and construction phase of the project does not operate under a set of published processes, however, the project is progressing in a controlled manner in accordance with the agreed schedule after some 14 months of construction
- a comprehensive set of processes for the operations phase of the project have been developed and reviewed by key stakeholders, and have been noted by the project steering committee. Endorsement of these procedures is planned to occur prior to the commencement of the operations phase.

⁴ <<http://www.vgpb.vic.gov.au/>>.

⁵ The project web site can be found at <<http://www.mccd.vic.gov.au/>>.

Notwithstanding the above, we consider that a formalised and documented project management methodology would assist MPV in its role to implement major projects on behalf of the State.

Recommendation

- 2.1 That MPV (and DOI) should continue their efforts to formalise and document a project management methodology, such as the proposed “Project Management Framework” to assist the effective implementation of major projects on behalf of the State.

RESPONSE provided by the Secretary, Department of Innovation, Industry and Regional Development

Having reviewed and considered the report, I welcome its key findings as they relate to the various activities conducted by my Department in the project's development and procurement phases. I am particularly pleased to note your findings confirming there was adequate analysis of the project need, options for the delivery of the development, and that the business case comprehensively dealt with these issues.

I am also pleased to note your findings with respect to the overall procurement process, and in particular the structured negotiations process, which I understand this project has now become the benchmark for Partnerships Victoria projects.

RESPONSE by the Secretary, Department of Infrastructure

After a review of the proposed audit report, I am pleased that the key findings confirm that there was an adequate needs analysis, a comprehensive and evidence based business case, and that the procurement process and probity complied with all the relevant guidelines. I am particularly pleased that the audit confirmed that construction is progressing in accordance with the agreed schedule after 14 months of construction.

Major Projects Victoria (MPV) confirms that the design and construction phase of the Project operates under a set of processes that have been agreed at both the Project and Steering Committee level.

RESPONSE by the Secretary, Department of Infrastructure - continued

The Department of Infrastructure (DOI) has just launched its Project Management Framework (PMF) In addition, over the last 12 months MPV has developed its specific Project Management Framework, which is a consolidation of MPV's services and processes into a user friendly and comprehensive document. This body of knowledge encapsulates the processes and activities that occur for projects within MPV. This documentation is already 80 per cent complete and is due to be finalised shortly.

I welcome the acknowledgement by the audit report that the MCCD project is complying with the Partnerships Victoria framework.

The Project has been well managed through each of its phases and the thorough and independent audit by your Office has concurred with this view.

2.4 Was the analysis of the need and options for delivery of the development adequate?

2.4.1 Introduction

In Victoria, business cases are required to be prepared and submitted in support of all asset or capital proposals costing \$5 million or more⁶.

A business case is a useful tool for agencies that wish to invest in a capital asset or project, and helps them to:

- assess strategic fit, by defining the service need, and assuring alignment with government objectives
- analyse options on how to achieve the need (including procurement options)
- validate and confirm assumptions through a formalised business case containing detailed evaluation of costs, benefits, risks and opportunities.

2.4.2 Criteria we used

In developing criteria for this audit, we considered the following better practice guidance and policy:

- the *Partnerships Victoria* policy and guidance suite⁷
- the Department of Treasury and Finance's (DTF) Gateway Review Process⁸ and better practice lifecycle guidelines⁹ with particular focus on the project appraisal and business case development guidance.

⁶ This requirement applies to the general government sector (i.e. departments and statutory authorities).

⁷ The policy can be found at <www.partnerships.vic.gov.au>.

⁸ The guidance material can be found at <<http://www.gatewayreview.dtf.vic.gov.au/>>.

⁹ <<http://www.dtf.vic.gov.au/CA25713E0002EF43/pages/gateway-reviews-lifecycle-guidance-material>>

We recognise that the current business case development guidance was released after the development of the MCCD business case, and consequently applied its guidance in a comparative manner to inform our analysis.

In order to assess whether the analysis of the need and options for the project were adequate, we applied the following criteria:

- there was an adequate business case which:
 - included evidence of a defined business need, economic benefit and financial viability for the facility.
 - conforms with the main elements specified in relevant DTF guidance
- the project brief was comprehensive and included all required deliverables for the redevelopment.

2.4.3 Was there an adequate business case?

In October 2002, an enhanced convention centre for Melbourne was proposed to government, using an initial feasibility study commissioned by MPV, on behalf of MCET.

The feasibility study for a new convention centre arose from a number of strategic considerations, including:

- greater recognition of the economic value of the Meetings, Incentives Conventions and Exhibitions (MICE) market segment
- development of new capacity and competition in the regional (Australasia and Asia-Pacific) MICE market
- capacity of the largest plenary hall in the existing Melbourne Exhibition and Convention Centre only being 1 500 people.

The Government deferred consideration of the 2002 feasibility study and referred it to the Gateway Review Process for a “Gate 2 – Business Case” review.

The Gateway Review Team made a number of suggestions in regard to this early document, such as recommending that MCET/DIIRD and MPV:

- document key success factors for the project
- identify key stakeholders and seek their consensus on these factors
- conduct more detailed economic modelling and risk analysis
- develop a better understanding of the commercial opportunities in the precinct
- benchmark the proposed facility against competitor facilities in order to better understand cost, size and functionality issues.

The recommendations made in the review were substantially addressed in the approved business case that was submitted to the Government in August 2003.

The Gateway Review clearly assisted MCET, DIIRD and MPV to:

- clarify project outcomes
- improve costs and benefits modelling
- refine the functional specification for an enhanced convention centre.

It is noted that the MCCD project has been exempted from further Gateway Reviews.

We consider that this decision should be revisited to enable the project's development to benefit from further Gateway Review assistance as it progresses through its lifecycle.

Analysis of procurement strategy for the development

The business case identified that the MCCD should be pursued as a PPP in order to:

- transfer the construction and future maintenance risks to the private sector
- gain innovation and technology which would enhance the value of the project.

The business case also identified that a complementary commercial development within the precinct would be a desirable outcome of private sector involvement.

The current approved business case was considered by the Government in late 2003 and, subsequently, DIIRD was requested to explore the procurement options on a “no commitments” basis. This was done by commissioning a procurement strategy report from a consultant in January 2004.

The procurement strategy report identified 3 realistic options for procurement and delivery of the proposed new convention centre (outlined in Figure 2A).

Figure 2A
MCCD procurement options

Procurement option	Description of option
Design and construct	State build - using private sector contractor(s)
PV 1	Design Build Finance Manage (PPP) - MCET as operator
PV 2	Design Build Finance Operate (PPP) - private operator

Source: Victorian Auditor-General's Office analysis of MPV documents.

The strategy options analysis in the report recommended the “PV 1” option, as it was expected to:

- provide the State with the best value-for-money
- give flexibility to prioritise and actively manage the type of events that used the facility (as the State would maintain operational control)
- leverage from the successful business that had been built up by MCET.

The report also updated the Public Sector Comparator (PSC)¹⁰ to take into account environmental changes since the business case was first developed, and analysed the essential considerations specified in the *Partnerships Victoria* policy suite.

¹⁰ The Public Sector Comparator (PSC) is a financial model which develop a theoretical whole-of-life cost of delivery of a project by the State (by the most efficient means). Under PV policy, the PSC is used as a benchmark to assess the costs bid by the private sector.

Conclusion on adequacy of the business case

Our conclusion is that the business case is comprehensive and evidence-based¹¹. It transparently analyses the issues and challenges of the project, given its scale and economic importance.

We observed that the business case contains a detailed analysis of costs and risks, and forecasts of expected economic benefits and financial viability of the chosen procurement and operating model for the new convention centre.

The business case substantially conforms with the key elements expressed in current DTF better practice guidance and shows evidence of a defined business need, economic benefit and financial viability for the development.

Detailed consideration was given to the procurement strategy to achieve the project aims and objectives. This material contained in the business case and procurement strategy report was used to inform the project brief and to develop the Expression of Interest (EOI), which is discussed later in this part of the report.

The procurement strategy review is a detailed and focused discussion of the realistic procurement options that could be pursued by the State for the facility, and provides assurance of the viability of the project objectives.

Based on the above observation and analysis, our conclusion is that the business case conforms to relevant government policies and is supported by a rigorous analysis of the PV aspects of the project.



¹¹ We did not test the accuracy of the economic assumptions or financial variables included in the business case, as it was outside our scope of work for the audit. We did, however, observe DTF and a major advisory firm were directly involved in researching data used to prepare the business case.

Artist's impression of the new convention centre and proposed Hilton hotel.

2.4.4 Was there a comprehensive project brief?

The feasibility report prepared by MPV assisted in describing the expected function and form of the proposed development, particularly the aspects of configuration and functionality.

On 11 October 2004, a market briefing given to respondents to advertisements for the EOI reflected the core requirements of government. Figure 2B outlines the requirements.

Figure 2B
MCCD market briefing to EOI respondents

- Scope and objectives of the project
- Key functional performance of the facility (including energy/environment)
- PV structure with MCET to remain as operator
- Outline risk allocations
- Opportunities for commercial development
- Governance structures
- Evaluation criteria for bidders
- Indicative development milestones

Source: Victorian Auditor-General's Office analysis of DIIRD/MPV documents.

Our review of the EOI documentation confirmed that it contains all key deliverables specified for the project, including:

- design concepts
- functional requirements
- procurement options
- commercial development opportunities.

Conclusion on the project brief

DIIRD, MCET and MPV were able to develop a detailed project brief due to their investment in feasibility and concept studies for the proposed development.

The EOI documentation provided the market with detailed information on the required deliverables for the project.

All key deliverables for the project were included in market briefings held in conjunction with the EOI process for the development.

2.4.5 Overall conclusion on the adequacy of analysis of the need and options for delivery of the development

Based on our analysis of the available evidence, we conclude that there was adequate analysis of the need and options for delivery of the development.

In particular, we noted that:

- the business case was comprehensive and evidence-based
- a detailed analysis of procurement options for delivery of the development was conducted
- a project brief provided the market with detailed information on the required deliverables for the project, including design and functionality expectations.

2.5 Did the procurement process follow the rules, and was probity maintained?

2.5.1 Introduction

The EOI for the project was released in October 2004, and the preferred bidder was announced in February 2006. Finalisation of funding arrangements (“financial close”) for the project was achieved in May 2006. Construction of the facility is currently underway, and is due to be completed in late 2008.

The project was declared under the *Project Development and Construction Management (PDCM) Act 1994* in December 2004. This declaration helped MPV to carry out the PPP procurement on behalf of DIIRD and MCET in line with arrangements agreed by the Government under the powers of the PDCM Act.

The procurement was conducted under the *Partnerships Victoria* policy¹², as well as other relevant procurement policy issued by the VGPB.

2.5.2 Criteria we used

To assess whether the procurement was conducted in line with relevant policy and guidance, we considered whether:

- the procurement approach complied with procurement requirements and guidelines for PPPs and any other relevant procurement guidance
- any post-tender project scope changes or proposed contractual terms did not materially impact on the tender put to market (i.e. ensuring all tenderers were given fair/equal opportunity to tender)
- the contract allocates risk between the parties in line with the *Partnerships Victoria* policy and protects the State’s interests (such as through professional indemnity, dispute resolution and abatement/liquidated damages clauses)

¹² <<http://www.partnerships.vic.gov.au>>.

- probity was enforced and maintained through all key procurement stages, including structured negotiations
- prior to awarding the contract, the State reviewed the conduct of the procurement process and prepared a report which showed that:
 - probity and other relevant government procurement requirements were met
 - appropriate records are maintained.

2.5.3 Did the procurement approach follow the rules?

We observed that the MCCD project followed a typical procurement process for a large and complex construction project.

Figure 2C
Key procurement milestones for the project

Date	Procurement step	Outcome	
2004	April	Government approves project	Decision to procure a PV project
	October	EOI released	Market briefing 11 October 2004
	December	EOI submissions received	3 parties short-listed
2005	March	Request for Proposal (RFP) released	Issued to 3 bidders
	April	Bidder workshops	10 interactive workshops
	August	RFP submissions received	RFP evaluation starts
	November	RFP short list	Structured negotiations commence
2006	February	Preferred proponent selected	Public announcement
	March	Contractual close	Contract execution
	May	Financial close	Commence construction
Ongoing	Negotiate financial close for commercial precinct	MPV to resolve issues with commercial developer	
2008	December	Construction completed	Commercial acceptance
2009	January	Commence operations	MCET as operator and Plenary as facility manager.

Source: Victorian Auditor-General's Office analysis of MPV documents.

Application of *Partnerships Victoria* policy and guidance

The following PV requirements for this development were observed:

- a PSC was constructed and used to assess bids
- an output specification (i.e. the design brief) was contained within the Request for Proposal (RFP)
- a public interest test was conducted
- appropriate sign-offs and approvals were sought and gained from the relevant ministers and Cabinet.

Value-for-money analysis

A VFM analysis was conducted by MPV to acquit the successful bid against the PSC, as well as achievement of the project scope, objectives and expected functionality.

Evidence we viewed showed that on financial grounds alone, the cost of the contracted project was lower than the net present value of the PSC.

In addition, although non-financial benefits were not expressly modelled in the project business case, or fully reflected in the PSC, in Audit's view it is reasonable to expect them to generate direct and indirect positive value for the State economy over the life of the project.

Figure 2D Examples of non-financial benefits from the development

- 6 “green star” Green Building Council of Australia rating for the core facility
- Effective integration of the *Polly Woodside* maritime heritage precinct
- Complementary commercial development and upgrade of the precinct
- Pre-built capacity for future expansion of the existing exhibition halls
- Addition to the rate base for City of Melbourne and City of Port Philip from the commercial precinct improvements
- Improved amenity and public domain facilities throughout the precinct

Source: Victorian Auditor-General's Office analysis of MPV/DIIRD documents.

Conclusion on procurement approach

Appropriate documentation relating to all of the procurement milestones was prepared, and the process was conducted in line with government policy and guidance. In particular, the procurement process complied with the required VGPB and PV policy and guidance.

2.5.4 Did the project procurement scope change?

There was no evidence of scope changes during the bidding process. However, we noted that the following aspects of the project brief changed after the EOI phase:

- requirement of for a minimum 4 Green Star rating (using a rating tool developed by the Green Building Council of Australia)
- allowance of potential freehold strata titles to be issued to accommodate a residential development.

These changes were fully incorporated into RFP documentation released to the 3 short-listed EOI respondents. A process of interactive bidding¹³ was used by the project team in order to better align bidders to the requirements identified in the State's reference project, which was an outcome of the 2002 feasibility study. The reference project was used to help clarify operational concepts, site usage and needs, as well as design functionality of the 5 000 person capacity plenary hall.

A structured negotiations process was also used by the procurement team. This process involved parallel discussions with each complying respondent on aspects of their proposal. The process was designed to stimulate competitive tension between bidders, and to resolve any departures from the preferred outcome regarding contract, cost and function. We saw no evidence of scope changes to the core convention facility arising from this negotiation process.

Post contractual and financial close, the State and the winning bidder negotiated and agreed in principle to incorporate the old South Wharf docks and sheds into the commercial development precinct.

The contribution agreed in principle to be made by the State is less than the expected cost to maintain and protect the heritage waterfront precinct and wharf sheds.

We, therefore, consider that this agreement in principle should allow for the effective integration of the old South Wharf docks and sheds at a reasonable cost.

Conclusion on scope changes during procurement

Based on our analysis, we conclude the following:

- there were no substantive scope changes to the core convention facility
- interactive bidding and structured negotiations assisted in refining the proponents' bids
- the post-bid additions to the project (i.e. the agreement in principle to integrate the old South Wharf docks and sheds) are within the parameters of costs that the State was likely to have incurred to maintain and protect the heritage waterfront precinct
- the post-tender project changes did not have any material impact on the tender put to market, thus maintaining a fair tender process.

2.5.5 Was risk allocated appropriately?

Bidders for the project were expected to understand and accept the State's preferred risk allocations and price those risks accordingly in their bid.

Expected risk allocations for the project were carried through from the procurement strategy review to the EOI and RFP documents.

¹³ A DTF advisory note on interactive tendering can be found at <http://www.partnerships.vic.gov.au/CA25708500035EB6/WebObj/AdvisoryNoteInteractiveTenderProcess/File/Advisory%20Note%20Interactive%20Tender%20Process%20.pdf>.

An extensive risk identification exercise was carried out for the project by the legal advisor, which has been distilled to a risk matrix and is presented regularly to the steering committee. (We discuss risk management in more detail later in this part of the report.)

Our review of the development's risk allocation patterns confirmed that they conform to the allocations recommended in PV guidance.

The structured negotiation process identified and analysed any risks or contractual departures prior to contractual close and minimised any adverse impact. The PPP contract was drafted to be compliant with the standard commercial principles espoused by DTF¹⁴, and to protect the State's residual and future rights including default, change, cure and step-in clauses.

Conclusion on risk allocation

Based on the above observation and analysis, we find that risk allocations in the contract are consistent with the allocations recommended in PV guidance and that the contract for the facility protects the State's commercial and residual interests.

2.5.6 Was probity of the procurement process maintained?

We examined the probity framework, probity plan and probity auditor's reports for the project. We also conducted interviews with the probity auditor, probity advisor and key project personnel involved in various negotiations and aspects of the procurement.

The probity advisor was a DIIRD officer who carried out the typical duties of a probity adviser, including advising the project team on probity matters and designing a probity framework for implementation by the probity auditor.

An independent probity auditor was engaged for the project and there is evidence that he was present at all key procurement and evaluation discussions, negotiations and deliberations. We also saw evidence that a report was provided by the probity auditor when a potential conflict emerged during the bidding phase.

Probity and process deeds were required to be signed by the proponents, and these included all the probity requirements expected by government policy.

Conclusion on maintenance of probity

Based on the above observation and analysis, we conclude that probity was enforced and maintained through all key procurement stages, including structured negotiations.

¹⁴ <[http://www.partnerships.vic.gov.au/CA25708500035EB6/WebObj/PVStandardCommercialPrinciplesFinal/\\$File/PV%20Standard%20Commercial%20Principles%20Final.pdf](http://www.partnerships.vic.gov.au/CA25708500035EB6/WebObj/PVStandardCommercialPrinciplesFinal/$File/PV%20Standard%20Commercial%20Principles%20Final.pdf)>

2.5.7 Was probity of the procurement process reviewed?

Two reports were prepared by the probity auditor and provided to the Secretary of DIIRD as outlined in Figure 2E.

Figure 2E
MCCD probity audit reports

Date	Report
23 November 2005	Probity audit report up to the short-listing stage
20 February 2006	Final probity audit report at the completion of tender

Source: Victorian Auditor-General's Office analysis of DIIRD documents.

Both reports confirmed that the procurement process had been conducted in accordance with the probity principles established for the tender. The report was consistent with the format specified by the VGPB.

During interviews, the procurement advisor indicated that as the procurement process continued, any risks or issues arising were reported to the steering committee and were documented in the project and enterprise risk management plans.

Based on our inspection of the agencies' files, we are satisfied that appropriate records have been maintained on the various steps of the procurement process.

Conclusion

Based on the above observation and analysis we concur that:

- probity and other relevant procurement requirements were met
- appropriate records on the procurement have been maintained.

2.5.8 Overall conclusion on the procurement process and probity

We conclude that the procurement process used for the development complied with the required VGPB and PV policy and guidance.

We also conclude that there were no material scope changes to the core project and that interactive bidding and structured negotiations assisted the State to refine the proponents' bids. The post-tender project scope change (integration of South Wharf into the project precinct) has not had any material impact on the tender put to market, and a fair tender process was maintained.

We further conclude that risk allocations in the contract are consistent with the allocations recommended in PV guidance and that the contract for the facility protects the State's commercial and residual interests.

On the issue of probity of the process, we found that:

- probity was enforced and maintained through all key procurement stages, including structured negotiations
- the State used a probity auditor to review and report on the conduct of the procurement process
- probity and other relevant procurement requirements were met
- appropriate records on the procurement are being maintained.

2.6 Are there adequate project management systems for the development?

2.6.1 Introduction

At the time of this audit, the project was 14 months into a 32-month design and construction phase. This will be followed by a 25-year operations phase.

A Contract Administration Manual (CAM) for the current design and construction phase of the project does not exist, although it is recommended by PV policy on contract management.

Consequently, a number of observations made relating to this phase of the project have been developed from other available evidence such as the most recent project status reports.

We note that for this PPP, most of the direct contractual risks and issues arising during the design, construct and commissioning stages rest with the private sector, which mitigates the State's need to have a detailed set of guidance.



Image showing the progress that the MCCD was making in August 2007.

2.6.2 Criteria used to review project management systems

The Government does not mandate any particular project management methodology. In the absence of a mandated methodology, the evaluation criteria for this objective were constructed using the Project Management Institute’s “Project Management Body of Knowledge” (PMBOK).

This methodology is well-regarded by project management practitioners and experts as a high level standard for the project management discipline¹⁵.

Figure 2F outlines the PMBOK knowledge areas used to assess the project.

Figure 2F
PMBOK Knowledge Areas

Project Integration Management	Project Scope Management	Project Time Management
The processes and activities needed to identify, define, combine, unify, and coordinate the various processes and project management activities.	The processes required to ensure that the project includes all the work required, and only the work required, to complete the project successfully.	The processes required to accomplish timely completion of the project.
Project Cost Management	Project Quality Management	Project Human Resource Management
The processes involved in planning, estimating, budgeting, and controlling costs.	Processes include all the activities that determine quality policies, objectives, and responsibilities.	The processes that organise and manage the project team.
Project Communications Management	Project Risk Management	Project Procurement Management
The processes required to ensure timely and appropriate generation, collection, distribution, storage, retrieval, and ultimate disposition of project information.	The processes concerned with conducting risk management planning, identification, analysis, responses, and monitoring and control on a project.	The processes to purchase or acquire the products, services, or results needed from outside the project team to perform the work.

Source: Project Management Institute <www.pmi.org>.

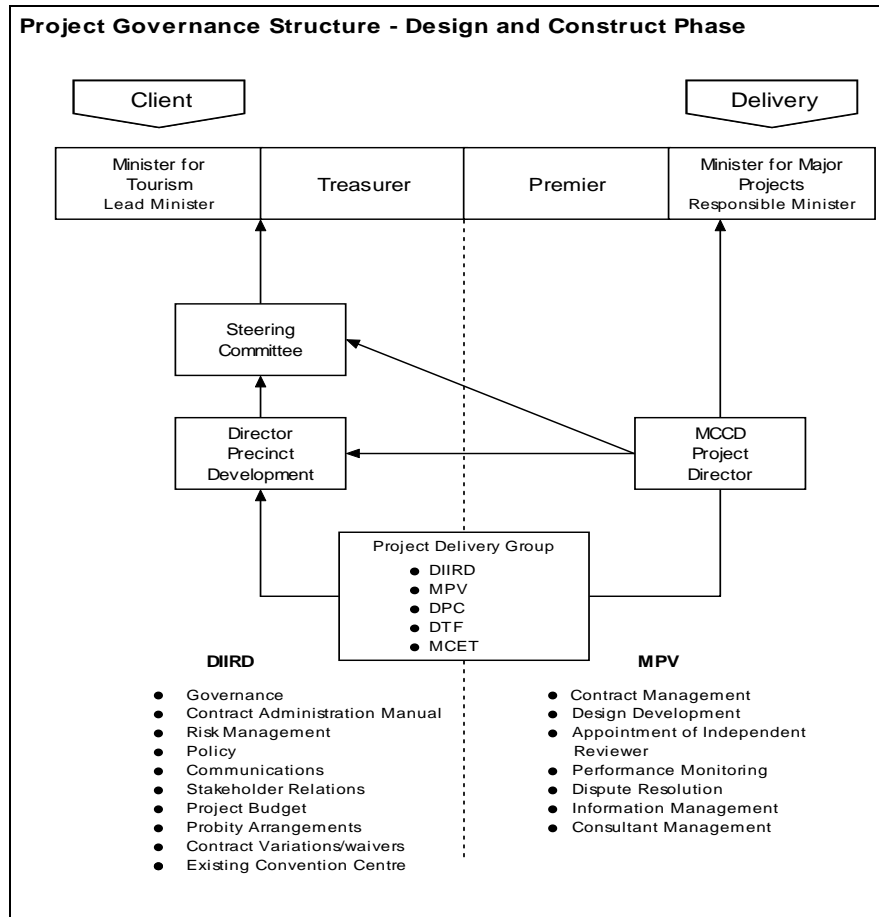
2.6.3 Project integration management

Although the governance arrangements for the project are, in our view, complicated, the relationships and the associated roles and responsibilities across both project phases have been well defined and articulated across the project documents.

The Minister for Tourism is the project client (through DIIRD for the design and construction phase) and the Minister for Major Projects is responsible for project delivery.

¹⁵ We do not report on the PMBOK function “Project Procurement Management”, as this review was conducted as part of our preceding examination of procurement for the overall development.

Figure 2G
Governance arrangements for the project



Source: Victorian Auditor-General's Office analysis of DIIRD document.

The operations phase of the project is supported by a CAM which has been noted by the project steering committee. Endorsement of the CAM is planned to occur prior to the commencement of the operations phase.

Although MPV does not have a formally documented project management methodology for the development, we observed that the project is operating in an integrated manner with all the various stakeholders, both internal and external to the project, being regularly consulted on the project.

We observed that MPV has been managing the design and construct phase of the project under a set of processes that have been agreed by the project steering committee. We further note that the *Partnerships Victoria* Group within MPV (who have responsibility for the MCCD), closely align their project management approach with the policy and guidance released by DTF.

We reviewed confidential working drafts of DOI and MPV's proposed "Project Management Framework" documents, provided to us at the end of fieldwork for this audit. These proposed frameworks expect to describe and encapsulate the processes and activities that occur for projects within the department.

We consider that MPV (and DOI) should continue with their efforts to formalise and document this proposed project management methodology, to assist MPV with implementation of major projects on behalf of the State.

2.6.4 Project scope management

As discussed earlier in this part of the report, the overall scope of the project changed after the release of the approved business case. However, since enactment of the project agreements, the project scope has not changed.

The project scope is defined through high-level project objectives and key success factors, rather than detailed specifications. These have been refined into a detailed functional brief forming the basis of the facility design. In effect, this functional brief has become the "output specification" for this PPP project.

The high-level objectives are captured in the project agreement with the project company. The key success factors are not included in this agreement, however, the project agreement provides an extensive set of processes for the management of change which cover changes initiated by either the State or project company.

The project company is using MPV and DIIRD's endorsements of design specifications to ensure that the final design satisfies the project's objectives, and to control and manage scope of the project. The project company is also contractually obliged to satisfy the performance and functionality requirements of the facility in order to reach commercial acceptance, which is the trigger for commencement of payments by the State to the project company.

Nevertheless, we note that analysis of the adequacy of this approach for controlling the scope of the project cannot be reliably determined until final acceptance by MPV, DIIRD and MCET (on behalf of the State) has been achieved.

2.6.5 Project time management

Because the project company is on or ahead of schedule after approximately 14 months of the design and construction phase, this situation provides a level of validation of the original time estimates. We consider that the project company is effectively managing and integrating subcontractors and other organisations involved in the project.

We examined evidence documenting that the project schedule is being purposefully managed and the resource and duration estimates used for these works are realistic. The project is being managed in a manner that should result in the scope of the project being completed in line with the original estimates. The progress of the project is being consistently reported to all relevant stakeholders.

2.6.6 Project cost management

The funding for the delivery of the new convention centre is an agreed sum, disbursed through the payment schedule contained in the PPP contract. The costs of the commercial aspects of the development are being fully met by the commercial developer.

The project agreement for the design and construction phase uses a fixed-cost contract with the majority of risk residing with the project company. The State's risk resides in variations to the project agreement. The project agreement defines the process by which the cost of variations by either the State or the project company can be addressed.

A cost claim for the clean-up of unidentified site contamination was shared between the State and the project company (in accordance with the risk allocations in the agreement). The State's contribution is being drawn from the project contingency funds.

For the operations phase, payments to the private party are linked to repayment of the capital component of the facility, as well as the supply of facilities management and ancillary services. The contract contains a provision for abatement if these services are delivered below the required standard.

2.6.7 Project quality management

The State's quality criteria for the development are provided through high-level project objectives and key success factors. These have been elaborated in the functional brief. At this early construction phase of the project, it is difficult to assess whether these criteria are being satisfied.

The State's interests regarding the quality of the development are being assured by an independent reviewer. The independent reviewer assesses the detailed designs against the functional brief and also certifies the satisfaction of the functional brief at the completion of the design and construction works.

We consider, however, that the management of higher-level project documents could be improved by the implementation of more rigorous version control management processes.

The project company is actively demonstrating satisfaction of the project's objectives and key success factors through its construction work activities, as well as minimising the need for rework and addressing quality shortfalls.

The CAM for the operations phase of the project presents a number of processes for the management of the facility. Agreements for the supply of facilities management services have been established and contain a provision for abatement if those services are delivered below the required quality standard.

2.6.8 Project human resource management

Descriptions of the various key roles and responsibilities for organisations and individuals involved with the project are provided in the contract management plan and the project agreement.

The resources assigned to the design and construction phase of the project are being managed in a controlled manner in the absence of published processes. There is also evidence that the human resources assigned to the project have the skills necessary to undertake the various roles on the project.

The CAM for the operations phase contains a number of detailed processes and presents the recommended skills required of the contract administrator to effectively manage this phase of the project.

2.6.9 Project communications management

The project's key stakeholders are clearly defined and regularly consulted.

The recently launched MCCD website¹⁶ is the main source of information to the general public regarding the project. The websites of DIIRD, MPV and MCET also contain information about the project.

The communications strategy outlines the approach for communicating with the project's stakeholders during the design and construction phase of the project. To date, a coordinated approach to communications with stakeholders during the design and construction has been demonstrated.

The CAM for the operations phase of the project presents a number of processes for stakeholder communications. As the operations phase of the project has not commenced, we were unable to make an assessment of the processes described in the CAM.

2.6.10 Project risk management

Risk management is an integral part of the management of the project. The risk management processes have been guided by *Partnerships Victoria* policy and the Australian Standard for Risk Management AS4360:2004. They included detailed consideration of risk in preparing tender documents, the tender process and contract settlement. Appropriate oversight has been provided by the steering committee during those processes.

¹⁶ < <http://www.mccd.vic.gov.au>>.

The project currently uses a headline risk table as a means of informing stakeholders of the key risks to the successful completion of the design and construction phase. The headline risk table is sourced from the risk allocation matrix. This matrix contains a large number of risks, but we noted that it could be improved by categorising the risks in accordance with guidance from *Partnerships Victoria* and the Australian Standard for Risk Management AS4360:2004.

2.6.11 Overall conclusion on project management systems

As the development is still underway, our observations on project management are preliminary, and cannot be confirmed until the development has been fully commissioned and delivered.

However, our fieldwork concluded:

- the overall governance structure of the project is complicated, but well-defined in the project documentation
- key project stakeholders are regularly consulted regarding the project in accordance with a published communications strategy. Communication is primarily through media releases, stakeholder newsletters, signage around the development site, a large presentation in the existing exhibition facility, and a project website¹⁷
- the design and construction phase of the project does not operate under a set of agreed and published processes, however, the project is progressing in a controlled manner in accordance with the agreed schedule after some 14 months of construction
- a comprehensive set of processes for the operations phase of the project have been developed and reviewed by key stakeholders, and has been noted by the project steering committee. Endorsement of these procedures is planned to occur prior to the commencement of the operations phase.

Notwithstanding the above, we consider that a formalised and documented project management methodology would assist MPV in its role to implement major projects on behalf of the State.

Recommendation

- 2.1 That MPV (and DOI) should continue their efforts to formalise and document a project management methodology, such as the proposed “Project Management Framework” to assist the effective implementation of major projects on behalf of the State.

¹⁷ < <http://www.mccd.vic.gov.au/>>