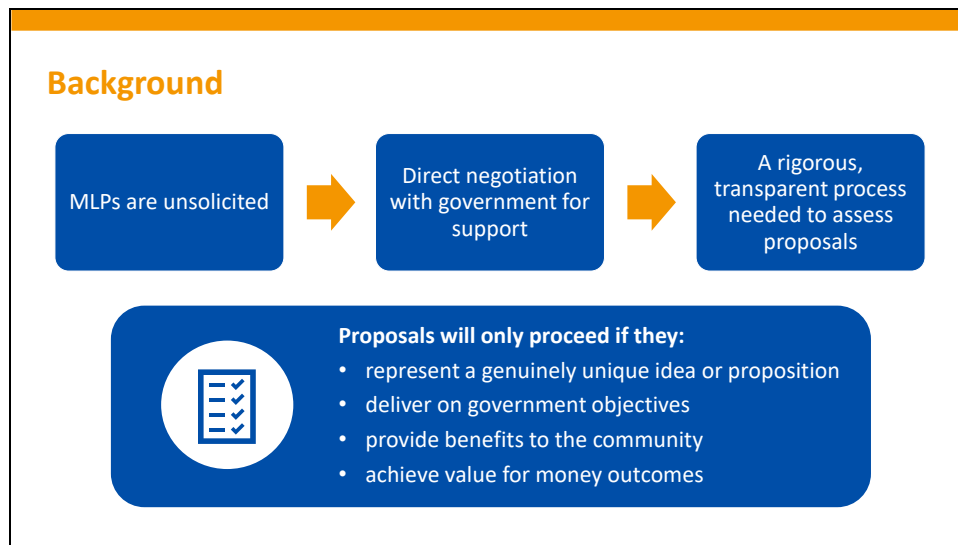


Slide 1



This presentation provides an overview of the Victorian Auditor-General's report Market-led Proposals, or MLPs.





In an MLP, the private sector makes an unsolicited approach to government for support to deliver infrastructure or services through direct negotiation, instead of a competitive procurement process.

A proposal will only proceed if it is genuinely unique, delivers on government objectives, provides benefits to the community and provides value for money.

Audit focus

Were selected MLPs assessed in line with government requirements?


 What we looked at	 Who we looked at
<ul style="list-style-type: none">• West Gate Tunnel• Victoria Police Centre• compliance with MLP guidance• adequacy of advice to government	<ul style="list-style-type: none">• Department of Treasury and Finance (DTF)• Department of Transport• Victoria Police

We examined two successful MLPs, the West Gate Tunnel proposal from Transurban, and the Victoria Police Centre proposal from Cbus and Australia Post.

The Department of Treasury and Finance, or DTF, has a role in overseeing and monitoring MLPs, and was directly involved in assessing these two proposals.

We examined whether DTF and lead agencies complied with the MLP guidance and other relevant requirements when assessing these proposals, and whether their assessments and advice provided a sound basis for government decisions on the proposals.

What we found



Conclusion

The West Gate Tunnel and Victoria Police Centre proposals were assessed and approved as required, but DTF's and Victoria Police's advice to government could have been more transparent and comprehensive

We found that while DTF and Victoria Police documented the required assessments, their advice to government could have more transparently explained the implications of their assessment approaches, and provided greater assurance about key inputs underpinning these assessments.

We identified minor departures from the MLP guideline and have recommended some areas where the guideline can be enhanced.

West Gate Tunnel—uniqueness

✓ Uniqueness was established based on Transurban's access to CityLink revenues




- Only Transurban can currently access toll revenue
- Its CityLink concession runs until 2035
- DTF's assessment was reasonable, but did not include substantive analysis of granting another operator access to the CityLink extension

The West Gate Tunnel relied on funding from Transurban tolling the new road, its existing CityLink concession, an extension of that concession, and a state contribution. DTF advised the government that Transurban's proposal was unique because only Transurban could access toll revenues from its existing CityLink concession, which it holds until 2035.

DTF's uniqueness assessment was reasonable under the MLP guideline, but did not include substantive analysis of granting another private operator access to the CityLink extension, or the state taking on the tolling of CityLink from 2035.

West Gate Tunnel—business case

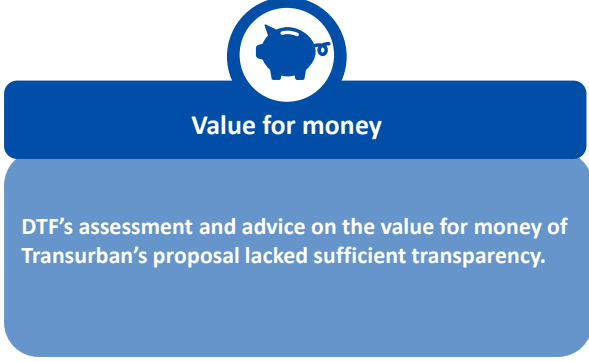
The business case that informed the government’s decision to proceed:

-  **Scope**
Did not adequately justify inclusion of Monash Freeway upgrade
-  **Options**
Did not sufficiently examine project solution options
-  **Cost Benefit Analysis**
Lacked transparency on benefits

In 2015, the government requested a business case for the West Gate Tunnel to test its merits as a standalone project.

We found that the business case did not adequately justify the inclusion of the Monash Freeway widening works in the project scope, which improved its benefit-cost ratio. The West Gate Tunnel project on its own showed only a marginal value proposition. The business case did not examine a range of alternative project solution options in sufficient depth, and did not have a sufficiently transparent cost-benefit analysis.

West Gate Tunnel — Value for money



Value for money

DTF's assessment and advice on the value for money of Transurban's proposal lacked sufficient transparency.

DTF's assessment and advice on the value for money of Transurban's proposal lacked sufficient transparency, due to issues with revenue assumptions, approaches to discounting revenue streams, and the use of a state benchmark range without also including a single best point estimate.

Victoria Police Centre—uniqueness

DTF and Victoria Police justified uniqueness based on security and co-location benefits. However, MLP guidelines were not satisfied because:

-  No time pressure
-  Other sites could have met Victoria Police's security needs
-  Co-location benefits were only superficially specified
-  The market for the provision of office accommodation is competitive

DTF and Victoria Police justified the Cbus/Australia Post proposal to build a new police headquarters at 311 Spencer Street as unique based on the site's security and co-location benefits. However, they did not show that these benefits could not be achieved through a standard competitive process.

Victoria Police's lease at the World Trade Centre did not expire until July 2020, which in 2015 left ample time for a competitive process. Security was cited as the primary basis for the uniqueness of the proposal, but Victoria Police obtained advice showing other sites that could meet its security needs.

In addition, the state received two alternative MLPs for a new Victoria Police headquarters , which demonstrated the potential for the market to respond to this service need.

Victoria Police Centre—value for money

Value for money benchmarks were met, but at an increased risk and cost to the state.



Risks

- Lease term of 30 years
- Building size increased for unconfirmed sub-tenants
- State leased the entire building
- Sub-tenants are expected to pay around 35% of rental costs, but only one has committed

The government's value for money benchmarks for the Victoria Police Centre were met, but at an increased risk and whole of life cost to the state.


The state has taken on an unusually long lease of 30 years, and Victoria Police negotiated increases to the building size to accommodate three potential subtenants. However, only one of these proposed subtenants committed.

DTF and Victoria Police did not convey the impacts of the changes to the size and lease term of the VPC clearly enough in their assessments and advice to government.

Recommendations

3 recommendations for DTF

- better document the assumptions and calculations that underpin its advice to government on MLPs
- undertake sensitivity analyses to test key assumptions for MLP value for money assessments
- clarify MLP guidance on:
 - establishing uniqueness
 - assessing value for money benchmarks
 - assessing concurrent alternative proposals for the same project

 Did not accept recommendations

We made three recommendations to DTF, which call for improvements in both the MLP guidelines and its advice to government. DTF responded to our report and did not accept our recommendations, as it disagreed with our key audit findings. We have written to DTF regarding our concerns with its response to our report.

For further information, please view the full report on our website:
www.audit.vic.gov.au

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