

Public Accounts and Estimates Committee

Submission No. 18



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Executive Officer  
Public Accounts and Estimates Committee  
Parliament House  
Spring Street  
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Dear Sir/Madam

### **Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects**

Thank you for the opportunity to contribute to the Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects.

There is a widespread consensus among key commentators that Australia's infrastructure backlog is in the order of \$700 to \$800 billion. Infrastructure investment has a particular urgency in Victoria given the rate of population and freight growth. For example, Melbourne's population is estimated to reach 7-8 million by 2050 and container throughput is set to quadruple by 2035.

The infrastructure backlog has grown against a background of rapidly growing recurrent public sector spending, with a rise in Victorian public service numbers of 37 per cent between 2000 and 2008, the highest of all the States.

The infrastructure task is certainly beyond the scope of governments to fund; private sector involvement will need to be a given. At present, Public Private Partnerships (PPPs) represent only ten per cent of government infrastructure expenditure, and this will have to rise.

Government decision makers will require the expertise to spend every dollar of taxpayers' dollar to maximum effect, as well as encouraging optimum private sector participation.

Victoria has experienced both successful and unsuccessful infrastructure projects in recent years.

A successful infrastructure project could be defined as one that:

- Has clear and achievable objectives and meets its original objectives.
- Is completed on time and on budget.
- Provides economic benefit to the wider economy, preferably beyond the construction costs (direct and indirect economic benefits combined) and the electoral cycle.
- Does not overly burden the State Budget or taxpayers.

- Does not conflict with existing infrastructure or other infrastructure priorities.
- Is characterised by harmonious industrial relations and realistic industrial agreements, encompassing remuneration and work practices.

Successful projects under these criteria would include Eastlink, the construction of the Convention Centre and the Port Philip Bay Channel Deepening Project.

The Channel Deepening Project, for example, finished one month early and \$200 million under budget.

The Eastlink Project, Australia's largest road development to-date, which involved the construction of 39 kilometres of road and 86 bridges, finished five months early.

The Convention Centre was a \$1.4 billion Public Private Partnership (PPP) project that opened on time and on budget in 2009.

All three were constructed under different models – the alliance model in the case of channel deepening, a user pays BOOT (Build Own Operate Return) model in the case of EastLink and a PPP that also leveraged retail and 5-star accommodation in the case of the Convention Centre.

Less successful projects include the Wonthaggi Desalination Plant, where the construction of the plant is now delayed by months and is already over budget.

One of the key ingredients for achieving a successful infrastructure project is the skills and knowledge of the planners and the executors of the project.

A key criterion here is the ability to undertake effective cost-benefit analysis and develop performance indicators to monitor infrastructure efficiency.

A strong knowledge of the macro-economy and key state economic drivers and industry sectors is vital. For example, infrastructure planners should not be taking decisions about investment in Victoria's ports capacity without an understanding of Victoria's key overseas markets, conflicting or contrasting transport infrastructure needs, changes in international container shipping trends and population, skills and workforce trends.

Also important is the ability to seek and achieve consistency with overarching state, federal and local government social and economic development objectives – in other words, decisions should not have the effect of distorting or conflicting with other important public policy objectives.

The absorption of lessons from the application of other models and projects at home and overseas, for example the United Kingdom and Canada, is also important. This was certainly evident in the case of the Convention Centre.

In terms of benchmarking Victoria, it is worth looking at the Canadian experience, especially the province of Ontario, which has four times as many PPPs 'on foot' as Victoria, and where tendering costs are much lower. This model has: streamlined the tendering process to reduce Government and bidder costs; attracted local and international expertise to the market; generated investor interest, revitalising the local bond market; and created economic and community certainty that the infrastructure deficit is being tackled<sup>1</sup>.

At a Governmental level, the ability to undertake an agreed prioritization of short, medium and longer—term state projects is also important during planning phases for infrastructure.

Projects should be prioritised into an infrastructure plan that distinguishes between infrastructure that meets urgent pressure points, infrastructure that will support future needs, hard and soft infrastructure, and the alternative financing requirements that might best facilitate individual major projects.

The location and application of skills at a governmental level is also important. This relates to governance arrangements around infrastructure, including discussion of the merits of consolidation of infrastructure planning and financing policy. The Victorian Department of Treasury and Finance is currently playing a lead role in prioritising infrastructure projects. DTF also possesses expertise in the area of PPPs - Partnerships Victoria, for example, is located in Treasury. In Ontario, an arms-length body, Infrastructure Ontario, houses all these functions – construction, project management, asset management and finance. This is being supplemented at the federal level by PPP Canada.

This also brings into focus the competencies and skills public sector managers need for effective evaluation, decision-making and oversight of significant infrastructure projects, financing and risk management expertise and protection of the public interest. Does the Victorian Government currently contain the appropriate skills or does it need to hire permanent staff or contract specialist services? VECCI would argue that, concomitant with a central co-ordination of skills and resources, there needs to be an urgent audit of the skills needed to manage Victoria's infrastructure project pipeline.

PPP dealflow will also be important to retaining and developing relevant skills in Victoria.

The use of inventive solutions for infrastructure, for example, the funding of railway stations and grade separation at level crossings via the creation of retail, commercial and residential stock is one normally associated with the private sector. As such, private sector input needs to be sought at the planning stages of infrastructure project decision and development, not just during the tendering and construction phase.

Taking advantage of proximate opportunities and skills sets, such as those associated with Australia's vast superannuation reserves is also a consideration. Reliable, medium to long-term returns are the hallmark of some infrastructure projects and could provide diversification for retirement fund managers. The presence in Australia of the fourth largest pool of managed funds in the world is reinforced by the heavy weighting of the superannuation sector towards Melbourne and the expertise that resides here.

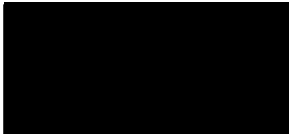
Skills and understanding around infrastructure should also not be confined to the elite. Communication with and education of stakeholders and the wider community about infrastructure projects and their financing is important. There needs to be a higher level of community understanding of the need for an appropriate funding mix and community contribution to projects, as well as the desirability of private sector investment. Many private sector-funded infrastructure projects, including PPPs, will also probably need a significant Government contribution to cover the public costs and benefits and make them commercially viable. Taxpayers will require an explanation of why this is the case. The much-discussed East-West link, joining the Eastern, Tullamarine and Western Freeways, is a likely case in point.

One of Victoria's key economic strengths is its position as a freight and logistics hub. The Port of Melbourne, for example, is Australia's largest container port, and Victoria looks forward to a quadrupling of container throughput over the next two decades. As such, there needs to be an urgent focus on big picture freight infrastructure projects in particular so that Victoria retains its premier position as a freight and logistics hub. Projects such as the containerisation of Webb Dock and Hastings and the East-West link across Melbourne's inner north are a case in point.

Given Victoria's infrastructure backlog, the growth of the freight and population load and uncertainty about our climactic conditions, this Inquiry is timely and we appreciate the opportunity to present our views.

If you have any queries about any aspects of this submission, please do not hesitate to contact VECCI's Executive Manager – Communications and Public Affairs, Chris James, on telephone 8662-5226.

Yours sincerely



~~Mark Stone~~  
Chief Executive