

New Submission to Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects

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Inquiry Name: Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects

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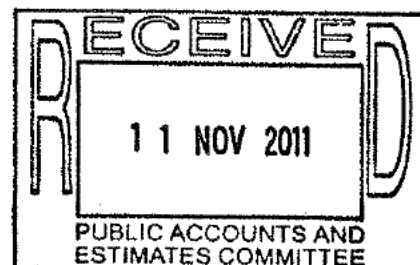
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Public Accounts and Estimates Committee

Submission No. 8



**Inquiry into effective decision making
for the successful delivery of
significant infrastructure projects**

**Submission to the Victorian Public Accounts and
Estimates Committee**

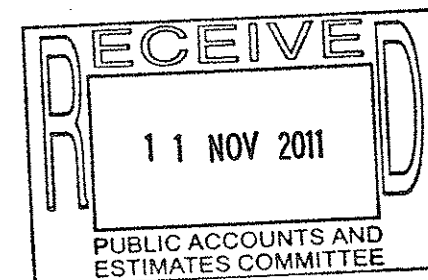
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1. About the CFMEU

The Construction, Forestry, Mining and Energy Union (CFMEU) is one of Australia's largest and most dynamic unions. In Victoria, the CFMEU, Construction and General Division, or our predecessor unions have been at the forefront of the international labour movement since the stonemasons led the campaign for the 8 hour day in 1856.

The CFMEU, Construction and General Division Victorian Branch, represents workers such as carpenters, crane operators, builders labourers, painters and others both on construction sites, as well as off-site in associated industries.

Building workers make an invaluable contribution to our community and our economy; the construction of places to live, to work and the provision of shared infrastructure is the lasting legacy of generations of skilled and dedicated workers.

The building and construction industry is a major driver of activity in the Victorian economy. It is comprised of residential building, non-residential or commercial building and engineering construction.

In 2009-10, the construction industry contributed 8.6 per cent (\$94.2b) to the national economy in terms of industry value added. Employment in the building and construction industry totalled 980,300 in the November quarter 2009, or 9 per cent of the total. In the previous financial year (2008/09), the industry contributed 0.1 percentage points to overall economic growth of 1.1 per cent and detracted 0.15 percentage points from total employment which declined by 0.3 per cent.

2. Economic Context

In considering a response to the inquiry's terms of reference it is important to recognise that the effective delivery of significant infrastructure projects by the Victorian Government is impacted by many of the same factors as that experienced by the private sector.

The most significant of these factors is the demand for skilled and professional labour, plant, materials and capital in the resource rich states of Western Australia and Queensland.

The Australian economy is continuing to grow despite the global economic uncertainties and this growth is largely underpinned by the resources boom. However, as has been widely commented upon, this has led to a "two speed economy", with demand for labour, plant and materials in the resource rich states of Western Australia and Queensland creating labour shortages and cost pressures in other jurisdictions.

The Federal Government's *Resourcing the Future* Taskforce discussion paper (March 2010) highlighted the

existing and future pressures the resources boom will place on demand for labour.

The taskforce found 61,500 mining jobs would be created by 2015 and the construction workforce in the resources sector would grow to 45,000. The taskforce discussion paper found that \$430 billion of mining investment is under way or on the drawing board, with the Federal Treasury predicting output in the resources sector to grow 77 per cent by 2020.

Almost all of the jobs growth is forecast in Western Australia and Queensland.

In a sign of the rapidly growing demand being generated by the resources boom BHP is now predicting employment growth almost 60 per cent higher than the federal government forecasts that are little more than a year old.

Forecasts from BHP in September 2011 predict the resources boom will create 90,000 continuing jobs by 2016, and that construction employment in the sector will grow to 80,000 by 2014.

While this growth in the resources sector is an overall positive for the nation it is placing demands on labour, plant, material and capital that will impact on the ability of other states to effectively deliver major infrastructure projects.

The October 2011 construction industry outlook survey published by the Australian Constructors Association found that mining infrastructure work is forecast to be the major driver of growth in the construction industry, rising by 15.5% in 2011/12. The impact of strong resources investment is also underpinning a projected increase of 19.6% in heavy industrial construction, led by the oil and gas processing sector (+18.4%) and "other" downstream mineral processing plants (+25.4%).

However, the survey found that supply side constraints loom as a key risk with businesses reporting worsening skill shortages. More than two thirds of construction businesses (68.8%) reported either major or moderate difficulty in the recruitment of qualified labour during the six months to September 2011.

In releasing the findings of the survey Australian Constructors Association (ACA) President, Wal King, highlighted the risk to the industry from skill and capital shortages.

"Despite this positive outlook, it is clear from the findings that a key risk centres on labour and capital supply shortages. In particular, we are seeing the emergence of critical skilled labour bottlenecks, due largely to rising demand requirements in the resources sector.

"These supply constraints are already being reflected in the emergence of upward pressures on costs and have the potential to adversely impact on project commencements, and the industry's growth potential."

In addition to labour shortages, the survey also found that construction businesses are facing increased pressures in the procurement of building materials and capital equipment with 48.4% reporting major or moderate difficulty in the sourcing of building materials, while 29.1% reported major or moderate difficulty in the hiring and purchasing of equipment.

This demand for labour is placing considerable pressure on the ability of both the Victorian construction industry and the State Government to attract and maintain a workforce with the appropriate competencies and skills needed to efficiently deliver major public sector infrastructure projects.

Put simply, Victoria is competing with the resources sector to attract and retain a skilled infrastructure workforce. Victoria's ability to attract and maintain the necessary workforce, equipment, plant and capital required to deliver major government projects is under increasing pressure as demand continues to dramatically skew construction activity to the Western Australian and Queensland resource sectors.

3. A commitment to a pipeline of infrastructure projects

The challenge for the Victorian Government, construction industry and the broader community is to consider how effectively government infrastructure policies, guidelines and practices address the pressures being generated by the resources boom. Unfortunately, the current approach of the Victorian Government to infrastructure planning and delivery is exacerbating these pressures.

In order to be able to effectively compete for labour, plant, materials and capital the Victorian Government needs to send clear signals to the construction industry on the state's expected pipeline of projects over the next five to ten years.

Without a clear pipeline of infrastructure projects the construction industry will be unable to invest in strategies that will see it retain a skilled workforce, appropriate levels of plant and access to materials and capital for projects in Victoria. Failure by the Victorian government to send these long term signals to the construction industry will inevitably lead to increased costs and delays in project delivery.

The CFMEU Construction and General Division Victorian Branch, therefore, is calling on the Victorian Government to commit to a long term pipeline of infrastructure projects for the state. The CFMEU strongly recommends that the following projects be committed to "in-principle" as a matter of urgency.

Priority Project 1: Metro Rail Link

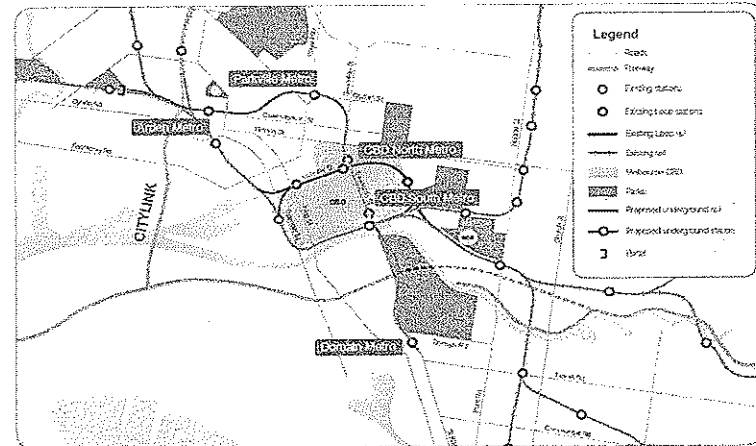
A new rail tunnel between Melbourne's west and south will increase the capacity of Melbourne's rail network by around 12,000 passengers every hour and play a major role in reducing reduce congestion.

The metropolitan rail system is reaching capacity and once the Regional Rail Link project is completed there is little scope for further capacity increases in the system without committing to an expansion of the network itself.

The proposed Metro-Rail Tunnel will provide a fast, frequent and reliable service between the southern and western suburbs while creating additional capacity across the metropolitan rail network.

It will deliver additional space for 12,000 passengers each hour on the congested rail lines in Melbourne's west and north and will open up new links to the growing biotechnology and education employment precincts around Parkville and St Kilda Road.

With stops at Melbourne Central and Flinders Street it will give people from all lines an easy interchange point to access new stations at Parkville and St Kilda Road, improving journey times and helping to relieve pressure on trams on Swanston Street and St Kilda Road.



Priority Project 2: Renewable Energy Infrastructure

The State Government should provide leadership and investment to boost renewable energy generation in Victoria.

Projects such as the Mallee Solar Park should be fast-tracked through the Victorian Large Scale Solar Program. Projects of this scale can employ up to 200 workers in the construction stage and make a real contribution to local communities in Regional Victoria.

All levels of Government, through co-operation with industry, can deliver substantial benefits through employment, skills development and retention and environmental gains by

moving quicker in relation to projects such as the Mallee Solar Park.

Priority Project 3: Inner-West Truck Action Plan

The Inner-West Truck Action Plan will reduce the number of trucks using residential streets in Melbourne's inner-west and improve access to the Port of Melbourne precinct.

The Inner-West Truck Action Plan involves a new link from Hyde Street to the West Gate Freeway. This will open up access for trucks heading to the Port of Melbourne from the west along the West Gate Freeway and Princes Highway, as well as traffic from the Western Ring Road. The Hyde Street connection is estimated to reduce the number of trucks on Francis St by more than 70% or more than 5,000 a day.

The inner west Truck Action Plan includes:

- constructing new ramps connecting the West Gate Freeway and Hyde Street at Yarraville
- upgrading Hyde Street and Whitehall Street and sections of Francis Street and Moreland Street
- upgrading and strengthening Shepherd Bridge which carries Footscray Road across the Maribyrnong River

4. Specific responses to inquiry terms of reference

(a) the competencies and skills that public sector managers require for the effective evaluation, decision making and oversight of significant infrastructure projects and protection of the public interest;

No response

(b) the extent to which Government policies such as the National Public Private Partnership Policy and Guidelines and the Partnerships Victoria Requirements specify these requisite competencies and skills, and support the Department of Treasury and Finance's application of these across the public sector;

Current policies and guidelines do not place enough emphasis on the role that significant infrastructure projects can play in the development of a skilled workforce, both public and private, to effectively deliver projects in the broad public interest.

This is particularly important given the expected continuing demand for skilled labour and professionals as a result of the resources boom in Western Australia and Queensland.

The current government guidelines and policies should be amended so that the contribution to building expertise in the public sector is part of the formal assessment of all the possible delivery strategies being considered for an individual project.

(c) strategies in place within the public sector for the development of such requisite competencies and skills and for their ongoing refinement and enhancement through knowledge-building from the sharing of best practice examples and guidance in the public sector;

There does not appear to be a clearly stated government strategy in place to develop the necessary competencies and skills in the Victorian public sector needed to deliver significant infrastructure projects.

The current practice of establishing one off project teams and delivery authorities is exacerbating this problem. The result of this practice is that skills and experience built up over the life of a project are effectively lost to the public sector once that project is completed. This is effectively a strategy built around

attracting “experts” from the private sector for a limited time rather than investing in the development of a skilled and competent public sector workforce.

This approach will be increasingly difficult given the ongoing demand for skilled labour and professionals to service the needs of the resource sector in Western Australia and Queensland. To address these pressures the Victorian Government should:

- Amend current government guidelines and policies so that the contribution to building up expertise in the public sector is part of the formal assessment of all the possible delivery strategies being considered for an individual project.
- Commit to a long term pipeline of significant infrastructure projects.

(d) whether particular significant infrastructure projects have been developed and implemented in a manner which aligns with the public interest and maximises transparency and accountability for the life-cycle of the project;

No response.

(e) relevant infrastructure delivery strategies and practices, including in public-private partnerships, in relation to enhancing public sector expertise in place in other Australasian jurisdictions and relevant jurisdictions outside Australia; and

While the flexibility to contract specialist services from external sources will always be needed a greater focus should be placed on building a centralised public sector pool of project expertise that can effectively plan and deliver projects through the entire project lifecycle.

No response.

(f) the merits of centralisation versus decentralisation of available skilled experts in the Victorian public sector during the life-cycle stages of public-private partnership projects, including considering any benefits that may be derived from greater flexibility to contract specialist services from external sources.

The current approach of the Victorian Government is predominantly to build one off project teams, and increasingly, a special purpose delivery authority for each significant infrastructure project. While this may have short term efficiencies it is limiting the ability to build a pool of skilled infrastructure delivery experts in the Victorian public sector.