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Business Council of Australia

Speech

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Cutting through the Infrastructure Impasse: Ways and Means

Acknowledgement and introduction

Thank you Phillip Marcus Clark, Ken Henry, Garry Bowditch, Paul Wellings and the SMART Infrastructure Facility for inviting the Business Council of Australia to take part in today's dialogue.

Some of you may have seen a new television series on the ABC called *Supersized Earth*.

In the first episode there was an amazing story about a Chinese company that builds 30-storey buildings in around 17 days.

Some of you may also have noticed that Australian governments have promised a number of large-scale infrastructure projects but have been slow on delivery.

There's the 30-year promise of a commitment to a second Sydney airport and the development of a prime site like Barangaroo, which has limped along since 2004. It is good to see some cranes down there at Barangaroo.

You may well say that comparing construction in China and Australia is like comparing apples and oranges. We have less pressure, higher safety standards and more mature democratic systems.

What I'm talking about is the difference in how we respond to a challenge.

In China, the problem of rapid population growth is met with the solution of rapid infrastructure development.

In Australia, we also have sustained population growth and an infrastructure deficit.

Our solution? Infrastructure development in the fullness of time, when the moment is ripe, at the appropriate juncture, and every other of Sir Humphrey's time-delaying excuses.

All the while, the pace of change is accelerating, population growth is speeding up, commuting times are slowing down, transport costs are going through the roof, and frustration levels are rising.

The truth is a good deal of the necessary planning and prioritisation work has been done. And Infrastructure Australia and Infrastructure NSW deserve credit for that.

So, my message today is a simple one. And it's a message that everyday Australians really get:

Let's get on with it. Let's make decisions. Let's get work underway. Let's get projects done!

No more taskforces. No more time wasting. Just action.

Instead of more shelf-ready reports, let's have more ready to go projects:

- more concrete pours
- more laying of pipes and cables
- more paving of roads and runways
- more railway track and signals
- more infrastructure and more people to produce higher levels of national productivity and prosperity.

Creating this sense of urgency is of obvious importance to the construction industry, especially given the maturing of the construction phase of the mining boom.

A lot of businesses need work. And a lot of people need jobs. Those things in themselves would be good reasons to proceed.

But creating urgency has an importance that goes far beyond that.

From talking to many businesses and many people, it seems to me that the failure to get big and obviously necessary infrastructure projects underway is starting to eat away at Australians' belief in the nation's ability to get things done.

It's sapping people's confidence in their economic future. They see other countries actually building things and they wonder: Why can't we do the same? It's a good question!

I commend the New South Wales Government for getting going. The WestConnex project is proceeding as well as the M1/M2 connection. Of course the NW Rail and SW Rail are underway. It is also good to see the Victorian Government is proceeding with the East-West Tunnel.

The crucial element, I believe, is leadership – a theme I will return to a couple of times this morning.

We need some dynamism. We need a new start. And we need a better system of both building and operating our infrastructure. This means the new government, led by Prime Minister Tony Abbott, has a great opportunity that shouldn't be missed.

Today I want to set out what's been getting in the way, and to offer some ideas for how to break through and make that fresh start.

The problem

So let me start with what's wrong.

Essentially, I see the problem falling into four areas.

Firstly, we are not thinking about infrastructure as a system.

We're too busy looking for magic pudding projects or magic pudding funding solutions that are going to solve everything instead of working out how all the different parts of the system need to work together – from markets, land use, planning, approvals, project prioritisation, funding, financing, and delivery and operation.

Secondly, we don't frame the infrastructure systems from the starting point that the private sector should be the predominant provider.

Development of public projects must always have private engagement in mind, either from inception or after initial construction and operation.

We are too cautious in handing over infrastructure ownership and investment decisions to business and we are too cautious in asking the private users of the infrastructure to pay for it.

We need a real mind-shift here.

Thirdly, while the increased role of the federal government in recent years is welcome – especially where it is most needed in providing funding – the roles of the Commonwealth and the states have become very confused. Infrastructure is a metaphor for many other policy areas.

If we want to see a consistent pipeline of government-led projects, intergovernmental relations is a big part of that. Of course national projects require a national perspective.

The fourth problem area – another big one – is cost. Our infrastructure dollars just don't buy enough value.

The best available data tells us that infrastructure is much more costly to deliver in Australia than in the United States.

Our productivity problems, costly and time-consuming planning and approvals processes, and labour costs and practices and skill shortages are all contributing to that.

Hospitals are 62 per cent more expensive to build here, shopping centres 43 per cent and schools 26 per cent.

One of our member companies analysed the cost increase of delivering one kilometre of a major carriageway from 2006 to 2012.

What they found was a 143 per cent increase.

An EBA charge-out rate for labour is about 98 per cent higher than for non-EBA subcontractors – hence the constant pressure on subcontracting.

When it comes to delivering resources projects, Australia is 40 per cent more expensive than the US Gulf Coast. Offshore projects are 200 per cent more expensive.

Quality infrastructure is one of the hallmarks of a prosperous society.

If we picture the kind of Australia we'd like to bequeath to our kids and grandkids, we need to take the actions that will give us the infrastructure to support it.

Simply put: their lives will not be as good as they could be if they had better infrastructure. This is a proposition ordinary people grasp and they rightly wonder why policymakers can't grasp it too.

The solution

So what's the solution? How do we break the impasse?

It is a question that's been explored by some of the finest public and private-sector minds in the country, including members of the Business Council.

The single, cut-through goal that brings it all together is this:

We have to get infrastructure development working as a system. That system must free up the private sector to invest in infrastructure.

This is the prize we have to work towards today.

Because if what comes out of this dialogue is another inquiry into public–private partnerships (PPPs) or another task force on private sector funding – we will not have done our job.

The program today lends itself well for this group to come up with some breakthrough recommendations.

Let me set the scene with five ideas.

One: set the system up as a market with market characteristics including:

- full cost recovery
- private sector ownership
- regulations that protect the long-term interests of consumers if needed in the absence of market competition.

In short, wherever possible, remove government from the investment decision and leave it to private investors. Governments' primary role should be to set policy and regulations that support this approach.

With half the new infrastructure investment now coming from the private sector for the private sector, we are certainly moving in the right direction.

So when Aurizon announces it is exploring a new rail investment in Queensland, or Telstra announces an investment in 4G networks or someone decides to invest in a wind farm, these are private decisions driven by long-term market signals.

We need more of that type of private decision making, including in traditionally government dominated areas like water, major roads and in the development of our freight networks.

We should maximise payments from users wherever possible and follow Infrastructure Australia's requirement that proposals for road projects must include a tolling component.

Where user charging is not viable, governments will need to continue paying for infrastructure on behalf of current and future users.

I should point out there is no shortage of funding for brownfield projects or for PPPs with little market risk. The problem is the market risk associated with greenfield projects.

As the only government that currently has an efficient tax base and AAA-rated borrowing capacity, the Commonwealth should take greater responsibility for infrastructure funding in the future. This should be on the basis of eventual sale to the private sector wherever possible.

Idea number two: for projects that governments want to initiate, have them come up with a consistent rolling program of projects that are ready to go.

No matter how successful we are at implementing infrastructure markets, governments will continue to have an important role in projects the private sector is not able to provide, at least in their initial stages.

We need the states to produce 15-year rolling infrastructure plans, with zoning and planning approvals in place so projects are ready to go, with the ultimate aim of attracting private investment. I cannot overstate the importance of this, of the need to reserve corridors and sites a long time before they are needed.

Infrastructure Australia has a significant role to play here. It should nominate its own projects for the projects list that it sees as a national priority.

Good ideas should be sought from the private sector too. The New South Wales Government's framework for unsolicited proposals does this well and it should be rolled out nationally.

The key challenge is getting roles and responsibilities right between the Commonwealth and state governments, and between the public and private sectors.

Increased funding from the Commonwealth should be supported by a 10-year infrastructure funding agreement with the states, which sets out:

- the federal spending envelope
- requirements to maximise user pays on every project
- innovative mechanisms for providing support, for example availability co-payments or loan guarantees
- eventual transfer or sale to the private sector wherever practical.

The third idea is to get the risk arrangements working better.

We need to consider PPPs as a possible financing option for every greenfield project.

They are much more likely to be constructed on time and on budget, and provide lower-cost ongoing operations compared to traditional approaches. Evidence points to 20 to 30 per cent savings.

Flexibility is the key to getting risk arrangements right because no two projects are the same.

Consensus is growing around a risk-sharing model where governments take on, say, the patronage risk in the early years and then sell the project to the private sector to own outright once the patronage pattern is established.

Again I commend the new government as this is the model they have adopted for the mega WestConnex project.

This is a good model, but we shouldn't apply it carte blanche. Our members would say it's always best to test the market first, because there are times the private sector will be prepared to take or share the patronage risk upfront. A recent example is Transurban and M1/M2 Link in Sydney.

Fourth is recycling capital.

I know this is still controversial in some parts of the community, but it is fundamentally important.

Governments should speed up privatisation of appropriate public assets, and the proceeds should be hypothecated into dedicated federal, state and territory funds for the construction of new infrastructure.

Hypothecation has become a dirty word in polite, fiscal circles.

But if we are to build community confidence that the proceeds of sold assets won't be squandered, we have to face up to the purists in Treasury.

We should create a virtuous circle where government funds are used to get good projects started and once the asset is mature, able to be sold to the private sector.

This is the thinking that sits behind the NSW Restart Fund and the sale of assets such as the Desalination Plant and the Ports of Botany and Port Kembla.

Obviously, we have to sell this approach to the broader community to give policymakers the cover they need.

We need leadership.

We need the proponents of privatisation to treat citizens and taxpayers with respect and win the case.

That involves telling them about the price we all have to pay for new infrastructure.

I'm convinced that in a nation as well educated in economic realities as Australia, the average Australian will see the good sense. The tolls on Eastlink in Melbourne were very unpopular. After opening there was 80 per cent community acceptance.

I'm guessing there are plenty of people sitting in their cars on gridlocked outer-Sydney roads who would be amenable to the idea that selling electricity generators and the transmission and distribution network will reduce their electricity bills, get them home faster by improving their roads, and create quality jobs for them and their children.

But it will only happen if we start taking people's scepticism of privatisation seriously and get better – far better – at selling the virtues.

The facts about the lower costs and higher performance standards of privatised utilities are there – let's get better at talking about them.

My fifth and final "must-have" ingredient in getting the system to work as a system brings me back to the problems we have with cost.

There are many things that can be done to reduce project costs over time and get better value for money.

Earlier this year, I released the report of a Project Costs Task Force I chaired for the Business Council.

The report found that the main factors driving project costs were:

- problems with project management, planning, design, scheduling and procurement

- unpredictable and unnecessarily complex and prolonged government processes and decisions
- the workplace relations system and skills.

To deal with project management problems, we need business and government to invest in the development of their staff and work with the tertiary sector to develop leaders and capture the engineering and project management lessons from past projects.

A great example is SMART Infrastructure, which has this as one of its core goals.

Another great example is the new John Grill Centre for Project Leadership at the University of Sydney.

To deal with regulatory approvals problems, governments need to revisit their earlier agreement on bilateral assessment and approvals under the Environment Protection and Biodiversity Conservation Act.

State governments should streamline their project approvals regimes by applying the Productivity Commission's 'one project, one assessment, one approval' framework.

To deal with the workforce challenges, we need the Fair Work Act amended to encourage more collaboration and flexibility, and for the Senate to allow the new government to implement its policies for faster and simpler greenfield agreements and the restoration of the full powers of the Australian Building and Construction Commission.

Leadership

To finish, I'm going to come back once more to leadership because this is a great challenge for Australia.

Our approach to infrastructure has to come out of the clutches of local tribalism and into the realm of a national interest priority.

We need decisions made like Sydney's second airport – knowing the plan won't please everyone but planning for it now will reduce the long-term cost, reduce community angst and give business and the community certainty.

If we continue to bring every single transformative project down to a lowest common denominator, if our infrastructure planning reflects the aggregate of projects that won't annoy anybody, our generation will have failed the people of Australia, particularly future generations. I have not worked on a single major infrastructure project to date which did not have its highly vocal and sometimes powerful critics.

To get momentum, we need decisions.

I put this challenge to our governments. If we are serious about infrastructure in this country we must take the tough decision and take them now.

Please make the most of today. Your timing couldn't be better.

Thank you.

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