

Introduction

Referral and conduct of the Inquiry

- 1.1 The Inquiry into infrastructure procurement and planning (the Inquiry), was referred to the House of Representatives Standing Committee on Infrastructure and Communications (the Committee) on 20 March 2012. The Inquiry was referred to the Committee by the Minister for Infrastructure and Regional Development, the Hon Warren Truss MP.
- 1.2 Immediately after referral, details of the Inquiry were made available on the Parliament of Australia's website calling for written submissions. The Inquiry was also promoted through an extensive mail out to interested parties, including peak bodies and organisations, and the relevant government departments.
- 1.3 Over the course of the Inquiry, the Committee received 32 submissions from organisations, government authorities and individuals. A list of submissions is at Appendix A. A range of publications, documents and supplementary material received during the Inquiry was received as exhibits. A list of exhibits is at Appendix B.
- 1.4 In addition, the Committee undertook an extensive program of public hearings. Between May 2014 and October 2014 the Inquiry held 12 public hearings, including one interstate public hearing. Details of the public hearings, including a list of witnesses, are at Appendix C.

Scope of the Inquiry

- 1.5 The scope of the Inquiry was largely defined by the terms of reference which direct the Committee to consider investigating ways to improve infrastructure planning and procurement and whether governments are prepared for future challenges they face in delivering major projects.
- 1.6 The timing of the Inquiry coincided with the Productivity Commission's (the Commission) inquiry report entitled *Public Infrastructure* tabled in May 2014.¹ The Commission's key points and findings are set out below in Box 1.1:

Box 1.1: Productivity Commission inquiry report key points and findings

- There is an urgent need to comprehensively overhaul processes for assessing and developing public infrastructure projects.
 - ⇒ There are numerous examples of poor value for money arising from inadequate project selection, potentially costing Australia billions of dollars.
 - ⇒ Additional spending under the status quo will simply increase the cost to users, taxpayers, the community generally, and lead to more wasteful infrastructure.
 - ⇒ Reliance on the notion of an infrastructure deficit, too, could encourage poor investment choices.
- It is essential to reform governance and institutional arrangements for public infrastructure to promote better decision making in project selection, funding, financing and the delivery of services from new and existing infrastructure.
- Well-designed user charges should be used to the fullest extent that can be economically justified. However, governments will have to continue to fully or partly fund some infrastructure projects and address equity issues.
- Significant institutional and longer-term road pricing arrangements will create more direct links to road users, taking advantage of advances in vehicle technology.
- Private sector involvement in infrastructure provision and/or financing delivers efficiency gains only if well designed and well implemented.
 - ⇒ Private financing is not a 'magic pudding' – ultimately users and/or taxpayers must foot the bill.
 - ⇒ Government guarantees and tax concessions are not costless and often

1 Productivity Commission, *Public Infrastructure: Inquiry Report*, No. 71, 27 May 2014, <<http://www.pc.gov.au/projects/inquiry/infrastructure/report>>, accessed 4 November 2014.

involve poorly understood risks.

- Governments will have some capacity to fund more projects than under current fiscal and debt management practices, provided the reform package in this report is implemented to ensure the selection of projects with strong net benefits.
- Data problems limit analysis and benchmarking. A coordinated and coherent data collection process will address this and improve future project selection decisions.
- Nevertheless, there is evidence of recent significant increases in the costs of constructing major public infrastructure in Australia. Elevated labour costs due to the mining construction boom has been one factor, but no single input has played a decisive role in cost increases.
- Until recently, labour productivity growth in the construction sector generally has been sluggish. There is no conclusive evidence that Australian levels of productivity in construction are significantly different from other developed countries.
- The industrial relations environment in the construction industry remains problematic, mainly in general rather than civil construction, with the problems much greater for some sites, unions and states. Governments can use their procurement policies to drive reform, and penalties for unlawful conduct should rise.
- Despite significant concentration in the market for large public infrastructure projects, the market appears to be workably competitive today, though a few simple measures would make it more so and would reduce the cost pressures facing procurers.
- There is significant scope to improve public sector procurement practices and lower bid costs for tenderers, with potentially large benefits for project costs and timing.

Source: *Productivity Commission, Public Infrastructure: Inquiry Report, Volume 1, No. 71, 27 May 2014, p. 2.*

Structure of the report

- 1.7 Chapter 2 examines the planning, assessment and delivery of infrastructure and how the current Infrastructure Australia's Fifteen Year Infrastructure Plan can be used as a tool for all stakeholders to forecast future infrastructure needs beyond its current remit. The chapter also considers how governments at all levels can better coordinate and collaborate on their infrastructure planning and delivery processes to reduce the regulatory burden on stakeholders, better utilise national and

regional strategies, and preserve land corridors for future infrastructure requirements. Finally, the deficit in a range of infrastructure-related skills and capabilities are reviewed, particularly those related to the field of engineering.

- 1.8 Chapter 3 considers issues relating to the funding and financing of infrastructure. In particular, it notes the detailed work undertaken by the Productivity Commission in its recent inquiry into public infrastructure but notes that a number of issues raised in that report are worthy of further exploration. These issues include public private partnership arrangements, inverted bidding, debt financing and bonds, and asset recycling.
- 1.9 Chapter 4 identifies a range of matters that have a bearing on the procurement process including tendering processes, cost-benefit analysis, benchmarking, the use of special procurement agencies and the management of risk.