

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 110

Topic: Infrastructure & Private-Public Partnerships

Hansard Page: E56 (03/06/2010)

Senator BUSHBY asked:

Senator BUSHBY—Which would give some of the foreign companies a higher degree of confidence that it is worth setting up here?

Mr Archer—Yes, I think that is right. I guess you move to the fact that there have been some notable failures in the market. That might have had some effect, although there are different perspectives from which a PPP project might be considered a success or a failure. If a road is built and people are driving on it, then from that point of view you have a road that is being used but, from the investor's perspective, it might not be such a successful enterprise.

Senator BUSHBY—Although as well that question about the concentration of the construction market is broader than just PPPs. Not all infrastructure is done as a PPP. So it is more in the sense that I was asking about barriers. I do not know whether you were answering in the broad or specifically.

Mr Archer—In terms of international participation in the market and barriers, I think I was not necessarily just talking about PPPs.

Dr Kennedy—It is certainly a consideration that barriers to entry or mechanisms that might work against competition in these sectors are definitely important to look at. I would also pick up Mr Archer's other point about being a relatively small country and the public sector giving a business the best sense that it can of the projects that are on the horizon and that are likely to be coming to market. Well-known PPP type processes, if that is the way they are going to be delivered, and well-established bidding processes and all those sorts of things would seem to us to be important features of a well-functioning infrastructure market.

Senator BUSHBY—We seem to be experiencing significant escalation in the order of seven to eight per cent a year in construction costs. Is there any sign that this will moderate in the near future? Correct me if I am wrong with those figures and update me with some that are more accurate.

Dr Kennedy—I am aware of strong growth in construction costs. There is a link here back to the macro group and, if you like, the deflators or the construction cost prices that they have got as part of our forecast. I do not know about that aspect and I would need to take it on notice. I probably do not have much more to add than that. Do you, Brad?

Mr Archer—No.

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Answer:

A common measure of construction costs is the Building Construction Price Index published within the Australian Bureau of Statistics (ABS) Producer Price Index. The Building Construction Price Index incorporates the cost of construction for houses, other residential property, non-residential building, and roads and bridges.

According to the ABS Producer Price Index, construction costs have moderated significantly from the very high levels experienced prior to the Global Financial Crisis. The Building Construction Price Index has fallen from growth of 6.7 per cent through the year to the September quarter 2008, to 0.7 per cent through the year to the March quarter 2010. The index remains around one per cent lower than its recent peak recorded in the September quarter 2008.