Submission by the Civil Contractors Federation

to the

Senate Rural and Regional Affairs and Transport Legislation Committee

Inquiry into provisions of the Auslink (National Land Transport) Bill 2004, and the Auslink (National Land Transport - Consequential and Transitional Provisions) Bill 2004

Summary

The Civil Contractors Federation, with some 1700 members, represents the civil construction sector, covering infrastructure works such as roads, water and sewerage, residential and commercial sub-divisions.

Key positive elements of the proposed Auslink legislation include:

- *an integrated national level transport plan*
- *five-year funding*
- *specific project identification*

However, the remaining weaknesses are:

- *general absence of a cogent response to the repair, maintenance and remediation task facing the local roads network*
- *undue reliance on private funding of major projects to leverage infrastructure funding capability, compared with public borrowings matched to long-life asset creation.*
- *the absence (for now) of an agreed transparent and commercially-based project assessment and prioritisation methodology*

The Civil Contractors Federation (CCF)

CCF is the peak industry body for the civil construction sector.

CCF is a national organization with branches in each state and territory and a membership in excess of 1700 civil construction companies including suppliers.

CCF's membership includes civil construction companies ranging from small and medium to large civil construction, excavation and demolition companies.

The Civil Construction sector is distinctly different from both the commercial building sector, and the residential sector of the building and construction industries.

Civil contractors employ staff with specific civil competencies and use sector specific (heavy) earth-moving equipment.

The civil construction sector primarily constructs roads, railways, tunnels, bridges, dams and other major infrastructure projects, as well as residential and commercial sub-divisions (including roadways). The sector also engages in maintenance and repair of these structures.

The industry accounts for some $9 billion of works annually, collectively employs some 50,000 people and owns around 40,000 items of heavy equipment (refer attached industry profile).

Typically civil contractors are the first onto a building or infrastructure site, but tend also to be at the end of the supply chain of clients, principals and head contractors (project managers), specialist contractors etc.

In reality this means that as business environment, commercial and project risks arise, they tend to be passed off along the supply chain until disproportionately large risks end up in the hands of civil contractors.

Auslink – Key issues for civil contracting

The nation's road transport infrastructure is central to community well-being, business efficiency and environmental outcomes. Future generations will expect that transport networks not be allowed to fall irrevocably behind. To this end, the Federation views Auslink as a commendable step in the right direction in ensuring a tangible benefit for all Australians.

The major positives of the proposed legislation include:

- an integrated approach to identifying and addressing national prime land transport bottlenecks covering road, rail and ports
- five-year funding
- specific projects indentified, prioritised and funded

However, the remaining weaknesses are:

- general absence of a cogent response to the repair, maintenance and remediation task facing the local roads network
- undue reliance on private funding of major projects to leverage infrastructure funding capability, compared with public borrowings matched to long-life asset creation. Public debt in Australia is low by OECD standards and accordingly there is scope to use borrowings, not for financing recurrent expenditure, but to finance long-term infrastructure assets
- the absence (for now) of an agreed transparent and commercially-based project assessment and prioritisation methodology

While the Auslink initiatives are comprehensive and commendable, a key consequence for civil contractors until these infrastructure planning and funding weaknesses are addressed, is that there is still no reliable basis to manage and fund forward business planning and associated commercial risks in relation to labour hire, acquisition of plant and equipment and supplies.

Relatedly, while there are presently no material capacity constraints, there is no basis to be sanguine about skills availability over the next five years as baby boomer plant operators begin to retire in significant numbers.

CCF is concerned that the identification and prioritisation of projects lacks transparency or a clear methodology (although the development of a cost-benefit based approach is promised). Such a methodology needs to be completed quickly. Also, the degree to which funding decisions are discretionary in the hands of a Minister is not preferred.

Further, there are substantial impediments to private infrastructure funding so long as there remain deficiencies in taxation provisions for depreciation, or in protections for intellectual property.

While the headline expenditure commitment looks impressive, against the overall need it is only a beginning and spread over five years the “new money” component is relatively minor. Further, much of the funding is loaded in the latter part of the five-year period.

Additionally, funding should at least be maintained at current levels in real terms, measured against construction costs inflation. Any financial efficiencies achieved should be retained for infrastructure purposes and not returned to consolidated revenue.

Also, most projects depend on matching contributions from state/territory governments where financial capability and political preparedness to make the required commitments is unclear and may be problematic.

As others have identified, for long-life infrastructure assets, funding through public borrowing is a valid approach. To not do so relinquishes considerable leverage to address road funding blockages and shifts a significant burden onto private borrowing (such as through PPP projects).

Overall, the Federal Government has moved to focus funding on national land transport corridors, yet the inherent competitive advantage of road transport, at least, is the capacity to move passengers and freight from a multiplicity of origins to destinations with great flexibility.

The proposed legislation does little to address new road funding, maintenance and remediation in the urban and regional catchment areas at either end of the national corridors.

In this regard, there needs to be a nationally consistent asset management strategy that underpins maintenance planning and funding and all levels of government should have incentives to implement such an approach.

Further, the presently announced projects appear somewhat eastern seaboard centric and could offer more for business and communities in the smaller states and territories.

While considerable dialogue has occurred with state/territory governments, there has been little engagement with the private sector. CCF supports the establishment of a national Council involving stakeholder representation and as the group representing road constructors, the Federation wishes to be actively involved on the Council in identifying longer term, sustainable solutions.

Related matters:

The Auslink legislation should provide an incentive to all levels of government to pursue:

- the development and adoption of standardised general conditions of contracts and specifications;
- prequalification of contractors based on quality management systems
- enhanced and standardised tendering and contract management practices
- a standardised national approach to security of payment, including protection of sub-contractors from being penalised as a consequence of a head contractor going into liquidation
- adequate levels of research and innovation
- skills development

These are all matters that affect project overheads and ensure that taxpayer funds are used as efficiently as possible.

A potential additional funding source is to ascribe a proportion of GST on fuel (say GST on fuel prices over 95c per litre) to roads infrastructure funding, especially road asset management.

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