

Productivity Commission Inquiry

Public Infrastructure

SUBMISSION

December 2013



CENTRAL NSW
COUNCILS



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Centroc's Mission is to be recognised as the lead organisation advocating on agreed regional positions and priorities for Central NSW whilst providing a forum for facilitating regional co-operation and sharing of knowledge, expertise and resources; effectively nurturing sustainable investment and infrastructure development.

www.centroc.com.au

Chairman: Cr Ken Keith, Mayor, Parkes Shire Council

Reference: kk:jb 121320
Enquiries: Ms J Bennett:0428 690 935

20 December 2013
Mr Paul Lindwall
Associate Commissioner
Public Infrastructure Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Mr Lindwall,

Thank you for this opportunity to respond to the Productivity Commission inquiry into the provision, funding, financing and costs of major public infrastructure.

Central NSW Councils (Centroc) represents over 220,000 people covering an area of more than 70,000sq kms comprising the Local Government Areas of Bathurst, Blayney, Boorowa, Cabonne, Cowra, Forbes, Lachlan, Lithgow, Oberon, Orange, Parkes, Upper Lachlan, Weddin, Young and Central Tablelands Water.

Centroc's vision is to be recognised as vital to the sustainable future of NSW and Australia.

Its mission is to be recognised as the lead organisation advocating on agreed regional positions and priorities for Central NSW whilst providing a forum for facilitating regional cooperation and sharing of knowledge, expertise and resources.

Centroc has two objectives:

Regional Sustainability - Encourage and nurture suitable investment and infrastructure development throughout the region and support members in their action to seek from Governments financial assistance, legislative and/or policy changes and additional resources required by the Region.

Regional Cooperation and Resource Sharing – Contribute to measurable improvement in the operational efficiency and effectiveness of Member Councils through facilitation of the sharing of knowledge, expertise and resources and, where appropriate, the aggregation of demand and buying power.

The Centroc Board is made up of the 30 Mayors, elected representatives and General Managers of its member Councils who determine priority for the region. These priorities are then progressed via sponsoring Councils.

For more advice on Centroc programming and priorities, please go to our website and download our annual report at centroc.com.au/publications

Having reviewed the Issues Paper, Centroc members are interested in both streams of the inquiry's focus:

1. the provision, funding, and financing of major public infrastructure and

2. the scope for reducing the costs associated with such infrastructure.

The region welcomes a review of the funding and delivery of infrastructure in Australia.

While appreciating the need for such a review, we express our intense disappointment at the time frame for the process. This has led to, in our view, a very poor quality issues paper lacking a depth of research to enable a broad ranging and informed response. Of the 29 pages of this document, 11 pages are questions.

In three weeks in December, sadly, this region has been unable to muster the resources to undertake the requisite research and analysis to provide any sort of worthwhile response. Arguably any type of quality product from any organisation is not possible in this time frame.

We suggest that by not investing appropriately in this process either every respondent will have to make an investment in buying the research generating a very wasteful duplication of effort; or that responses will have to be of a poor quality. Centroc will be providing this advice to The Hon Joe Hockey and others and encourages the Productivity Commission to review the process and provide advice accordingly.

We do make the following high level commentary though and provide answers where possible to the questions raised by the Productivity Commission below.

It is noted that the taxation base will not always be able to deliver infrastructure in a timely manner and that there may be TBL benefit from bringing forward programming using PPP models. An example in this region is the Orange Base Hospital which was built privately and then leased back to government to be transferred back to public ownership in due course. The quality of life of residents in this region has improved dramatically as the new hospital has a significant suite of new services particularly cancer care services, meaning our residents no longer have to travel to Sydney for this type of care. Comparisons could be undertaken by Government looking at how the Orange Base Hospital was developed over the models used in the development of other hospitals.

Further, there is an opportunity of getting it right, or at least achieving a better balance between knee jerk infrastructure delivery like the desalination plant in Sydney and the gold plated and overly risk adverse engineering services of what was once the Public Works Department in NSW. Both are simply too expensive.

Funding levers are very important to infrastructure development and maintenance. For example this region would argue that needing to make the case for being underfunded in order to get grant monies has led to poorer asset understanding and very differential management. Central NSW Councils are currently working collaboratively around resolving this problem where it is noted that communities, and the nation as a whole, need to address questions around the level of useful service of an asset for example, a road.

Another example is GBEs which pay dividends back to government. This has led to the erosion of energy and water assets in this State. Local Councils once owned electricity assets and had significant monies set aside for asset renewal. When the State took ownership of these assets the monies went into general revenue, as did the dividends paid from the GBEs going forward. With a lack of investment into infrastructure strategy, maintenance and renewal it is unsurprising that knee jerk decisions happen like the procurement of the desalination plant in Sydney.

Further, there needs to be better management of infrastructure rationalisation. Where through the Integrated Planning and Reporting framework for Local Government communities are growing in this capability, at the moment the retention of a variety of sentimental assets means that there cannot be investment in infrastructure with better TBL outcomes. While not affecting

infrastructure of national significance it does reduce the overall public monies capability to contribute to infrastructure.

Some regional overlay of this process would also be useful to ensure that every community does not have a regional baseball field capable of holding international games with significant audience capacity and satellite broadcast capability.

When considering models of funding it should be noted that any national model will need to be highly sophisticated to pick up on the various needs and capabilities across the nation. This model should not consider only the nationally significant assets; it should consider all assets so that the effect of any infrastructure spending is seen in the context of all infrastructure spending. In this way there will not be any skewing toward hero projects that could mothball. So for example, where the current use of tolls in a PPP might work for the M7, it would not stack up financially for the development of roads in western NSW. If funding levers were to change, for example if all road freight were to be on some type of user pays system for road use, this might change dramatically.

This region would argue that the public sector needs to have an infrastructure delivery capability as to hand the task over in its entirety to private industry leads to:

- A tendency of the public sector to gut its engineering capability and have a growing cadre of project managers breaking every project down into a minutiae of steps with quality stops leading to process rich and output poor outcomes. An example this region would cite is the NSW RMS.
- Poorer outcomes as the capacity to manage increasingly complex tasks is being given to the less technically able.
- Reduction in affordability – this region would argue that Local Government delivers infrastructure as a very good value proposition but, based in its experience working with the private sector, would have to pay significantly more if it has to trade its own capability for private enterprise services.
- Reduction in regional capability – this region suggests that any reduction of scope in infrastructure services being delivered by Local Government will reduce the ability of the organisation to deliver its other services where for example water, sewer and roads all require engineering capacity.

Other advice from this region is as follows:

- An environmental scan of practices in other jurisdictions would be worthwhile – the region suggests that once this work has been undertaken there is a further round of consultation.
- Case studies of different models of PPP funding and their effects on economic impact would be worthwhile, for example the Sydney orbital M7.
- Looking at different user pays models that may transform the need for infrastructure, for example the monitoring of heavy vehicles that then has them paying for the development and maintenance of road infrastructure. This might lead to a modal shift to rail. At the very least government should know the degree to which it is subsidising road freight transport. It might also lead to funding pathways for key infrastructure in this region such as the Bells Line of Expressway.
- There needs to be a streamlined assessment process for key infrastructure, especially that developed by Councils.
- There is a growing gap between the standards for roads and affordability which needs review.

- The nation needs to build the technical, financial and political layers for infrastructure development and have them operating iteratively. This will help avoid the effects of the short term political cycle and its impacts on infrastructure, where NBN Co is a current case in point.

Finally, the region suggests that there is a national appetite for investing in infrastructure that assures the capability of the nation into the future and that something along the lines of an infrastructure tax would be tolerated where the expenditure was on projects that the nation sees as valuable. A salient example in Central NSW is the inland rail link Brisbane to Melbourne which will deliver freight benefits, national cost saving and foster development in this and other regions.

Please see over for answers to some of the questions raised by the Productivity Commission where this region would welcome the opportunity to be further engaged in the process.

For further advice in regards to this submission please contact the Executive Officer Ms Jenny Bennett on 0428 690 935 or jenny.bennett@centroc.com.au

Yours sincerely,

A handwritten signature in black ink that reads "Ken Keith" with a stylized flourish at the end.

Cr Ken Keith
Chair
Central NSW Councils (Centroc)

What is public infrastructure?

Does the proposed definition of public infrastructure capture all forms of infrastructure that should be considered by this inquiry?

This region notes that the scope of the inquiry is into nationally significant infrastructure. The challenge is where to draw the line? Further, all the public management of all infrastructure has a significant effect over the development over all infrastructure, take for example the knee jerk need for the desalination plant in Sydney being a result of poor planning and investment in water security in NSW over a very long period of time.

What types of nationally significant economic infrastructure should be within the scope of this inquiry?

Given the timeframe, it may be better to choose one or two infrastructure types and analyse them in depth. Given the challenges in the energy space, this region would commend work being undertaken to ensure our energy future where the following are some considerations:

- Growing the capacity of solar power and its fit into the national energy grid;
- Ensuring that the legislative framework allows for off grid and another innovative solutions to power supply;
- Increasing the use of renewables such that the government can achieve its targets; and
- Investing in infrastructure which is actually built where the calamity of funding with no outputs is a national travesty.

Trends in infrastructure delivery

What mechanisms are in place to identify and measure the infrastructure needs of the community? How effective are they and what other mechanisms could be used?

Overall, the national effort around infrastructure strategy is improving. Continued review and iterative effort is required to get it right.

Our communities undertake Community Service Planning which inform infrastructure strategies including prioritization through the Integrated Planning and Reporting framework. The integration of this advice into regional, State and National strategies is in its infancy. Infrastructure Australia has undertaken some work in this space, which through iterations will improve.

Infrastructure NSW is still relatively new.

RDA has a role in this regard as does the State Government through its agencies and Infrastructure NSW.

Investing in more integrated effort would speed up the efficacy of the national effort on infrastructure strategy.

The nation needs to build the technical, financial and political layers for infrastructure development and have them operating iteratively. This will help avoid the effects of the short term political cycle and its impacts on infrastructure, where NBN Co is a current case in point.

What are the circumstances that might lead to governments over- or under-investing in infrastructure?

Please see the advice above which speaks to the tension between the under utilisation of strategy and over responsiveness to risk.

Not achieving a better balance between knee jerk infrastructure delivery like the desalination plant in Sydney and the gold plated and overly risk averse engineering services of what was once the Public Works Department in NSW. Both are simply too expensive.

What is the appropriate distinction between the funding and financing of public infrastructure?

No comment

How is public infrastructure currently funded and financed in Australia, including by the Commonwealth, the states and the private sector? How has the composition of different forms of funding and financing of public infrastructure in Australia changed? In particular, how has the role of the private sector in the provision of public infrastructure changed?

What information is available to show trends in public infrastructure investment, funding and financing in Australia, including different levels of involvement by the public and private sectors, and different types of infrastructure?

It is recommended the Productivity Commission undertake this research.

The provision of public infrastructure

What models can be used to provide public infrastructure? How do alternative models vary in their ability to address real or perceived limitations compared with more standard forms of public sector procurement? How adaptable are the different models between types of infrastructure? How do different models influence the efficiency of provision, funding and financing of public infrastructure?

What is the extent of the use of PPP models in Australia for different types of public infrastructure including in comparison to other countries and over time? What is the nature and scale of efficiency benefits from PPPs, including those arising from bundling the design, construction and operation phases? What are the costs or weaknesses of PPP models? Should the risks associated with PPPs be shared appropriately between governments and the private partner?

What principles should guide the consideration of the most efficient model for delivery and operation of public infrastructure (by the public or private sectors)?

Are current systems for raising revenue for public infrastructure services providing appropriate signals for efficient use and for new investments? If not, what scope is there to improve these systems?

Are there any coordination issues between the different levels of government and the private sector in the provision of public infrastructure? If so, what implications does this have for funding and financing decisions?

To what extent do coordination issues present barriers to efficient investment in public infrastructure?

Does the scope for each level of government to impose user charges or taxes and other charges affect the provision of public infrastructure, and/or the funding and financing mechanisms used?

What factors affect a government's capacity to effectively contract with the private sector for the delivery of public infrastructure, including the expertise required to enter into complex and lengthy contracts?

What are the roles of the different levels of government in the implementation of different funding and financing mechanisms for public infrastructure?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Decision-making and institutional arrangements

What are the strengths and weaknesses associated with the current arrangements by which different levels of governments interact? Do these arrangements create any perverse incentives or influence the choice of different funding and financing mechanisms?

This region can provide extensive commentary regarding this question where the time frame does not allow. Some considerations are:

- The need for funding for feasibility studies to ensure infrastructure projects are shovel ready- where funding for infrastructure projects is only for those where all the prerequisite planning has already been completed placing pressures on Local Government to undertake this planning work with no guarantee of the funding necessary to see the project delivery through to completion.
- Funding for capital works projects where funding is not provided for project administration and associated costs meaning that large components of the costs of these projects are required to be carried by Local Government.
- Funding for infrastructure only available for projects of regional significance with little or no funding available for community infrastructure that contributes to the liveability of that community and its attractiveness for relocation.
- Limited funding (some available through the NSW Government in the form of payroll tax incentives and for infrastructure upgrades to for e.g. Power supply) for private sector projects where this can sometimes mean the difference between a private sector company relocating to a regional community providing for economic development , employment opportunities and the attraction of value added industries.

What are the strengths and weaknesses of the current institutional environment within which decisions about the provision of public infrastructure are made? How does this differ for different types of public infrastructure? How does this influence the extent to which efficient investments are prioritised?

Extensive research would have to be undertaken with members regarding their experiences in this regard to provide an informed answer to this question. This has not been achieved within the time frame.

What decision-making and policy frameworks do governments and the private sector use to determine whether to invest in public infrastructure, and in particular, to evaluate the risks associated with infrastructure investment?

As advised above, Local Government in NSW is embedded in the Integrated Planning and Reporting Framework, which informs from the bottom up.

Where there are State and Federal imperatives around risk management, each Council risk manages individually.

Funding mechanisms

What alternative funding mechanisms for public infrastructure should be considered in this inquiry? What are the strengths and weaknesses of each, trade-offs to consider, and what principles should guide their use?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What are the different types of revenue streams that can be created to attract private sector finance for public infrastructure projects, such as user charges, availability payments and any other mechanisms? How widely are these currently used for different types of public infrastructure?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What costs and benefits should be taken into account when considering the suitability of user charging for public infrastructure? What impediments exist to the wider application of user-pay funding arrangements for public infrastructure, and how does this differ for different infrastructure types? How could such impediments be addressed?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What are the interrelationships between project-specific risks (such as construction or demand risk) and funding and financing decisions? How are these inter-relationships different for greenfields development as opposed to projects that augment existing facilities or networks?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the scope for further privatisation or 'capital recycling' of existing government assets to fund new public infrastructure? What principles and processes should guide these decisions, and what trade-offs need to be taken into account? To what extent could widespread use of this approach create incentives for governments to over-invest in infrastructure irrespective of efficiency considerations?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Financing mechanisms

What are the different types of private financing models? What are the advantages and disadvantages of these models?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what extent is unavailability or cost of private financing for public infrastructure projects an impediment to efficient investments taking place?

The availability and cost of private funding is clearly a consideration for infrastructure projects. Barriers also include the regulatory framework.

What are the relevant costs and benefits that should be taken into account in weighing up the choice between public and private sector financing mechanisms?

A TBL approach should be undertaken giving consideration to intergenerational equity.

How effective are existing arrangements and tools used to compare different financing mechanisms for public infrastructure?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what extent does the early commitment of financing reduce or eliminate the potential development of efficient funding mechanisms (charges and taxes), particularly user charging systems?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Risk allocation and contracting issues

To what extent do different types of project risks change across a project's lifecycle, how does this differ depending on the type of infrastructure, and what implications does this have for the funding and financing mechanisms used?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Under what circumstances are specific risks better left to government to manage or bear (for example, due to the nature of the infrastructure service or the government's greater ability to pool risks) or transferred to the private sector?

It is this region's experience that the private sector is getting increasingly capable in being aware of and giving a commercial value to risk managing the public sector where some public entities are in their infancy with regard to the effect this has over the bottom line and how they should undertake mitigation.

What has been the experience in Australia of risk allocation in public infrastructure projects for different infrastructure sectors? What is the capacity and willingness of private sector investors to take on and manage different types of risks?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Do governments have the capacity to resist accepting risks allocated to private providers, such as bailing out a private partner at risk of bankruptcy?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What are some of the alternative risk allocation models that can be used for public infrastructure, both for publicly and privately financed projects? What principles should guide the allocation of different types of project risks in public infrastructure projects?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

So-called 'Alliance' contracts are said to be effective risk-sharing mechanisms. Does experience bear this out?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Is there any evidence of government policies or regulation impeding private sector participation in the provision and financing of infrastructure projects?

Where Central NSW Councils do have some experience in this regard, it would take a data gathering effort that is not possible within the timeframe.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What are the components, and the total size, of transaction costs associated with the use of private financing models such as PPPs?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the extent of competition in the market for private financing of public infrastructure projects, what factors influence this and does this differ by the type of infrastructure?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What are the impediments to greater private sector involvement and financing of public infrastructure by institutional investors, such as superannuation or pension funds (for example, taxation arrangements)? What is the scope for superannuation funds to benefit from financing more public infrastructure, and the reasons why they are not already doing so?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What has been the effect of the National PPP framework and guidelines, endorsed by the COAG in 2008, in assisting the public and private sectors to improve delivery of public infrastructure assets? Is there scope for further reform to PPP processes, and if so what measures should be considered?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the likely effect of recent changes to the taxation treatment of business losses made by eligible infrastructure project entities? What is the rationale for such concessional tax arrangements?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Financial risks to the Commonwealth

What are the main factors that determine financial risks to the Commonwealth from the use of alternative funding and financing mechanisms? Do these risks to the Commonwealth differ from the financial risks faced by state and local governments and the private sector when they fund or finance infrastructure, and if so, how?

Centroc does not have sufficient information to hand to answer this question.

How are public infrastructure projects accounted for in government budget statements under different funding and financing models, including those financed by the private sector? How does this differ between jurisdictions within Australia and internationally?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the potential for mechanisms such as availability payments to impose limits on the Australian Government's total payment obligations and exposure to contingent liabilities? Are there alternative mechanisms for funding and financing that will minimise financial risks to the Commonwealth?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Would more transparent budget treatment provide more certainty around financial risks to the Commonwealth?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Do concessional taxation provisions for infrastructure projects present a financial risk to the Commonwealth?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Costs of infrastructure projects

How does the cost of land vary in the provision of different infrastructure projects? How significant is this cost as a share of the total costs of infrastructure projects?

Centroc does not have sufficient information to hand to answer this question.

What policies might be relevant to lowering the costs associated with land acquisition and access (including reducing delays)?

As advised above, a more streamlined approvals process would enable particularly projects undertaken by Local Government to occur.

Are there lessons from the experiences of different Australian jurisdictions and overseas about how to best cater for the land use and acquisition requirements for major infrastructure projects?

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What factors have contributed to the recent productivity growth in the construction industry? Are there impediments that have dampened the potential productivity growth achievable? If so, what are they? How does Australia's productivity growth and levels compare with other countries?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What factors have contributed to the labour cost pressures in the construction industry, and how do these vary by type of activity, location, and occupation?

In Central NSW we find that mining has a significant affect over other industries including construction.

To what degree have demand pressures contributed to wage pressures? Are the effects of this localised, for example, to non-metropolitan locations where significant mining-related construction is taking place?

See above.

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what extent has this occurred and for what types of equipment? Is it a transient phenomenon?

See above. Centroc members are concerned that not enough effort is being undertaken to avoid Dutch Disease and that the Federal Government should implement policies that see a better infrastructure legacy from mining.

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what degree are the trends in physical capital costs for the construction sector as a whole representative of those for infrastructure construction? If not, what factors explain any differences?

Centroc does not have sufficient information to hand to answer this question.

How important are the prices of physical capital inputs for total construction costs?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What are the main sources of intermediate input cost pressures and what factors lie behind these pressures?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what extent has increased intermediate input costs placed pressure on total infrastructure construction costs?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What are the major drivers of overall infrastructure construction costs in Australia?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What factors have kept aggregate infrastructure construction output price rises to similar levels observed for all goods and services in the economy, and how can this be reconciled with the micro-evidence on rising construction costs for major projects?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the role of the demand pressures on costs associated with the resources boom, and what are the anticipated impacts as commodity prices and mining investment activity abates?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

The Commission seeks information on profitability along the supply chain and its importance for the total cost of projects.

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the typical distribution of costs across the various phases of infrastructure projects, and what are the key factors that affect these costs (such as planning and environmental approvals, delay, procurement problems, specification variations and industrial action)?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what extent can government policy address any of these factors? (The Commission has examined some of these issues in its inquiry into Major Project Development Assessment Processes, and only requests additional information to the extent that it shed greater light on the issues addressed by this inquiry.)

What significant changes, if any, have occurred in the cost structures of major infrastructure projects over the last ten years? Are these changes specific to Australia or part of broader international trends?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

International comparisons

To what extent does reliable and methodologically sound data exist on construction cost differentials across countries, and what cost differentials and trends do these reveal? What does the available evidence show about Australia's ranking with regard to the cost of major construction projects?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Which countries are the best comparators for Australia in regard to major project construction costs?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Workforce issues

What are different unions' coverage across major public infrastructure projects? How does this vary across jurisdictions and project types?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is 'best practice' in the bargaining process between employers and employees, and are there 'win-win' options that have not been fully exploited? How can these opportunities be exploited?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the quality of training for negotiations (for both employers and employee representatives)?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what extent have bargaining arrangements (or their breakdown) between employees (and their nominated representatives) and management:

- *reduced innovation and flexibility*
- *increased wages above levels of comparable employees in other sectors*
- *resulted in inefficient input choices*
- *led to project delay, and lower labour and capital utilisation*
- *led to industrial disputes, 'work-to-rules', go-slows, bans (such as on overtime), and employer 'lock-outs'?*

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

What has been the associated impact on costs, and how do they compare with other factors creating cost pressures? Have such costs changed over time, and if so, why?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

How do work practice and industrial relations affect the costs of different types of construction:

- *by the area of infrastructure (rail, roads, ports, airports etc)?*
- *by the value of the project?*
- *by the project duration?*
- *between different jurisdictions?*
- *greenfield versus brownfield projects?*

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Why do these differences arise?

What have been the primary causes of industrial unrest?

How quickly have matters been resolved, and by what mechanism (consensus between parties, actions suspended by the Fair Work Commission, intervention by the former Australian Building and Construction Commission, or in cases of unprotected actions, through civil litigation)?

To what extent do employee-employer relations vary with the characteristics of construction contractors, such as their size, profitability, cash flow risks, and position in the subcontractor chain? How do any such variations directly or indirectly affect construction costs?

Centroc does not have sufficient information to hand to answer this question.

More broadly, to what extent does the market structure of the construction industry — and in particular, the relatively small number of prime contractors — affect employer/employee bargaining arrangements, and with what effects on costs?

Centroc does not have sufficient information to hand to answer this question.

To what extent has there been unprotected industrial action (actions not covered by a Fair Work Commission protected action ballot), or the threat of such actions?

Centroc does not have sufficient information to hand to answer this question.

Is there any evidence that the abolition of the Australian Building and Construction Commission affected workplace outcomes in the construction of major infrastructure?

Centroc does not have sufficient information to hand to answer this question.

To what extent have there been union rivalries and demarcation issues, and what have been the impacts?

Centroc does not have sufficient information to hand to answer this question.

Enterprise agreements can allow parties to make in-project variations.

To what extent are such flexibilities used by parties to an agreement, and with what impacts on costs?

Centroc does not have sufficient information to hand to answer this question.

Are there material and consistent differences between the outcomes of greenfields agreements and other enterprise agreements? What evidence and examples of greenfields agreements should the Commission be aware of, particularly for public infrastructure projects?

Centroc does not have sufficient information to hand to answer this question.

Is the regulatory process and framework around greenfields agreements appropriate?

Centroc does not have sufficient information to hand to answer this question.

What have the roles been of governments and employer organisations, and any effects on the outcomes in the relevant part of the construction industry?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

The main question:

What is the overall role played by the work practices, the industrial relations system and its institutions in increasing costs in the construction industry? What specific features of that system are at fault, and how could they be corrected? What other associated reforms or cultural changes may be required for effective employee/employer relationships? How can such changes be best implemented?

The Centroc Board has no policy in this regard, a policy position would need to be developed and this could take up to 6 months.

Is there any scope to reduce labour shortages by using less skilled labour or by using technologies that substitute for labour?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what extent have skill shortages contributed to the cost pressures for public infrastructure construction projects? What evidence is there for current shortages among specific occupations? Are skill shortages likely to be persistent?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

How have 457 visas (and their underpinning arrangements) remedied skill shortages, and with what impacts on costs?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Given their role in 457 visas RDAs may have more advice in this regard and should be consulted in this regard.

What are the appropriate policies to address skill shortages?

Once again RDAs have a stronger background in this area. The Centroc Board has no policy in this regard, a policy position would need to be developed and this could take up to 6 months.

Market structure and behaviours

Does whether the client is public or privately owned have implications for the cost of the project? If so, why, and what is the evidence for this? If not, do other client characteristics affect the cost of the project?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Are there differences in contracting arrangements across firms?

Yes.

Is it possible to identify 'best practice' contracting arrangements?

It would be possible to identify public friendly contracting arrangements at least on a State by State basis. Standard contracts are useful though require vigilant review.

Is the market for major infrastructure projects efficient? If not, what is the source of the inefficiency and how can it be remedied?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Does the current market structure lend itself to the efficient provision of infrastructure?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and international environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the combined market share of the major Australian construction groups?

Centroc does not have sufficient information to hand to answer this question.

How profitable have the major Australian constructions groups been in recent years, with particular regard to the domestic market? How does this compare with the profitability of smaller construction groups?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

Do the divisions of the bigger market players effectively compete against each other?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Does either the client or the supplier of the infrastructure possess market power? If so, what is the extent of the market power and how does it manifest itself?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

How significant are any obstacles to gaining market share for smaller Australian firms or locally-based international firms?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Why have there not been more international firms entering the market? Do local firms, particularly the big two suppliers, have an advantage? If so, what is the nature of this advantage?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Does the Australian market have any appreciable barriers to entry? If so, does this barrier apply to both domestic and foreign firms?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

To what extent does market structure or any conservative procurement cultures affect the optimal uptake of new cost-reducing technologies?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

To what extent does 'project' risk affect the cost of a project?

Centroc is aware of 'project' risk being included and also that the costs of tendering especially for large and complex projects are also significant. Structuring projects is becoming increasingly important.

What are the major 'project' risks? How are the risks managed, and who bears these risks?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Is there scope for improved management of project risk to alleviate cost pressures?

Yes

Does the current market structure impose 'market discipline' on the delivery of major projects?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Are there appropriate incentives for suppliers to deliver contracts on time and on schedule?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Is there scope for the greater use of incentives to curtail cost increases?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

How prevalent is sub-contracting in the provision of major infrastructure?

It would be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Is there any difference in how the major construction companies, consortia and other smaller constructors sub-contract?

It may be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Is there market power in sub-contracting markets? If so, which markets and which parties exhibit this power?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

What is the impact of sub-contracting on the overall cost of a project?

It may be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Procurement and project management

To what extent have poor contracting arrangements resulted in cost overruns for major projects? How can this be avoided in the future?

It may be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January

How do Australian procurement practices compare to equivalent overseas arrangements and private sector processes?

Centroc does not have sufficient information to hand to answer this question.

It is recommended that research be undertaken including case studies and environmental scanning to inform these questions such that stakeholders can provide specific advice with regard to their specific experience.

To what extent does the current procurement design favour market incumbents and exclude potential market entrants?

It may be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January

To what extent do Commonwealth and state local procurement policies and practices result in higher project development costs? Are these costs justified by increased competition in the supply chain or other possible benefits?

Centroc is working closely with the State Government to enable better procurement provisions that support growth in regional activity where Council work collaboratively. This may affect infrastructure projects,

Do the government teams responsible for procuring major projects have the correct skill mix? If not, what measures are most likely to ameliorate these deficiencies?

It may be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January.

Other cost pressures

Are current regulatory requirements appropriate for businesses tendering for public infrastructure projects?

It may be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January

To what extent are major infrastructure projects coordinated in terms of location and timing? Should there be more such coordinating, and if so, how?

It may be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January

What other significant cost drivers for public infrastructure construction projects have not been mentioned in this issues paper? What would be the appropriate role of policy in relation to these drivers?

It may be possible for Centroc to provide advice to this question subsequent to surveying its members, a typical turn-around time for this type of data gathering would be six weeks after the end of January