Australia’s Infrastructure Imperative: Getting more value for taxpayer dollars

SYDNEY
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The SMART Infrastructure Facility hosted its second annual Infrastructure Business and Policy Dialogue in Sydney on 13 August 2014. Sir John Armitt CBE, who oversaw the successful construction of the 2012 London Olympics and is an infrastructure practitioner of world renown, was the keynote speaker. Other eminent speakers included the Federal Assistant Minister for Infrastructure and Regional Development, the Hon Jamie Briggs, SMART Chairman Dr Ken Henry AC, NBN Chairman Dr Ziggy Switkowski AO and SMART Foundation Professor of Infrastructure Economics Henry Ergas. Several of Australia’s leading infrastructure practitioners contributed to panel discussions, including Hon Nick Greiner AC, Rod Pearce CM, Dr Kerry Schott, Lyn O’Connell RSM, Ross Love, Steve Lambert, Philip Gaetjens, Pauline Vamos and Steve Kanowski.

SMART Infrastructure Facility and the University of Wollongong are committed to playing a constructive role in the national infrastructure debate. We do this as an independent think tank - bringing together public and private sector participants to identify common issues and interests and to cross-pollinate the best ideas and practical solutions we find.

As part of our mandate to generate informed debate in the national infrastructure conversation, SMART estimated a top-down potential benefit from infrastructure reform. Our estimate was based on our current Infrastructure Cost Drivers Study, informed by both publically available data and conversations with key infrastructure practitioners in the states. We estimated that, at a minimum, Australia could save $4 billion per year in infrastructure spending (or around 6% of total public investment) if we committed to a comprehensive infrastructure reform agenda.

| Table 1  'Top Down' Estimate of Potential Gains from Infrastructure Reform (Avoidable Costs) |
|-----------------|-----------------|-----------------|
| **Minimum Annual Availabe Cost ($2013-14)** | **% of State & C/W Capital Programs** | **% of total Public Investment** |
| Excessive Standards and Red Tape | 1,800 | 5.0% | 2.5% |
| Excessive and Duplicative Green Tape | 1,400 | 3.9% | 2.0% |
| Lack of Planning (unnecessary brownfields complexity) | 600 | 1.7% | 0.8% |
| Tendering, Contracting and Competition issues | 500 | 1.4% | 0.7% |
| Poor timing of infrastructure rollout (eg. booms) | not estimated** | 0.0% | 0.0% |
| **Total Annual Avoidable Costs** | 4,300 | 12.0% | 6.2% |

* Includes Commonwealth capital grants to the States. ** We did not estimate the impact of cyclical cost drivers such as excessive public spending during private sector investment booms.

Source: SMART Infrastructure Facility, ‘Infrastructure Cost Drivers Study’ August 2014
TOPLINE SUMMARY

The concept behind the 2nd Annual Infrastructure Business & Policy Dialogue was to add value to the national infrastructure debate by bringing the leading thinkers and practitioners together and, indeed, it proved to be an ideal opportunity for a discussion of global experience and national direction.

The symposium theme, Getting More Value for Taxpayer Dollars, is one which SMART identified was well overdue for discussion. This has been an important focus for SMART, as we have been concerned about the nation’s progress with lifting infrastructure efficiency and lowering costs. While Australia is seeing record spending on infrastructure, our needs are growing, resources are not limitless and the nation cannot afford not to address such significant avoidable costs. This was the subject of discussion on the SMART Green Paper, Infrastructure Imperatives for Australia released in February 2014. Copies are available at smart.uow.edu.au

Overall, participants and speakers saw some encouraging signs of improvement in the way we plan for and deliver infrastructure. Governments have sought to centralise planning through specialist agencies, develop priority project lists and establish a forward agenda. However, the infrastructure environment is still a confusing space for industry to enter, despite its strong enthusiasm to get involved. The priorities are not clear. The rules for participation are not the same everywhere. Politics and bureaucracy still gets in the way more than it should. Inevitably, government has to lead the policy reform charge, and it needs to increase momentum, not relax. Otherwise, Australia risks missing the opportunity of a lifetime – to bank the profits of the boom in wise infrastructure investment that will set us up for success in tougher times ahead.

Box 1 sets out a ‘National Checklist for Good Infrastructure Health’ and is applicable to any jurisdiction in Australia. The checklist arises from the 2014 Dialogue and captures the key areas where more reform and faster progress with value for money is required.

A NATIONAL ‘GROWTH SURGE’

The urgency to reform Australian infrastructure practices is escalating, as population growth gathers unprecedented momentum and labour productivity continues its decline. As Dr Ken Henry noted in his speech, the Australian population grew around 3% pa during 2000-2010, a significant increase on numbers seen during the decades since the Second World War. Projections suggest this population pressure will continue to be a major factor in driving infrastructure needs. He described the current system’s unclear pipeline of projects and lengthy approvals processes as “inadequate, costly, complex and uncertain”.

Infrastructure that lifts national productivity is an imperative that cannot wait, a point noted by Professor Henry Ergas in his presentation. Waste of public resources can no longer be tolerated as it means squandering a vital opportunity to be more competitive. SMART’s own analysis of the available national data, released on the day of the symposium and reported in The Australian Financial Review, shows between $4 billion and $5 billion is being lost in cost blowouts annually on new roads, rail lines and bridges.

A NATIONAL CHECKLIST FOR GOOD INFRASTRUCTURE HEALTH

A series of clear themes emerged from the Dialogue in how to drive down infrastructure costs and get better value for money results – in effect to get more out of less in an economic climate that necessitates change and innovation. These major themes form a checklist for action by policy and decision makers:

1. LONG TERM PLANS & PIPELINES:
   Australia needs better longer term land use planning to signal and inform where citizens and institutions will chose to locate. Efficient land use goes to the heart of achieving better value for money in infrastructure.
   a. While a clearer project pipeline has been called for many years, this has not waned and progress with both has been modest and in urgent need of attention.

2. ACCELERATE TRANSPARENCY & GOVERNANCE REFORM:
   Is more than just releasing information, governments must invest in an institutional structure that captures key data and metrics on projects.
   a. Lack of an institutional memory is limiting the sector and its ability to adopt continuous improvement of infrastructure governance.

3. COST BENEFIT ANALYSIS:
   Public availability of cost benefit analyses is an absolute minimum requirement towards achieving better and more cost effective outcomes.
   a. Full independent review of CBA is essential.
   b. Must recognise that CBA is also more than just a ‘headline’ number.
   c. Government have a duty to look beyond the headline CBA number and account for the measurement of externalities; their interaction and distribution of benefits and how they align with objectives must be more central to project prioritisation.

4. STREAMLINED TENDERING & APPROVALS:
   Australia needs simpler, more consistent approvals processes and simpler, less prescriptive approaches to tendering along the lines of, for example, the recent NorthConnex (NC) process.
   a. The NC process has encouraged innovation and leveraged private sector know-how, avoiding previous pitfalls of overly prescriptive project specification that drives up costs.

5. COMPETITION, PRICING & OUTSOURCING:
   Australia is paying too much for some projects by not encouraging enough competition from overseas. Check list #1 is critical to attracting and retaining more international firms.
   a. States must start the process of implementing better demand management approaches, especially to public roads and consider the corporatisation model that is now common to other monopoly utilities such as electricity, water and rail - if we are to meet our growing needs with sensible and sustainable pipeline of projects.

6. CLEARER DEFINITION OF GOVERNMENT ROLES:
   While progress has been made, there is still a great deal more to be squeezed out of existing Federal arrangements.
   a. The Commonwealth must avoid using its funding powers to distort inefficient decision-making among the states, and incentivise the states and territories to address whole of life issues with their infrastructure, instead of the bias to building mega projects.
   b. Mega projects have their place, but not at the cost of smaller projects with superior cost-benefit ratios that decongest and debottleneck existing infrastructure.
   c. Infrastructure Australia should focus on driving reform of the infrastructure governance process, and if successful in the future it will have no need to prioritise and recommend major projects.
PAYING TOO MUCH

Australia can learn from the lessons of our rich infrastructure history, and direct these into the institutional corporate memory. 

Dr Ziggy Switkowski of NBN Co gave a fascinating address on the ‘midstream’ review of NBN and the challenges of delivering a landmark project in an environment in which governments had grown used to hiring local contractors at expensive rates during the mining boom.

The NBN is not just a metaphor for the transitions needed in infrastructure but also the economy. The question is whether the new NBN governance processes can be adopted as a new national benchmark for all major projects. Part of the Switkowski answer is more foreign competition for infrastructure projects. Indeed, we are seeing some European giants winning major work from the States for the first time, as the competitive pool slowly grows.

Dr Switkowski suggested a key means of achieving this would be for governments to break down project contracts into smaller, more competitive chunks that could also be contested by smaller firms. He also suggested that onerous design costs were sometimes 50% of bid costs and high by international standards.

TRANSPARENCY IS KEY

The Dialogue returned again and again to the need for governments to publicly release cost-benefit analyses. 

Dr Kerry Schott, one of our most experienced public sector leaders, was typically honest in her assessment that the failure of governments to undertake and release cost-benefit analyses was at the heart of why public money sometimes ends up wasted on well-intended infrastructure projects.

Dr Schott pointed out that major projects such as the NBN were commenced without a publicly available assessment. Many agreed with her view that the reasons given by risk-averse governments for keeping such information private were not compelling. Equally, others commented, there are large information deficits evident in infrastructure. For industry and the paying public alike, these are issues needing resolution.

GETTING PLANNING RIGHT

The importance of planning especially over the long term emerged in many presentations by speakers and panel discussions. The importance of a clear pipeline and long lead times in achieving rational decisions and effective cost control was also a recurring theme. It was noted that a number of governments have developed state plans – a good step but not necessarily delivering the clarity required by the market. While more brown field projects are coming on line, a more competitive political environment tends to favour more mega projects, with more political and patronage risk. This is a problem because they can be at the cost of smaller but superior interventions that may serve important but less glossy aims, such as decongesting or debottlenecking existing networks.

Sir John Armitt, the Chairman of the UK’s Olympic Delivery Authority, made the excellent point that good infrastructure is not possible without collaboration but also that politics is inseparable from infrastructure.

The UK Opposition has adopted the recent review by Sir John on long term planning as policy. It suggests imposing gateways for review of projects to enable them to be changed following receipt of new information or changed circumstances.

Governments, he said, need to “go early, be open and engage” – lessons from jurisdictions like France show that early intervention with stakeholders leads to better results and better management of costs. His comments suggest that experiments like the creation of UrbanGrowth NSW to manage infrastructure development in defined corridors through collaborations agreements between state agencies should be closely watched.

ENCOURAGING INNOVATION

One of the greatest challenges on the funding side of the equation is ensuring agencies have the experience and exposure to know what options may be on the table when commissioning a project. In this way, a key lesson from the Dialogue was that innovation is out there and on tap if governments choose to access it. Deals can take many possible shapes to get to the same objective and NorthConnex provides one possible model to achieving greater innovation and capital efficient outcomes.

At present, fear of risk and ‘what you don’t know’ is a reason why many projects don’t achieve what they could. These factors appear to drive heavily prescriptive tenders that result in less, not more, value because they add to bid and project costs while smothering innovation. These are important considerations for governments letting infrastructure tenders.

Steve Lambert of National Australia Bank, encouraged governments to take a “holistic” approach to planning to address social and environmental problems. Some of the innovations he cited were funding affordable housing programs and structuring deals to fund infrastructure that serve social impact purposes. These exciting ideas require more development as they pave a new way for maturing of relationships between government and the private sector in funding the future of infrastructure.

PRICING REFORM

In addition to ‘paying over the odds’ issues identified by Dr Switkowski, Ross Love of Boston Consulting pointed out that pricing of infrastructure has been off the agenda for too long. In his view, roads are a major priority for reform. He was among speakers who urged the adoption of corporatised models for outsourcing of some services such as maintenance contracts.

Professor Henry Ergas noted that price is more than about allocation of efficiency, but must guide long-term decisions like outsourcing of some services such as maintenance contracts.

Other speakers spoke of the importance of a fresh debate on user charges but there was general acknowledgment that these ideas need a stronger customer proposition to be articulated. Some old-fashioned political muscle is needed to sell these arguments to the public as the price of having the best infrastructure the world can offer.
INDUSTRY’S MOOD

As an innovation from our first Dialogue in 2013, this year SMART surveyed delegates online about how they saw the current state of the sector. There was a huge appetite for the rewards of participation in the sector with the caveat that there remain frustrations that the system need to work better for all participants, both government and private sector alike. The major concerns were around reassurance that a genuine national pipeline of projects will be available to be accessed, getting a better, more consistent tendering process, and better information and clarity around project objectives from governments.

NSW got good marks from delegates for seeking to make more of existing infrastructure before undertaking new projects, which may be as a sign that Infrastructure NSW’s ‘it’s the economy, stupid’ philosophy has had an impact in the Premier State. Victoria however remains most highly thought of in its engagement with the private sector. Clearly we can learn from the world. Remarks in people’s survey responses indicated that we can learn a great deal from Singapore’s thorough planning regime, South Korea’s independent project analysis and Ontario’s good transparency. This experience needs to be better leveraged by government when seeking private partners to deliver on their vision.

RATING RECENT PROJECTS

Perhaps most revealing were participants’ survey comments about pluses and minuses of major projects in which they had been involved in the previous year. They gave top marks for reduced operational costs and achieving customer service. They gave low marks on such issues as clarity around the project objectives. This suggests that some results are flowing through from new centralised infrastructure agencies. However, governments still need to look closely at how well they leverage the capabilities of the market.

Comments suggested some frustrations around the extent to which agencies seek to drive the fine detail of project design rather than let bidders apply their experience in designing the solutions. While our survey was a simple snapshot, SMART believes it is telling some interesting stories about how far we have come as a sector and how much more work lies ahead.

GOVERNMENT PERSPECTIVE

Governments today have made important first steps in addressing these issues, but so much more is necessary. Nick Greiner cited the saying ‘good fences make good neighbours’ and both the Commonwealth and States have some significant and politically difficult reform to do to define the boundaries and deliver on their responsibilities.

In his address the Assistant Minister for Infrastructure and Regional Development, the Hon Jamie Briggs MP, told the Dialogue that the Commonwealth will, despite straitened times, fund good infrastructure that meets national economic objectives. It has to take the lead in setting national standards.

As John Fitzgerald told us, IA needs even more clarity of purpose: it must commit itself to the reform of the infrastructure governance process and have financial incentives at its disposal to make that happen.

SMART argues that if the process of decision making and governance is of a high order, then in time the need for IA to prioritise major projects will become redundant as politicians will have the information and accountabilities through unprecedented transparency to enable them to choose wisely.

The Commonwealth must have evidence that taxpayers’ money will be well spent. IA has been on a continuing journey to achieve this is – as have the States, which in some cases have yet to fully justify funding claims with compelling evidence. The introduction of agencies such as Infrastructure Australia and state counterparts in NSW, Victoria and Queensland and efforts at assembling long term plans is creating more pressure for clearer pipelines, clearer project selection and more accountable decision making at the micro level.

CONCLUSION

Australia must be energized by its significant successes in infrastructure, and apply itself to the next frontier of reforms so we can demonstrate that ‘good infrastructure’ can support value for money, productivity growth and higher liveability at the same time for all its citizens.

On behalf of all our speakers, sponsors and those who attended, I want to extend a warm thank you for your participation and contribution.

SMART will continue its national leadership of the infrastructure debate in Australia, and play an active and supportive role by infusing independent and evidenced based research and policy development that is for the benefit of all Australians.
SMART wishes to warmly thank its speakers and panelists:

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<th>Name</th>
<th>Organization/Title</th>
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<td>Mr Richard Cooper</td>
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<td>Dr Tim Williams</td>
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Sir John Armitt CBE and panel, (l-r) Rod Pearse, Ross Love, Pauline Vamos, discuss global best practice infrastructure planning at the 2014 Dialogue