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on Infrastructure and Communications

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Procurement

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1. Introduction

The House of Representatives Standing Committee on Infrastructure and Communications is conducting an inquiry into infrastructure planning and procurement. We welcome the Committee's inquiry given industry's concerns over the efficiency, accountability and transparency of road infrastructure expenditure.

Immediate attention should be paid to the reform of supply side arrangements. The PricewaterhouseCoopers (PwC) report to the ATA: *A future Strategy for Road Supply and Charging in Australia* provides short, medium and long-term reform actions to improve the current situation.

In addition, the Productivity Commission released a draft report on public infrastructure which provides recommendations on road supply and road funding. While we disagree with the Commission's overall stance on user charges, due to concerns over the cost and effectiveness of in vehicle charging, we support some of the road provision reforms.

These two reports should be considered by the Committee as they both provide sensible paths for supply side reform.

2. Australian Trucking Association

The ATA is the peak body that represents the trucking industry. Its members include state and sector-based trucking associations, some of the nation's largest transport companies, and businesses with leading expertise in truck technology.

3. Recommendations

Recommendation 1

The Committee should recommend the following Productivity Commission recommendations be adopted by the Government:

Productivity Commission draft recommendation 7.1

Institutional arrangements for the provision and delivery of public infrastructure should incorporate good governance arrangements, including:

- The principal objectives of ensuring that decisions are undertaken in the public interest.
- Clear and transparent public infrastructure service standards.
- Effective processes, procedures and policy guidelines for planning and selecting public infrastructure projects, including rigorous use of cost benefit analysis and transparency in cost benefit assessments, public consultation and public reporting of the decision (including transparent review of the decision by an independent body, for example, an Auditor-General or Infrastructure Australia).
- Efficient allocation and monitoring of project risks between government and the private sector.
- Use of transparent and competitive processes for the selection of private sector partners for the design, financing, construction maintenance and/or operation of public infrastructure.
- Sufficiently skilled employees who are responsible and accountable for performing their functions.
- Principles and processes for selecting efficient financing mechanisms and transparency of financing arrangements.
- Performance reporting and independent evaluation of public infrastructure project performance.

Productivity Commission draft recommendation 7.3

Australian Government funding or other forms of assistance (such as loans and government guarantees) for public infrastructure that is provided to local, State and Territory Governments should be conditional on the following:

- Use of effective cost benefit analysis and transparency assessments including the methodology and assumptions.
- Evidence of demonstrable net public benefits from the project which is not obtainable without Australian Government support.
- Evidence that competitive processes will be used for the selection of financing, design, construction, maintenance and operations of public infrastructure services where these tasks have been outsourced to the private sector.
- Ex post evaluation and publication of public infrastructure project outcomes.
- Consultation on the criteria to be applied and any potential implementation issues associated with such an approach should be undertaken with local, State and territory governments.
- All governments should be encouraged to apply the above principles and actions to their own-funded projects.

Productivity Commission draft recommendation 11.1:

Governments should invest more in the initial concept design specifications to help reduce bid costs, but in doing so; provide opportunities for tenderers to contest the specifications of the design.

Productivity Commission draft recommendation 11.2:

When tendering for major infrastructure work under design and construct arrangements, governments should consider contributing to the design costs of tenders on the condition that governments own the design, where a thorough prior assessment has demonstrated that design innovation is both worth seeking and likely to be received.

Productivity Commission draft recommendation 11.3:

Government clients should alter the timing of information provision in the tendering process for infrastructure projects so that non-design management plans are only required of the preferred tenderers. The obligation to produce documents upon becoming a preferred tender should remain a condition of the initial request for tender.

Recommendation 2

The Committee should recommend the Government adopt the short-term PricewaterhouseCoopers recommendations of:

- Defining a three-tier freight network which would target investment, reporting and funding on the basis of the level of service.
- Reporting, benchmarking and review of road costs. States, territories and local government road owners should report investment and maintenance on each tier of the road freight network. Comparing these costs to established benchmarks and the associated level of access with the investment would improve the accountability of road agency spending.

Recommendation 3

The Committee should recommend the Government should not further consider plans for mass distance location pricing of heavy vehicles.

4. Committee Questions

4.1 What initiatives are operating around Australia at local and state government levels that might lower the cost of planning approvals and reduce timeframes for delivery of projects?

There is an urgency to reform procurement practices in road infrastructure and improve the benchmarking of projects in order to have some control and oversight of costs and decisions.

In order to lower the cost of planning approvals efficiency in procurement has to increase. The Productivity Commission identifies that there are deficiencies in procurement practices that lead to cost escalation and inefficient decision making.

The ATA supports the Productivity Commission's recommendations to improve the productivity of procurement practices, bidding process improvements and pursuing 'value for money' under project selections and procurement process'.

Productivity Commission draft recommendation 11.1:

Governments should invest more in the initial concept design specifications to help reduce bid costs, but in doing so; provide opportunities for tenderers to contest the specifications of the design.

Productivity Commission draft recommendation 11.2:

When tendering for major infrastructure work under design and construct arrangements, governments should consider contributing to the design costs of tenders on the condition that governments own the design, where a thorough prior assessment has demonstrated that design innovation is both worth seeking and likely to be received.

Productivity Commission draft recommendation 11.3:

Government clients should alter the timing of information provision in the tendering process for infrastructure projects so that non-design management plans are only required of the preferred tenderers. The obligation to produce documents upon becoming a preferred tender should remain a condition of the initial request for tender.

In parallel to this, sufficient efforts at benchmarking should be undertaken in order for costs to be compared and improved.

The PwC report has a short-term recommendation that there should be reporting, benchmarking and reviewing road costs from states, territories and local government road owners on each level of the road network. Comparing these costs to established benchmark costs and the associated level of guaranteed access with the investment would vastly improve the accountability of road agency spending.

Additionally, the Productivity Commission recommends that the Australian Government should require a detailed benchmarking framework for major construction projects throughout Australia, with the collection of data being a requirement when the Australian Government provides funding¹. We would propose extending data collection to significant road infrastructure projects. As the Productivity Commission note in the report large projects can suffer from not being 'like for like' and benchmarking usefulness could be limited.

The ATA supports the Productivity Commission's view that the provision of data to support the benchmarking framework should be a requirement attached to all Australian Government funding for major infrastructure projects, and that ongoing benchmarking must be seen to be independent of both government and industry influence. Benchmarking must also be technically robust and credible².

¹ Page 20 The Productivity Commission: Public Infrastructure Draft Report - March 2014

² Page 303 The Productivity Commission: Public Infrastructure Draft Report - March 2014

4.2 Of those initiatives that the Committee has considered, are any able or appropriate to be implemented on a broader basis, including at Federal level?

In financing and funding heavy vehicle infrastructure there is a funding hierarchy that presents intergovernmental pressures. The Commonwealth receives revenue from the road user charge (RUC), states receive revenue from registration charges, and local government receives grants from the Commonwealth and revenue from the states.

It should be noted that while local governments receive grants that are notionally for road spending the grants are not tied similarly and the money industry pays is not necessarily expended on heavy vehicle infrastructure. Thus the accountability and control over monies provided by road users should be improved. We support conditional arrangements for funding provided by the Commonwealth to states and local government, in order to provide an incentive to develop best practice processes for road provision and benchmarking of performance.

The Productivity Commission made two recommendations to improve institutional arrangements for the provision and delivery of public infrastructure to incorporate good governance arrangements, and that the Australian Government funding or other forms of assistance (such as loans and governments guarantees) for public infrastructure that is provided to local, state and territory governments should be conditional.

Productivity Commission draft recommendation 7.1

The good governance arrangements include:

- The principal objectives of ensuring that decisions are undertaken in the public interest.
- Clear and transparent public infrastructure service standards.
- Effective processes, procedures and policy guidelines for planning and selecting public infrastructure projects, including rigorous use of cost benefit analysis and transparency in cost benefit assessments, public consultation and public reporting of the decision (including transparent review of the decision by an independent body, for example, an Auditor-General or Infrastructure Australia).
- Efficient allocation and monitoring of project risks between government and the private sector.
- Use of transparent and competitive processes for the selection of private sector partners for the design, financing, construction maintenance and/or operation of public infrastructure.
- Sufficiently skilled employees who are responsible and accountable for performing their functions.
- Principles and processes for selecting efficient financing mechanisms and transparency of financing arrangements.
- Performance reporting and independent evaluation of public infrastructure project performance.³

Productivity Commission draft recommendation 7.3

The productivity Commission suggests a sensible set of conditions for funding:

- Use of effective cost benefit analysis and transparency assessments including the methodology and assumptions.
- Evidence of demonstrable net public benefits from the project which is not obtainable without Australian Government support.
- Evidence that competitive processes will be used for the selection of financing, design, construction, maintenance and operations of public infrastructure services where these tasks have been outsourced to the private sector.
- Ex post evaluation and publication of public infrastructure project outcomes.
- Consultation on the criteria to be applied and any potential implementation issues associated with such an approach should be undertaken with local, State and territory governments.
- All governments should be encouraged to apply the above principles and actions to their own-funded projects.⁴

³Page 223 The Productivity Commission: Public Infrastructure Draft Report - March 2014

⁴Page 36 The Productivity Commission: Public Infrastructure Draft Report - March 2014

We also share the Commission's view that the stagnation in the provision of the correct infrastructure is the reason why there should be nationwide reform that could be boosted through leverage from the Australian government's large annual outlays of infrastructure funding for the states and territories.⁵

4.3 Are local, state and federal governments adequately considering the infrastructure challenges that they face and do they have long term plans in place to deal with those challenges?

When considering what infrastructure should be provided nationally, the needs of light vehicle users and heavy vehicle users differ. For light vehicles, road providers should consider the efficient capacity required for light vehicles. However, with heavy vehicle needs the road provider must consider the appropriate pavement durability and bridge strengths, bridge height and the provision of adequate rest area/de-coupling bays, amongst other facilities necessary.

We need infrastructure to be future-proofed. There are too many examples of poor decision making in the past that negatively affects the efficient movement of freight. Examples include:

- Inadequate bridge height in Sydney's tunnels
- Poor rest areas and availability in road projects generally.

Therefore, having a system that provides a network approach to Australia's roads to ensure there is recognition of what each road type and road user needs is important.

Making sure there is a coordinated public sector approach to road planning and provision is crucial. Infrastructure Australia's (IA) role in providing independent oversight and advice in infrastructure provision also needs to be maximised.

Parliament is currently considering the Infrastructure Australia Amendment Bill 2013, which would restructure the scope, transparency and accountability of IA.

In his second reading speech on the Bill, the Deputy Prime Minister and Minister for Infrastructure and Regional Development said the government's proposed changes to enhance Infrastructure Australia's existing functions included:

- a) conducting evidence based audits of Australia's current infrastructure asset base, in collaboration with the state and territory governments, which would be revised every five years;
- b) developing in 2014 a 15-year infrastructure plan for Australia, with this plan being revised every five years:
 - (i) the plan is to clearly specify infrastructure priorities at national and state levels, based on rigorous and transparent assessment;
 - (ii) the plan is to include clearly defined service standards for project delivery, identify short- and long-term productivity gains as well as any complementary projects required to maximise productivity gains;
 - (iii) the plan will recommend infrastructure projects on the basis of a transparent and rigorous cost-benefit assessment of their viability;
 - (iv) a project pipeline should clearly articulate a time frame in which projects will be brought to market commencing with those projects of highest productivity value;
 - (v) this work is to be developed in close consultation with state and territory governments, but should not solely rely on submissions from state and territory governments and third parties;

⁵ Page 30 - The Productivity Commission: Public Infrastructure Draft Report - March 2014

- c) review all projects seeking Commonwealth funding worth more than \$100 million (including transport, water, telecommunications, energy, health and education sectors and excluding defence projects) and publish the reasons for its decisions.

While we welcome the restructuring of IA, there is still a lack of focus on the entire network. The National Land Transport Network only constitutes 2.8% of the entire road network⁶. Local governments own and manage around 80% of Australia's total road network.

One of PwC's short term recommendations to improve the performance of road agencies is by defining a three tier freight network, which would target investment, reporting and funding on the basis of the level of service provided.

Tier 1 would encompass primary land freight corridors. This is the highest level of access, building on IA's National Land Freight Network.

Tier 2 would identify significant last mile, higher mass limit connections – This would be a level of access below Tier 1, but may align with Tier 1 mass limits to ensure end-to-end trip productivity is achieved.

Tier 3 would cover the remaining freight network. A minimum level of access in line with current general access requirements, supplemented by ad hoc improvements overseen by the National Heavy Vehicle Regulator (NHVR).

4.4 For governments that are engaging in long term planning for future infrastructure investment, are they taking steps to protect the land and corridors that are needed to deliver those infrastructure projects in the future?

We support the Committee's recognition that there does need to be considerable thought about protecting land and corridors for current and future infrastructure projects.

As mentioned above with heavy vehicle infrastructure provision adequate land needs to be set aside for rest areas, de-coupling bays and facilities for drivers. With the increased acceptance and take up of high productivity vehicles, this will require larger areas to be set aside to accommodate the longer length of these vehicles compared to traditional combinations. It is also essential that any new infrastructure and nationally significant infrastructure has a strict requirement to provide legally required rest areas. This needs to be included in any enforceable guidelines for road provision.

4.5 What is industry seeking to reduce the regulatory and other costs that it faces in competing for infrastructure projects?

The changes the Productivity Commission are recommending in section 4.1 of this submission, in reference to procurement practices, should be recommended by the Committee in order to reduce inefficient costs of infrastructure projects.

4.6 How can Australia increase or deepen the competitive market for infrastructure provision and funding in Australia?

Provision of infrastructure is underlined by the available finances and ongoing funding to keep the infrastructure maintained to a suitable level. Discussions of road pricing and direct user charging have become popular in recent times given apparent pressures on state and federal budgets.

⁶ Page 23 PwC report to the Australian Trucking Association: A Future Strategy for Road Supply and Charging in Australia, March 2013.

The Committee will be aware of the current heavy vehicle charging and investment (HVCI) reform which seeks to implement mass distance location (MDL) charging on all trucks via a telematics device or additional paper declarations on those parameters. This reform has also been indicated to foreshadow direct user charges for light vehicles via telematic devices.

As mentioned above, the National Land Transport Network incorporates a very small percentage of the entire road network, the majority of the network being local government roads. Therefore, when considering what part of the network user charges and private partnership investments can economically and fairly recover the cost of providing capital and maintenance, direct user charges should be considered in the reality of road types across Australia. The majority of regional, rural and remote roads in Australia will always need to be partly funded by consumer service obligations regardless of any direct charging system.

Hence, the government should rethink the in vehicle focus of direct charges and look towards where it can have some positive impact on driver behaviour and recover the costs of provision fully.

The current model for securing private sector investment towards road construction involves direct tolling. Superannuation funds and other private sector investors are interested in these assets, but only if they provide a secure income stream. There are issues surrounding the viability of these types of investments. A direct tolling system is far superior in targeting issues such as congestion instead of enforcing an expensive system on all of Australia that will only have a small impact on the behaviour of most drivers and penalise regional, rural and remote communities.

One justification for more direct user charges such as MDL charges is that road agencies have insufficient data to inform decision making. However, we question this assertion as after continued questioning states are yet to inform the industry of what data they use now and what they need in addition to this.

There is presently considerable data available for this purpose. Simply increasing the amount of data that road agencies receive does not equate to better delivery outcomes.

Collecting data is also not a costless process. Hence, tradeoffs have to be made between cost, volume and accuracy of data when formulating policy.

It is obvious to both road users and road asset holders where there are transport issues. Sir Rod Eddington's report on UK infrastructure noted that⁷:

In most cases, the best signals to identify where transport is acting to hold back growth will be the presence of clear signs of economic success (economic growth and very high wages and land prices), and that transport demand is starting to outstrip supply (signs of congestion and unreliability). In areas without such clear signs, it is unlikely that transport is holding back productivity and growth.

There is a great deal of data available for heavy vehicle usage. The main sources are:

- 1) State and territory CULWAY/WIM (weigh-in-motion) data;
- 2) FDF FreightInfo inter-regional freight movements database;
- 3) ABS Survey of Motor Vehicle Use (SMVU); and
- 4) State and territory commercial vehicle traffic counts.⁸

Where a particular data source has shortcomings, these can often be overcome by using observed patterns from other data sources or via 'informed estimates'. For instance, BITRE notes that:

⁷The Department of Transport The Eddington Transport Study December 2006

⁸ Page 195 - Bureau of Infrastructure, Transport and Regional Economics 2009, National road network intercity traffic projections to 2030, Working Paper 75, BITRE, Canberra

...some data (SA and NT) include estimates of the net freight task, others (NSW) the net freight task needs to be estimated by multiplying the difference between the average gross vehicle weight and the estimated average tare weight, for each Austroads vehicle class, by the total number of vehicles in each class, and summing over all vehicles classes.

Overall, the Weigh-in-Motion (WIM) data provided by various state authorities provides an accurate real-world picture of road freight flows between capital cities, with the exception of the Sydney-Canberra route.

The Transport and Infrastructure Senior Officials' Committee (TISOC) approved an expansion of the ABS SMVU to double the number of heavy vehicles surveyed and to have an additional focus on freight movements. In addition, industry now has the capacity to gather statistics on demand from the national heavy vehicle regulator (NHVR) records of failed access requests and attendant statements of reasons.

There is little evidence to suggest that more data being provided to road agencies and local governments will lead to better delivery outcomes. Hence, data sought from direct user charges is already being provided through less costly methods than direct monitoring of road users.

This data could also feed into the distribution of funds to states and local governments based on tier one to three spending and access expectations.

The Commission stated that a direct user charges system would have to be 'revenue neutral' for it to be acceptable. A better test would be 'cost neutrality' for industry. However, it is unlikely that MDL charging which has such specific monitoring technology, extra compliance and enforcement costs, and government and operator administration costs, would be cost neutral. Someone in that chain will wear the excessive costs of a bloated data collection and charging system and it is likely to be the industry and the community. This will affect the competitive provision of infrastructure due to funding being spent on a complex charging system instead of on roads.

Comparing this to a direct tolling system where all the appropriate costs are recovered from the users of the toll road is far more efficient than a whole system charging approach. If direct tolling is implemented with the PwC three tiered approach Australia would have a targeted, accountable and efficient system of providing and monitoring road infrastructure across Australia.

We would urge the Committee to ignore the HVCI recommendations as they will negatively affect the productivity of the trucking industry and instead focus on implementing the PwC three tier approach and investigate ways to implement direct tolls where appropriate.

Recommendation 1

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Recommendation 3

The Committee should recommend the Government should not further consider plans for mass distance location pricing of heavy vehicles.