



**Professionals
Australia**

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Committee Secretary
Senate Standing Committees on Rural and
Regional Affairs and Transport
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Via email: rrat.sen@aph.gov.au

RE: Infrastructure Australia Amendment (Cost Benefit Analysis and Other Measures) Bill 2014

Professionals Australia broadly supports the amendments to this Act. However, we use this opportunity to make a number of points related to the effective procurement of infrastructure and propose measures which must be undertaken to support the aims of the legislation.

About Professionals Australia

Professionals Australia represents technical professionals who work in the delivery and maintenance of public infrastructure. We have coverage of engineers nationally, performing design, scoping and project management roles across essential industries and services including IT, mining, construction, water, local government, power, road and rail. We have a strong and vocal membership in government agencies throughout Australia who are charged with the delivery of major infrastructure projects, most of which the Federal Government – and taxpayers – have a stake in.

The professionals we represent enable productivity growth, a diverse economy and the maintenance of high-wage, high-skill industry in Australia. They are the key professions in the delivery of infrastructure and deserve respect, recognition and reward for the critical role they play in our nation's prosperity.

Infrastructure delivery in Australia

Not only are our members an integral part of the chain in infrastructure delivery, they have an acute sense of responsibility to the public in the discharge of their duties. Increasingly, they have been concerned about the lack of capacity in State, Territory and the Federal Government's agencies and

that this is causing waste and inefficiency in infrastructure delivery, as well as having the potential to endanger the public.

The Australian government is in a unique position to use procurement levers to ensure that only projects with the most significant community value – social, environmental and economic - are supported with federal capital. These levers can be used to ensure that taxpayer’s money is spent in a way that is responsible for the current and future needs of our nation.

With significant demand for infrastructure and limited capital expenditure, the government must make logical and value based decisions on what projects are funded. Consistency and transparency in project selection and cost-benefit methodology allows government to make informed decisions about what investment will create the greatest value for the community and the economy.

In the assessment of the relative merits of infrastructure projects, the government must ensure that they have at their disposal the tools to properly assess the economic gains a project would deliver as against cost. The key professionals in that process are engineers and yet the trend in recent years has been to reduce engineering capacity rather than bolster it.

Experts agree that government is not an informed purchaser and that this situation is causing waste in infrastructure delivery. Infrastructure Partnerships Australia estimates an infrastructure backlog of \$770billion in Australia, and according to the latest ABS data, \$32.9 billion was spent in the last year on infrastructure by all Australian governments. At the same time, there has been a steady upwards trend in engineering construction on economic infrastructure assets to \$58.8 billion in a year. The Federal Government’s recently announced investment in infrastructure is expected to lead to additional infrastructure investment of \$125 billion.

Consult Australia has said “that \$6billion a year is 'wasted on disputation in projects across Australia” and noted “that much of this expense is borne by taxpayers, as many, if not all, large projects are commissioned by governments” (Senate Committee hearing, the shortage of engineering and related employment skills, 2012). The Productivity Commission (Review of the procurement of major infrastructure, 2014) stated that governments should: “invest more in initial design to reduce the design imposts placed on tenderers” and “solutions rely on government becoming”... informed purchasers and that “90 per cent of the cost variation of the top-20 non-residential capital works projects completed by 2012 (representing \$6.2billion in spending) reflected

early estimation errors". That's \$6.2billion wasted due to a lack of government capacity.

The most recent figures from Deloitte Access Economics report prepared for the Australian Construction Association state:

- There have been **infrastructure blow-outs in 7 of the last 8 years.**
- The **average blow-out is 6.5%, across all projects and for projects over \$1b is 12.7%.**
- The last time we had a surfeit of infrastructure projects (65 projects) was **2009 when blowouts peaked at 21.2%.** The more we spend, the more we waste.

What the above demonstrates is that government is increasingly relying on the private sector to deliver projects on its behalf and reducing its internal capacity, causing constraints in the public sector and an incapacity to properly assess the merits or otherwise of projects.

Member engineers we surveyed believe that the lack of in-house capacity is causing waste (93%), project delays (94%) and more than 70% believe it has the capacity to endanger the public. **The Senate Inquiry "The shortage of engineering and related employment skills" found that "government departments, having shed their engineering staff, now lack any real in-house engineering expertise". Regardless of the good intent of any legislation, this situation needs to be redressed for good public policy reasons: to save taxpayers money, derive value-for-money from projects and to ease the burden on the private sector.**

The legislation

Professionals Australia believes that proper independent assessment from adequately resources statutory authorities, which are removed from everyday politics and act in the interests of the nation as a whole and not for the retention of marginal seats and government, is key to proper workforce planning in the private and public sector, for the appropriate use of subsidiary policy levers such as planning powers and for faith to be restored in the processes of infrastructure delivery.

Professionals Australia supports this legislation as a firm step in the right direction however believe that Infrastructure Australia should:

- Have adequate internal capacity and expertise to undertake and/or review complex analysis and this requires **an adequate supply of professional engineers;**
- Be in a position where Cost-Benefit Analysis are conducted and reviewed prior to funding decisions being made and have their infrastructure priority list held up as the primary

pathway for project selection, **removing politics from one of the most important arms of public policy;**

- Be empowered to require Cost-Benefit Analysis for all federal government infrastructure capital expenditure over \$100 million, use and promote the usage of standard Cost-Benefit Analysis methodology with project selection processes and publish regularly both the summaries and complete Cost Benefit Analysis, **to ensure transparency and proper planning in infrastructure delivery;**
- Encourage government to utilise procurement levers to maximise overall benefit and value for money. **This means leveraging procurement to ensure there is investment in the technical professional workforce as a result of successful tendering for government projects.**

If Infrastructure Australia were to undertake the above tasks it would enable government to maximise benefit and work directly with project deliverers on issues of direct relevance such as; engineer skills issues, project delays and significant cost over-runs.

Professionals Australia welcomes any opportunity to provide further input to the committee.

Yours sincerely,

Chris Walton, CEO
Professionals Australia