Submission to

Infrastructure Australia

by the

Australian Services Union

INFRASTRUCTURE AUSTRALIA - PRIVATE PUBLIC PARTNERSHIPS

15TH October 2008

Part I – Infrastructure Need

Part II - Infrastructure – Private Public Partnerships

October 2008

Contact Point Greg McLean, ASU Assistant National Secretary gmclean@asu.asn.au

SUBMISSION COVERSHEET

Please complete and submit this form with your submission. Where possible, *Infrastructure Australia* requests submissions are submitted electronically. Contact us:

Organisation: Australian Services Union
Contact person: Greg McLean, Assistant National Secretary
Postal address: Level 8, 321 Pitt Street, Sydney
State: NSW Postcode: 2000 Country: Australia
Email address: gmclean@syd.asu.asn.au
Telephone: 02 9283 9280

Submission title: Submission to Infrastructure Australia
Author(s): Greg McLean, Assistant national Secretary, ASU
No. of pages: 14
Date: 15th October 2008

Please indicate if your submission:

✔ contains NO confidential material

☐ contains **confidential** material and the whole submission is provided "IN CONFIDENCE"

☐ contains **confidential** material, the whole submission is provided "IN CONFIDENCE", and I also want my name, affiliation, and contact details withheld from the public domain.

Please indicate which of the following your submission covers:

✔ Issues Paper 1 — Australia's Future Infrastructure Requirements

✔ Issues Paper 2 – Public Private Partnerships

Please acknowledge the submission guidelines:

- Infrastructure Australia may publish the submissions it receives on the *Infrastructure Australia* website. Submissions will be treated as public documents and communicated to the public unless marked as confidential in this coversheet.
- We encourage **evidence-based** submissions. We will not accept any submissions that contain defamatory statements, that is, any statements which have the effect of causing damage to a person's reputation. If you make any defamatory statements in your submission then a legal proceeding for defamation may be used against you.
- Authors of submissions are responsible for securing the appropriate right to use any third party material incorporated into their submissions.
- Submissions made by individual community members should not include any personal details other than your name, suburb, state/territory or country. For submissions made by organisations contact details may be included.

✔ **Please tick to indicate that you have read and agree to the above.**

The Australian Services Union is Australia's largest union in the local government industry representing blue and white collar, para-professional and professional employees throughout Australia. The ASU is also the largest union in the Australian water supply industry, supplying domestic users and businesses across the country, via both State-owned water corporations and, where the responsibility resides locally, through local government.

The ASU is also Australia's largest electricity industry Union as well as a significant union in the railway industry as well as having interests in a range of state and government national services as well as in the private sector infrastructure areas of airlines road transport and general transport.

Part I – Infrastructure Need

The ASU has noted *Infrastructure Australia*'s call for public submissions regarding how to foster an environment in which infrastructure spending decisions can maximise their effectiveness in delivering on economic, social, and environmental objectives.

The ASU submits that public sector infrastructure in this country is badly in need of construction and development. There is also a need to ensure adequate investment in the private sector in key areas which are of interest and concern to the ASU.

The Union notes that there are a range of issues that will be confronted by Infrastructure Australia in its deliberations and in its considerations of what maybe seen as appropriate and important infrastructure by State Governments and Regional Governments throughout Australia.

We note that there is a substantial need for greater development of infrastructure in Australia, in particular throughout the industries that are sensitive to climate change pressures. This in some cases mean replacement of existing infrastructure e.g. new Airline Terminals capable of Servicing A380 Airbuses as they are 27% more Greenhouse friendly than existing similar planes. Some of the areas we believe need to be considered are as follows.

Local Government Infrastructure

Local government provides many services across the Australia: in large cities through to smaller municipal areas, and in regional and coastal Australia. These services to the community are often provided through aging infrastructure that is either needing replacement and/or simply new or different infrastructure to meet the communities' needs. These include provisions of services, as well as infrastructure. Municipal and Shire Councils throughout Australia should be entitled to consideration in respect to the range of infrastructure that they provide directly to the community.

At this time local government does not receive specific long term infrastructure grants from Federal or State Governments but relies more exclusively on its rate base, as well as grants from Federal and/or State Governments for community services, primary functions and infrastructure construction. This means that some Australian citizens miss out on the supply of adequate services because of where they live.

The recent examples of the "regional grants", provided by the previous Federal Government, show clearly there is a need for local government to be better equipped to provide services to the community. This is noted in the context that many of the applications for regional grants to provide services or infrastructure to local government were services that could have at another time been provided directly by local government or the local community.

Infrastructure provided by Local Councils includes community centres, child care facilities, and even parks and leisure community resources such as football fields, cricket pitches, and more. Local government is Australia's largest provider of many of these services, and is Australia's largest provider of Sport and Recreation facilities as well as Australia's largest employer of recreation staff.

Local government provides services of clear importance to the development of Australia's youth, with respect to community services and to the business community. Local government community services are provided to the benefit of Australia's current, future and ageing population. However the grants and provisions of monies to community infrastructure have not been increased to reflect the changing needs of local government, the importance of local governments' size and services, and the changing needs of our communities.

"We have an increasing population, an ageing population, and a population demanding better services from its local government community".

A significant benefit to local government community services and infrastructure whether through roads Council halls, or the swimming pool that our Olympic athletes of tomorrow train in (or for Olympic athletes that are not based at organisations such as the Institute of Sport) is that these assets remain a useful tool to use by the whole community for anywhere between 20 and 50 years (or more). They are an investment in our future, an investment in our communities, and an investment in the business acumens of communities throughout Australia.

Local government should be provided with financial stability to ensure the ability to provide ongoing services to the community; however it is noted that sometimes infrastructure is a drain on Council resources.

The ASU would therefore propose that local government funding for community services and infrastructure be audited by the Council of Australian Local Government (ACLG), yet to be announced by the Federal government, with a view to determining the short-comings of Australia's local governments resources based on an established and agreed criteria i.e. –

1. What monies need to be provided to local government for road construction;
2. What monies need to be provided to Councils for community infrastructure e.g. parks, libraries, child care services, recreation facilities, beaches and pools, etc.
3. What resources are needed for ongoing maintenance and support.
4. What training is needed for operational issues.

<u>Local government infrastructure has the ability to provide additional employment to the community as well – which must now be a consideration based on the Government's recent measures to boost economic activity.</u>

In past economic downturns in our community, local government has often been relied upon for the creation of employment and the generation of local employment opportunities.

Funds allocated to local government for the construction of infrastructure, whether this be a large piece of infrastructure or small, are more likely to result in –

1. An end product that can be used by the local community for a significant number of years;
2. The money expended in the project being used to create direct employment in the local community (not external contractors), as well as additional other jobs that are provided in the community or continue to be supported in the community by the "spend money" of those engaged or used in the construction of infrastructure by local government.

In most cases infrastructure construction in local government will be seen as an opportunity to employ additional persons in the community, provide increased skills to existing workers and/or new skills to possible new entrants to the work force, as well as the opportunity for engagement of a wider group of community employees. This has a fundamental benefit to the Australian community.

Determining the sorts of infrastructure that are required by the local communities should be the work of an ongoing group of representatives of which the unions involved in local government should be a stakeholder, as well as the Council of Australian Local Government.

The types of local government infrastructure

Funds provided by the Federal Government for infrastructure in local communities should be for facilities that can provide 'hands on' operation and provide long term benefit to the community.

It can be argued that creation of additional services in the community and providing services that are to be more widely used and continue to provide employment are a more appropriate direction, i.e., is it more appropriate to assist in the construction of water infrastructure than a purpose built entertainment centre in a local government area. A consideration of the basic services to the community should be the first step with additional services that are likely to be used by a smaller group of the community should be the secondary considerations.

The expenditure on local government infrastructure is a critical issue for communities because it provides ready access to additional services that may not ordinarily be provided by the community or the State In addition, it also provides a ready opportunity for reinvestment and employment opportunities in the local community. Creation of additional employment opportunity and additional skills development is part of the Government's overall objectives in the creation of employment.

Local government would be an ideal venue for the creation of additional employment and skills development Opportunities.

Back log of local government

Advice obtained by the ASU from the University of New England, Centre for Local Government, also points to the current short fall in local government infrastructure and the extent of back logs. The chart reprinted below provides a further example of the need for local government infrastructure funding to be a consideration by Infrastructure Australia.

Table E.2: Infrastructure backlog estimate, extrapolated from Access Economics and MAV results

Access Economics & MAV Financial Sustainability Summary Results	Backlog in infrastructure renewals ($m)	Underspend on existing infrastructure renewals per annum ($m)	Est. funding gap per annum ($m) (to cover backlog & annual underspend) to be generated via savings or extra revenue/grants	Est. funding gap per council per annum ($m)	% of councils unsustainable
NSW (152 LGBs - Access)	$6,300	$500	$900	$5.9	25%
SA (68 LGBs - Access)	$300[1]	$20	$40	$0.6	38%
WA (142 LGBs - Access)	$1,750	$110	$220	$1.5	58%
Vic (79 LGBs - MAV)	$806[2]	$81	$203	$2.6	10%
Total NSW/WA/SA/Vic (441 LBGs: 63% of LGBs, 76% population & 73% of local road km)	$9,156	$711	$1,362	$3.1	35%
Low Case National Estimate (700 LGBs) (apply WA, Vic and SA average result per council to 259 councils in Qld, Tas & NT)	$12,012	$922	$1,826	$2.6	
Mid Case National Estimate (700 LGBs) (apply WA, Vic, SA and NSW average result per council to 259 councils in Qld, Tas & NT)	**$14,533**	**$1,129**	**$2,163**	**$3.1**	**35%**
High Case National Estimate (700 LGBs) (apply NSW, WA, Vic average result per council to other 259 councils in Qld, Tas & NT)	$15,305	$1,190	$2,281	$3.3	

Notes:

1. Access estimate for SA based only the backlog developed over last 10 years and full backlog will be higher.
2. MAV estimate of infrastructure backlog is in 2003-04 dollars, for the period between 1997-98 – 2003-04, hence is understated.

The estimated funding gap to clear both the backlog and to cover the annual underspend on renewals is $3.1 million per council per annum or $2.16 billion nationally. The pie charts below compare the actual 2004-05 local government revenue base with the revenue base required for financial sustainability.

Water Industry

The Australian water industry is under increasing pressures both through the Governments attempt to reclaim water via water leases for the survival of inland rivers from State Governments considering or constructing desalination plants.

As part of the consideration of alternate views for water recycling and delivery in Australia, it would seem ideal for Infrastructure Australia to work closely with Australian water industry providers which are pre-dominantly local government- and/or State-owned corporations with a view to assisting in large scale national recycling programs where the community can play a role, local government can play a role and also individuals in domestic situations.

The market place is already well and truly covered with Water Authorities seeking to reduce water consumption through various programs from domestic appliances such as reduced flow showerheads, reduced water consuming household products, washing machines. etc. But where are the employees to help stop the water leaks? Do we have enough staff trained in these skills?

Australia needs a larger scale consideration of infrastructure development but this does not necessarily have to be significantly large infrastructure in the traditional terms.

The Union notes that it would be ideal in many locations to consider the construction of dams and large water storage facilities that capture the water provided by nature. This is preferable to the development of water desalinisation plants that require not only a carbon content for construction but also a superior or high level carbon footprint for ongoing usage. i.e. if we are going to run these plants on windmills we expect approximately 250 megawatts to be used at any time in one of these stations and we are looking at ten (10) large windmills spread across the countryside to provide such energy along with the carbon footprint required for the construction of the towers.

A more ideal situation would be for the Government to undertake many thousands of water saving initiatives across the country through Infrastructure Australia with a particular set of criteria managed by local government and water authorities.

This would mean that a scheme could be created for all citizens of Australia to look to store water on their own premises, reuse it in domestic situations, as well as in commercial situations. If , for example, the large factories stretched across Sydney and other major cities captured the rain water from their roofs it could be reused on site for both amenities for staff, industry provision and general use, even watering the garden and washing cars without wasting resources.

In a similar context why are we not providing large water infrastructure across Australian communities that can be used by households for their water domestic needs. This would include everything from swimming pools through to toilet systems it seems ironic that a country that has so much rain in some locations relies upon catchment water facilities rather than local water reuse. There must also be a possible reuse of water that runs off from streets and parks to rivers.

An infrastructure scheme created across Australia that would see a common set of standards in place for the catchment and storage and utilisation of water that would be managed and signed off by the local community, installed and used by citizens domestically, and in industry, would be an ideal means to help create employment in local communities, build skills and at the same time provide ongoing environmental benefits to Australia for the next two to three generations.

It would also assist the Government's attempts to reduce climate change, as well as provide resources at a local level in the community that can save on the construction of additional water pipes, infrastructure facilities and the use of alternate water provision services such as desalination plants, thus avoiding their environmental effects.

Such a scheme must rely on not just the availability and opportunity for investment but it should also rely upon a licensing regime to ensure that standards are met. Regulation of use is critical in health-related areas, such as water services.

Local government stands ready to be able to assist in this through its development of infrastructure and building inspectors are able to assist in ensuring that such provisions are signed off as properly installed and any support for Government rebates and/or loans for such can be justified. In other words there will be control and regulation over this investment for the long term future of Australia.

Electricity Industry

The Australian electricity industry, in which the ASU is a principal union, is split into three sectors: generation, transmission and distribution, with an added section around retail functions. The ASU has been part of the Australian electricity industry, as in Local Government, the water industry and railways for over 100 years.

The Union's history includes parts of the electricity industry's historical link to local government and then its movement onto State-owned corporations, government departments and similar entities. The Union also followed its members into the private sector areas.

Today the ASU is respected not only in the Australian electricity industry but also internationally as being a lead Union in the electricity industry. The ASU is in a significant position to comment on the future needs of the industry.

The ASU notes that the electricity industry in Australia, having built a significant network, and having a well established transmission system, and a national electricity market, maintains a strong capacity in the generation sector and sees the conversions of new green energy sources.

The traditional base of coal fired power stations is continuing to be examined in Australia with the development of long term coal usage facilities through carbon capture and other areas that will neutralise the effects of carbon from coal electricity generation.

The ASU sees great opportunities for the Federal Government to look at Infrastructure Australia to develop significant long term efficiencies in the electricity industry.

The ASU is not entirely convinced that the electricity industry's future will be based on base load power. In fact there are significant opportunities for development of stand alone electricity systems, smart electricity and intelligent systems and intelligent network systems currently being developed by Australia's distribution companies. The development of intelligent networks is by far a significant step towards the advancement of greater concentration on demand management, as well as the opportunity for the industry to develop a significant cost offset through targeted energy consumption.

There are significant advantages in consuming electricity outside of peak demand times and the steps being taken by demand management meters and intelligent networks will secure significant parts of the Australian electricity industry for the future. We believe significant investment is required in the intelligent network systems and information over electricity networks as well as continued examination of future demand management opportunities, as well as co-generation and tri-generation.

Indeed, modernisation and increased capacity within Australia's existing coal fired power stations by way of encouragement for the Federal Government and continued use of carbon capture mechanisms offset by demand management and the movement towards green energy may well establish Australia's future energy views. The ASU believes that it is critical that Infrastructure Australia examine in great detail the electricity industry needs for the future including the first step of demand management and intelligent networks. The second position should be consideration of transmission infrastructure development and integrity, along with the third step of generation as the last alternative.

A continued path towards the development of the Australian electricity industry simply by building further power stations is only one way to meet our future electricity and energy needs. Intelligent networks offer significant opportunity and the electricity distribution authorities should be encouraged as the first step in electricity demand management . Maximum capacity for consumption not only has an effect upon the use of electricity but also the transmission of power through the system.

The ASU however sees opportunity for continued use of coal fired power stations, modernisation of these stations and the establishment of continued onsite generation capacity for the next 20 plus years is a significant step forward.

Railway Industry

The ASU acknowledges that substantial development and investment needs to made in Australia's ageing railway infrastructure: not just the infrastructure of railway lines and carriages, but also in the communication systems, along with regulatory environments that assist in the operation of this vast network.

The ASU notes that any investment in the Australian railway industry will have a substantial benefit to the community in both the investment in long term assets that will last 20 to 50 years, but also an opportunity for such services to be used in urban and country areas.

Facilities that provide clear assistance to both industry as well as the travelling public and commuters should be considered. Examples such as the railway lines between Sydney and Wollongong that provide high quality commuter services during the day but also provide cargo services of an evening should be well and truly under consideration. Some of these lines that are currently dual line purposes could be created to provide an additional third line or indeed look at developing means to better manage the systems and get more carriages on the tracks in less time.

Investment in urban transport and the provision of public transport is an essential requirement in today's Australia. The push will continue to come for greater utilisation of public transport such as individual fuel using vehicles being discouraged. Climate change will dictate more and greater use of public transport in Australia.

Infrastructure Australia should be looking at working closely with the community with a view to establishing the electricity needs for the future and planning these is the first step, again utilising existing resources before we construct a new round of resources.

Airline industry

The Australian airline industry requires significant considerations for its future capacity. Already we have seen the engagement of new generation aircraft by Australia's major airline companies as well as consideration and development of regional air infrastructure throughout Australia. Australia now also has more passengers and cargo moved by air then ever before. This number will almost certainly grow. Ongoing discussion with the Australian airline industry, including the union movement, is also critical to meeting these challenges.

Infrastructure Australia could work with local councils and local communities in determining a standard of airports across Australia that will see increased traffic but using airlines as hubs for regional traffic; i.e. councils could work with local communities in developing public bus services or community transport services that would see connections with regional airports such as Dubbo, Coffs Harbour and the like.

Part II - Infrastructure – Private Public Partnerships – Does Australia need them or not?

The ASU also notes that all too often State Governments have looked to the private sector for the financing of infrastructure that may not necessarily be the most needed infrastructure in a society. For example, the country may need substantial development in Australia in railway networks in a particular State. However, the private sector may be willing to construct roads and therefore a tollway is the option of ready construction because it will not cost the State Government as much and allow Governments to be seen to be active in a particular area of development. These developments are of concern to the ASU as we believe that –

1. The first consideration in developing any infrastructure in Australia should be what is needed for the benefit of Australia.
2. Unnecessary infrastructure development may create a skills gap for other infrastructure in Australia that may need to be constructed, but cannot be used for another opportunity until such time as the workers from the less important project have completed their work.

In addition to this it should be asked whether the Government has been planning to meet the needs of society and therefore looking at the types of infrastructure that will need to be developed – not just what's marked by the private sector as profitable investments.

Infrastructure construction therefore needs to take consideration what are the important issues faced by local councils, local communities, the local water industry and the essential public sector quality services needed to help provide substantive and increased living standards for Australian workers and their families.

Consideration must also be given to the types of construction necessary and in turn the financial incentives around these structural programs; i.e. should there be a specific tax consideration when an item is built in the public's best interest as opposed to just a normal transaction that is being considered by a State Government.

The ASU notes in particular a series of points that were raised by the Australian Labor Party Infrastructure and Private Public Partnership Report, commissioned by the party in 2006..

This development of the report was participated in throughout by the ASU (especially by Greg McLean, ASU - Assistant National Secretary), along with two other Unions.

All too often infrastructure has been financed or provided by private sector on the basis that it will save a State Government monies, but in turn allow the private sector provider to basically purchase their own contracts for provision of services – ongoing services and maintenance for the next 50 or 100 years. For example, construction of a school under a private public partnership may see the parties that construct the school be in charge of releasing the cleaning of those schools to a third party. This raises a substantive question on the separation between construction and operation.

"The ASU notes there is a significant difference here and one that should be seen at all times as separate".

It would make little sense to ensure that the best possible results were achieved by way of a private sector construction of infrastructure or the public sector only to see that infrastructure operated continuously by the private sector for the next 50 years, with no re-examination.

Hiding the construction costs in an operational budget!

With the start up costs of construction being minimal, however, the long term costs by way of the private sector resale of output or provision of the service to the committee being higher than needed e.g. be it a bridge toll or a litre of water that comes out of a desalination plant, the private sector may well go on to make substantially more profit by way of the provision of the service than it did in construction. Upfront construction costs may be minimised, reduced, or even hidden, so as to ensure a more beneficial outcome to the State and the Community in the construction but, when taken over full lifespan of contract it would appear that these contracts may be not in the community's best interests as the ongoing charges of operation may be well in excess of what they would have been should the service have been constructed by the private sector and then operated by the public sector.

The factors are even worse if the operational asset is not independently regulated.

The ASU therefore believes that there needs to be due consideration of a total split between any construction of infrastructure and ongoing operation by the public sector.

In addition to this first step, consideration as to whether private public partnerships are in fact the best way to proceed for the construction of public sector operations or whether they are best considered as constructed via the State/Local/National Government Authority letting a contract for construction purposes to a private sector entity with the then constructed element being provided back to the State Government entity (e.g. a local government swimming pool constructed by the private sector and handed over to the local council is by far more responsive to the needs of the community and increases quality of service if that pool and recreation facility is operated by 'public sector' local government employees).

The ASU, would draw to Infrastructure Australia's attention to the following points in the ALP – Infrastructure Committee Report 2007.

Some of the key recommendations, which are proceeded by ASU comments, are as follows –

Review PPP's - do they deliver value for money?

Recommendation 2*: A Federal Labor Government should conduct an empirical analysis of all major infrastructure projects in Australia, including PPP projects, particularly focusing on whether these projects have delivered value for money for the public.*

The most appropriate financing methods – not just PPP's

Recommendation 3*: A Federal Labor Government should facilitate the construction of national infrastructure by encouraging the most appropriate financing instruments. Labor recognises it will continue to be necessary for some infrastructure to be jointly procured by Government and the private sector where appropriate.*

PPP's should be for projects over $100 million

Recommendation 4*: PPPs have a legitimate role to play as an approach to infrastructure financing and procurement. However that role should be clearly defined and subject to* *evidence of value for money. PPPs may be an appropriate procurement option for projects which are large (generally over $100 million), complex, one-off or non-standard, or standard Government projects in circumstances where there are challenges of a technical, innovation or design nature.*

Standard tendering process – openness and common compliance

Recommendation 5*: A Federal Labor Government should, through Infrastructure Australia, expedite the standardisation of tender processes and contract documentation between Commonwealth and State jurisdictions for the use of PPPs and other relevant procurement options.*

Value for money – not a political link etc and no linking of employees' rates of pay and conditions of employment as financial factors for a PPP.

Recommendation 6*: Infrastructure Australia should develop best practice procurement processes to maximise value for money; transparency and public accountability when evaluating differing procurement options. These processes must include, but not be limited to:*
• Development and application of a rigorous Public Sector Comparator (PSC) adjusted to accurately reflect risks involved in specific projects;
• Public transparency in relation to the methodologies used for calculating risks;
• Allowance for the costs to Government of monitoring PPP projects;
• Ensure that the value for money test guarantees that employee pay and conditions are not the differentiating factor between two different procurement options or two different bids;
• When determining the net present cost of different procurement options, in the absence of revenue streams involving market risk, the discount rate to be used should be the 10 year Commonwealth bond yield prevailing at the time of the evaluation.

Strong public accountability

Recommendation 7*: A Federal Labor Government will be committed to high levels of transparency and accountability for all major infrastructure projects through:*
• The publication of 'Public Interest Reports' and 'Value for Money Statements';
• The publication at the time of the public announcement of contract finalization of appropriate and informative Contract Summaries that should include details of: the PSC; the discount rate and explanations of risk adjustments; the
forecast payment schedule; the expected capital and operating costs; asset transfers; risk allocation tables; provisions for contract renegotiations; major contract obligations and management costs.
• The inclusion in the Contract Summary in relation to tollways and projects involving revenue from user-charges, all material financial and other underlying assumptions and revenue forecasts;
• The ability of the National Audit Office to review the timeliness and rigour of the above processes and review particular projects at its discretion; and
• The development by Infrastructure Australia of best practice in public accountability for PPPs such as those adopted by British Columbia in relation to the publication of contract summaries and value for money reports.

Infrastructure financing by superfunds (alternatives to PPP's)

Recommendation 8*: A Federal Labor Government should review existing public policy to facilitate greater involvement in infrastructure financing and delivery by Australia's superannuation funds.*

Water industry no reference in recommendations to private sector participation – note ASU water industry campaign link

Recommendation 14*: A Federal Labor Government should:*
• Ensure Infrastructure Australia incorporate water infrastructure investment as a priority infrastructure area;
• Set a national target so that 30 per cent of wastewater is recycled by 2015;
• Provide the leadership, support and investment necessary to achieve this target;
• Develop consistent and comprehensive national guidelines for water recycling; and
• Encourage innovation and new technological solutions to deliver efficient water infrastructure and a sustainable water supply for Australia.

Planning associated with ASU Public services industries of water, electricity and railways funding

Recommendation 16*: A Federal Labor Government should commit to the national coordination of urban development infrastructure through Infrastructure Australia. This would also include identifying priority areas across sectors, including water, public transport, energy, social and knowledge infrastructure.*

Withdrawal of national building code

Recommendation 17*: A Federal Labor Government should withdraw the current National Code of Practice for the Construction Industry and develop a new set of procurement guidelines that incorporate a best practice model requiring prequalifying contractors to meet appropriate minimum labour, safety, training and quality accreditation benchmarks.*

Guarantee no loss of wages or conditions – if any work is outsourced and other labour related issues (read in conjunction with pages 61 and 62 of the report for UK comparison on the two tier workforce and other related issues

Recommendation 18: *A Federal Labor Government should note the issues surrounding the transfer of public sector employees to the private sector and ensure that procurement processes guarantee no loss of wages and conditions for all existing employees.*

Recommendation 19: *A Federal Labor Government should note the agreement reached by the UK Labour Government with unions in relation to UK health and hospital staff, and consider a similar agreement for public sector services in Australia.*

Recommendation 20: *A Federal Labor Government should promote 'best practice' employment standards through Government procurement policies and guidelines. This includes the identification of appropriate standards for all parties entering into PPPs, tenders or other commercial arrangements with Government, with specific consideration of appropriate wages and conditions, fair employment standards, best practice industrial relations, and guidelines on achieving fair and safe workplaces.*

In summary, the ALP report does not reject PPP's but questions their use, places a series of caveats around them, creates an environment of openness and transparency, discourages the use of PPP’s in favor of public funding comparators and addresses many the labor rights issues unions have been concerned with.

The Union also draws Infrastructure Australia’s attention to the ALP Committee Report , which is comprehensive, well balanced and provides a possible opportunity to move forward on the engagement of the community, all State Governments, Treasury, peak industry groups, the private sector, financial institutions and unions.

NB The ASU is certain that the major players involved in the above ALP report, would be pleased to meet with Infrastructure Australia Representatives.

NB – a copy of the ALP Infrastructure Committee Report is attached for separate consideration – the report was formally launched at the ALP National Conference 2007

TABLE OF CONTENTS

FOREWORD

There is now a realisation that national infrastructure has not been addressed adequately in recent years. The adequacy, capacity and condition of our national infrastructure are essential elements of Australia's international competitiveness.

The Australian Labor Party at its 2004 National Conference established an *Inquiry into the Financing and Provision of Australian Infrastructure*.

A representative cross-section of infrastructure stakeholders has been consulted, consistent with the terms of reference established for the Inquiry.

One of the most prominent messages to emerge from this process is that there is a lack of national planning and coordination with respect to national infrastructure requirements, and that a long-term strategic approach is critical to addressing shortfalls in the future.

Infrastructure that contributes to the productive capacity of the economy and Australia's living standards should be viewed as an investment, not a cost.

The Inquiry has also examined the merits of public versus private infrastructure financing and provision. It has been generally accepted that irrespective of what procurement options are utilised, they must emphasise value for money, be in the public interest and ensure adequate accountability and transparency.

The Committee has made a number of consensus recommendations.

The Committee would like to thank all those who provided assistance to the Inquiry. Particular thanks go to Nick Martin, the Inquiry Secretary.

The Committee trusts this report will assist the ALP National Executive, National Conference and the Federal Parliamentary Labor Party in its policy development process.

Steve Heffernan
Inquiry Chair

Executive Summary

Australia's national infrastructure plays a key role in economic growth, living standards and prosperity.

Continuing at current levels of investment in our economic and community infrastructure will see Australia fall further behind our economic competitors.

Renewing national infrastructure requires national vision.

It requires a plan from Government and the political will to face-up to shortfalls and then to address them in cooperation with the States, Territories, the private sector and the broader community.

Labor's nation building approach, reflected in this report, provides the necessary leadership to begin this task.

The infrastructure policies already announced by the Federal Parliamentary Labor Party provide the policy to facilitate further investment in Australia's nationally significant infrastructure.

Labor's *Infrastructure Australia* will provide a national agency to coordinate, plan and deliver national projects and also undertake the first national audit of Australian infrastructure. It will also facilitate the national development and delivery of infrastructure in conjunction with States, Territories, the private sector, unions and the community at large, whilst promoting greater skills sharing between infrastructure stakeholders.

The *Building Australia Fund* will ensure that funds currently earmarked purely for public sector superannuation liabilities may be used to invest in the productive capacity of the Australian economy.

For more than 10 years, the Howard Government has made excuses for the lack of investment in infrastructure. In critical areas of national significance, the Howard Government has wasted time and lost opportunities.

The report of the *ALP Inquiry into the Financing and Provision of Australian Infrastructure* examines the state of our national infrastructure.

Looking at the published reports from academics, State and Territory governments and national peak bodies, the Inquiry has drawn together the key areas of shortfall, future direction and existing policy responses.

The Inquiry's consultation process, in cities and regions, has provided information on the areas of shortfall and related policy areas which the Howard Government continues to neglect. These include shortages in key skills areas, providing adequate regional infrastructure at the local government level, maintaining fair and safe workplaces and the persistent failure to provide an audit of existing national infrastructure.

Australia's cities and towns require urgent infrastructure like roads and ports, and transport systems but also need infrastructure for emerging issues such as broadband and water management and recycling. The States and Territories have provided leadership in these areas but there is only so much that can be done with limited or no Commonwealth support.

A substantial section of this report is dedicated to ways the Commonwealth can deliver better infrastructure, taking into account the issue of private involvement in the financing and building and maintenance of public infrastructure.

The report recognises the long involvement the private sector has had in the provision of public infrastructure, noting the developments in public policy over the last 20 years since the Hawke and Keating Governments.

With regard to Private Finance Initiatives (PFIs), Public-Private Partnerships (PPPs) and other forms of private sector cooperation, the Inquiry has made a number of substantive recommendations for a future Federal Labor Government which stress the principles of accountability, transparency and value for money.

Finally, the Inquiry recommends that 'best practice' employment standards be promoted through Government procurement policies and guidelines.

RECOMMENDATIONS

In considering the Terms of Reference, the Inquiry recommends that a future Federal Labor Government pursue a strong nation-building agenda to address infrastructure bottlenecks and build a modern, competitive economy for the future.

The following recommendations provide policy guidance for Federal Labor and also practical guidance for the review of the ALP National Platform in the lead-up to the 2007 National Conference.

Recommendation 1: A Federal Labor Government should establish a national infrastructure advisory council, *Infrastructure Australia*, to improve the planning and coordination of infrastructure investment, and drive the rebuilding of Australia's infrastructure. *Infrastructure Australia* should conduct a National Infrastructure Audit and establish a National Infrastructure Priority List.

Recommendation 2: A Federal Labor Government should conduct an empirical analysis of all major infrastructure projects in Australia, including PPP projects, particularly focusing on whether these projects have delivered value for money for the public.

Recommendation 3: A Federal Labor Government should facilitate the construction of national infrastructure by encouraging the most appropriate financing instruments. Labor recognises it will continue to be necessary for some infrastructure to be jointly procured by Government and the private sector where appropriate.

Recommendation 4: PPPs have a legitimate role to play as an approach to infrastructure financing and procurement. However that role should be clearly defined and subject to evidence of value for money. PPPs may be an appropriate procurement option for projects which are large (generally over $100 million), complex, one-off or non-standard, or standard Government projects in circumstances where there are challenges of a technical, innovation or design nature.

Recommendation 5: A Federal Labor Government should, through *Infrastructure Australia*, expedite the standardisation of tender processes and contract documentation between Commonwealth and State jurisdictions for the use of PPPs and other relevant procurement options.

Recommendation 6: *Infrastructure Australia* should develop best practice procurement processes to maximise value for money; transparency and public accountability when evaluating differing procurement options. These processes must include, but not be limited to:

- Development and application of a rigorous Public Sector Comparator (PSC) adjusted to accurately reflect risks involved in specific projects;
- Public transparency in relation to the methodologies used for calculating risks;
- Allowance for the costs to Government of monitoring PPP projects;
- Ensure that the value for money test guarantees that employee pay and conditions are not the differentiating factor between two different procurement options or two different bids;

- When determining the net present cost of different procurement options, in the absence of revenue streams involving market risk, the discount rate to be used should be the 10 year Commonwealth bond yield prevailing at the time of the evaluation.

Recommendation 7: A Federal Labor Government will be committed to high levels of transparency and accountability for all major infrastructure projects through:
- The publication of 'Public Interest Reports' and 'Value for Money Statements';
- The publication at the time of the public announcement of contract finalisation of appropriate and informative Contract Summaries that should include details of: the PSC; the discount rate and explanations of risk adjustments; the forecast payment schedule; the expected capital and operating costs; asset transfers; risk allocation tables; provisions for contract renegotiations; major contract obligations and management costs.
- The inclusion in the Contract Summary in relation to tollways and projects involving revenue from user-charges, all material financial and other underlying assumptions and revenue forecasts;
- The ability of the National Audit Office to review the timeliness and rigour of the above processes and review particular projects at its discretion; and
- The development by *Infrastructure Australia* of best practice in public accountability for PPPs such as those adopted by British Columbia in relation to the publication of contract summaries and value for money reports.

Recommendation 8: A Federal Labor Government should review existing public policy to facilitate greater involvement in infrastructure financing and delivery by Australia's superannuation funds.

Recommendation 9: A Federal Labor Government should, as a matter of priority, initiate legislative reform that facilitates greater private sector investment in infrastructure, including amending section 51AD and Division 16D of the Income Tax Assessment Act 1997, so that it is no longer an impediment to private sector investment in infrastructure.

Recommendation 10: A Federal Labor Government should create the Building Australia Fund, the earnings of which may be used to invest in the productive capacity of the Australian economy, including its infrastructure assets.

Recommendation 11: Consistent with the experience of Partnerships UK (PUK), a Federal Labor Government should consider establishing a professional advisory source to the public sector on all infrastructure delivery models, with an emphasis on skills sharing across the public, private and community infrastructure sectors.

Recommendation 12: A Federal Labor Government should promote initiatives to address the shortages of skilled workers and professionals in the construction and engineering industries. It should ensure skills and training provisions are in all relevant procurement contracts for major infrastructure projects.

Recommendation 13: A Federal Labor Government recognises that information and communications technology (ICT) infrastructure is a priority area and will develop the broadband Fibre-to-the-Node (FTTN) joint venture proposal to ensure that the Australian economy has a world-class competitive telecommunications system.

Recommendation 14: A Federal Labor Government should:

- Ensure *Infrastructure Australia* incorporate water infrastructure investment as a priority infrastructure area;
- Set a national target so that 30 per cent of wastewater is recycled by 2015;
- Provide the leadership, support and investment necessary to achieve this target;
- Develop consistent and comprehensive national guidelines for water recycling; and
- Encourage innovation and new technological solutions to deliver efficient water infrastructure and a sustainable water supply for Australia.

Recommendation 15: *Infrastructure Australia* should provide the formal institutional arrangements for the planning and coordination of nationally significant and sustainable energy infrastructure projects.

Recommendation 16: A Federal Labor Government should commit to the national coordination of urban development infrastructure through *Infrastructure Australia*. This would also include identifying priority areas across sectors, including water, public transport, energy, social and knowledge infrastructure.

Recommendation 17: A Federal Labor Government should withdraw the current National Code of Practice for the Construction Industry and develop a new set of procurement guidelines that incorporate a best practice model requiring pre-qualifying contractors to meet appropriate minimum labour, safety, training and quality accreditation benchmarks.

Recommendation 18: A Federal Labor Government should note the issues surrounding the transfer of public sector employees to the private sector and ensure that procurement processes guarantee no loss of wages and conditions for all existing employees.

Recommendation 19: A Federal Labor Government should note the agreement reached by the UK Labour Government with unions in relation to UK health and hospital staff, and consider a similar agreement for public sector services in Australia.

Recommendation 20: A Federal Labor Government should promote ‘best practice’ employment standards through Government procurement policies and guidelines. This includes the identification of appropriate standards for all parties entering into PPPs, tenders or other commercial arrangements with Government, with specific consideration of appropriate wages and conditions, fair employment standards, best practice industrial relations, and guidelines on achieving fair and safe workplaces.

.

BACKGROUND TO THE INQUIRY

The ALP Inquiry into the Financing and Provision of Australian Infrastructure was established by the resolution of the Australian Labor Party 43rd National Conference, Sydney, February 2004.

The National Executive appointed members to the Inquiry in June 2005.

Terms of Reference

The Inquiry determined the following terms of reference, which were taken from the resolution of National Conference establishing the Inquiry. They are as follows:

- the scope for Governments to invest directly in public infrastructure;
- the scope and conditions for private sector involvement in the provision of public infrastructure including through appropriate Public Private Partnerships;
- the most equitable, cost effective and fair methods of finance;
- ways to maximise effective public ownership, management and maintenance of public infrastructure;
- improving accountability and transparency in infrastructure finance;
- the most effective method of reducing financial risk to Government and minimising the level of fees and charges;
- ways to ensure that financing is compatible with Labor's agenda on skills development and quality employment;
- whether current risk transfer arrangements are appropriate;
- the potential role of the superannuation industry in financing public infrastructure; and
- other matters contributors believe may be relevant.

Membership

- Steve Heffernan - Chair[1]
- John Sutton - Deputy Chair
- Joy Burch
- Jacinta Collins
- Pat Conroy
- Peter Fitzgerald
- Greg Sword
- Senator Stephen Conroy
- Greg Mclean
- Sharon Grierson MP[2]
- Senator Nick Sherry
- Stephen Smith MP
- Lindsay Tanner MP

- Inquiry Secretary - Nick Martin

[1] Mike Kaiser resigned as Chair in November 2005.
[2] Martin Ferguson MP resigned from the Inquiry Committee in February 2006.

Process

The Inquiry was convened in July 2005 and concluded its hearings in August 2006. The Inquiry advertised publicly and wrote to Government, industry and community stakeholders seeking written submissions.

The Inquiry also commenced a series of face-to-face consultations with key stakeholders in February 2006. This process has seen almost 27 submissions and over 100 groups and prominent individuals contribute to the deliberations of the Inquiry.

The Inquiry travelled to Canberra where many national bodies and peak councils are located, meeting with groups like the Minerals Council of Australia (MCA) and the Australian Chamber of Commerce and Industry (ACCI).

In Gladstone the Inquiry met with local community leaders, regional development authorities and toured the Central Queensland Port Authority. In Brisbane details of financing options were covered with the involvement of Australia's largest city council, the Brisbane City Council, and the Beattie Labor Government.

In Sydney the Inquiry met with large constructors, financial institutions and unions with a significant interest in infrastructure issues. The sub-committee visit to Wollongong heard a clear view on the importance of economic infrastructure to regional development in the Illawarra.

In Melbourne the Inquiry heard from the ACTU as well as leading representatives of Australia's superannuation funds and other industry organisations. In South Australia and Perth the Inquiry met with groups at the frontline of our minerals exporting industries.

The Inquiry also convened a high-level video conference with leading representatives from the United Kingdom infrastructure market. The UK has been continually refining its policy and practice, and remains one of the leading infrastructure financing and procurement jurisdictions in the world. This roundtable allowed the Inquiry to appreciate the developments in infrastructure policy and practice in the UK and internationally. Participants included:

- Sir Steve Robson, former Second Permanent Secretary of HM Treasury and now a Director of several major financial institutions such as Royal Bank of Scotland and JP Morgan Cazenove plc;
- James Stewart, CEO of Partnerships UK – a dedicated group which facilitates the delivery of public private partnerships in the UK;
- Tim Stone, non executive Director of the European Investment Bank and Chair of KPMG's Global Infrastructure & Projects Group;
- Lewis Neal, Deputy Head, Corporate and Private Finance Team, HM Treasury;
- Andrew Friend, recent CEO of John Laing plc and current member of the Board of Directors; and

- Dougie Sutherland, Partner of 3i, specialising in their infrastructure business and former Partnerships UK and Lend Lease executive.

For a complete list of individuals and groups who spoke to the Inquiry, refer to Appendix 4.

PART 1: INTRODUCTION

To build a modern, competitive economy, Australia needs a comprehensive plan for the future – a plan that addresses the twin challenges of lifting productivity and participation. Increasing productivity growth and workforce participation will put downward pressure on interest rates and help deliver a new generation of growth and prosperity. Australia needs new economic policies for skills and education, for business innovation, for a modern, fair and flexible industrial relations system, and critically – for advanced economic and social infrastructure.

Our national infrastructure is the economic and social base of our prosperity – it is our roads, ports, airports, pipes, grids, cables, communication networks hospitals, schools, aged care and childcare facilities. Infrastructure is the networks that take goods to markets; that get employees to and from work; and that bring together nurses and patients, teachers and students.

In coming decades, if our infrastructure networks are inadequate, overstretched, rusted, or out-of-date, our competitors will gain an advantage and our prosperity will be at risk. By building advanced national infrastructure we can lift the productivity of the Australian economy. This will make Australia competitive again in an intensely competitive global economy.

More efficient transport infrastructure will reduce commuting times and lower freight costs. More efficient energy and water infrastructure will secure supplies into the future. Super fast broadband will lower communication costs and enable new business applications. Better hospitals, schools, and care facilities will make our cities more liveable and productive.

A nation building agenda for infrastructure will reignite productivity growth and create a modern, competitive Australian economy. We'll be able to take on the world's best and win.

Building the most effective infrastructure networks for our nation's future requires action today. It requires national leadership, effective coordination of efforts and a strong commitment to sustained investment in public infrastructure.

Australia needs a nation building Government – *now*.

Resources Boom: A Once-In-A-Generation Opportunity

The early twenty-first century is the right time for Australia to be forward-looking about its infrastructure needs. Favourable economic circumstances provide Governments with more financial resources to invest in infrastructure, and more time to develop a vision for the future. External economic circumstances have rarely in Australia's history provided such an opportunity:

- The global economy is experiencing is strongest growth in three decades, led by Australia's major trading partners;

- Globally, interest rates are relatively low and there is an abundance of funds available for sound investments;

- The global economy's risk of overheating is unusually low, with inflationary pressures around the world much lower than during previous booms; and

- The global resources boom has seen the prices for Australia's exports reach their highest levels since man walked on the moon.

It is estimated that this year alone the global resources boom will add $55 billion to our national income. The flow-on effects of the resources boom include higher wages, lower unemployment, higher company profits, and a tax 'windfall' for the Federal Government. Over the last four Budgets alone, the Federal Government has received an additional $263 billion in tax revenue above its original estimates because of 'parameter variations' caused by the resources boom[3].

With the additional opportunities of the resources boom comes the additional responsibility to use these opportunities wisely. Australians face a choice between squandering the opportunities presented by the resources boom, or building the infrastructure that will sustain Australia's economic and social prosperity for the next generation.

While recent external conditions have been highly favourable for the Australian economy, those conditions will not last forever. Australia faces two key economic challenges to secure its prosperity for the next generation: boosting workforce participation and reversing Australia's backwards slide in productivity.

- In 2005, Australia's participation rate for 25-54 year olds was only 82 per cent – below 21 other OECD countries including the United States, Canada, United Kingdom, New Zealand, Japan and all but a handful of European countries[4].

- Between 1990 and 1998, Australia's productivity level benchmarked against the United States climbed from 78 per cent to 85 per cent, but by 2005, had slumped back down to 79 per cent[5].

To boost workforce participation, we need to give Australians the right training opportunities, access to decent childcare, and the right incentives and rewards through a fair industrial relations system and a fair tax system. To boost productivity, we need nation building policies – so Australia has smart workers, cutting edge businesses and advanced social and economic infrastructure.

Consider the scope of Australia's infrastructure needs in coming years:

- Australia will need efficient transport networks to take Australian products from its farms, mines, factories and laboratories to markets in Australia and overseas.

[3] Based on Economics@ANZ calculations, quoted in a presentation to CPA Australia by ANZ Chief Economist, Saul Eslake, 27 September 2006.
[4] OECD Employment Outlook 2006.
[5] Groningen Growth and Development Centre: Total Economy Database, October 2006.

- Australia will need twenty-first century telecommunications and information networks to get all Australians plugged in to the world economy – no matter where they live.

- Australia will need world-class social infrastructure – for social cohesion and liveable cities.

The Howard Government: A Record of Neglect

The Liberals and Nationals are not the nation building Government Australia needs for the future. After more than ten years in office, they have not adequately invested in infrastructure and have not provided national leadership. Over the past ten years, they've sold more assets than they've built. Consider the Howard Government's legacy of neglect in relation to Australia's national infrastructure:

- Report cards of Australia's infrastructure by Engineers Australia don't give us 'A' grades for any aspect of our infrastructure networks. A few get Bs, but most get Cs and Ds[6].

- The Australian Council for Infrastructure Development (AusCID) conservatively estimates that as a result of underinvestment, the backlog in infrastructure investment for water, energy and land transport alone is around $25 billion. AusCID estimates that it will cost us around $6.4 billion a year in lost production[7].

- The Reserve Bank of Australia (RBA) has issued repeated warnings over the past five years that infrastructure bottlenecks have been constraining our exports and economic growth[8].

- Australia has one of the worst telecommunications infrastructure networks in the industrialised world, with a recent World Economic Forum report ranking Australia 25th in world in terms of available internet bandwidth and Australia's 'Networked Readiness' at 15th and falling[9].

The symptoms of Australia's crumbling national infrastructure are increasingly evident. And the chorus of voices calling for immediate action to address Australia's infrastructure problems have grown louder. But the Federal Government has been very slow to act. The Federal Government's response to date is political fixes rather than long-term solutions.

An often-repeated complaint from various levels of government has been that funding is often ad-hoc, not strategic and that there is 'buck-passing' on maintenance costs between the tiers of government.

---

[6] 2005 Australian Infrastructure Report Card: Engineers Australia
[7] Econtech Pty Ltd: *Modelling the Economic Effects of covering the Under Investment in Australian Infrastructure*. Report prepared for AusCID, 2 August 2004.
[8] See, for example, p. 38 of the February 2005 Statement on Monetary Policy.
[9] Global Information Technology Report 2005-06: World Economic Forum.

In 2004, the Federal Government established the AusLink Land Transport Plan, which remains a national plan in name only. The National Party describes AusLink as being equivalent to two Snowy Hydro schemes. AusLink actually reduces Federal Government responsibility for national roads, and is more effective in shifting costs onto States than clearing national infrastructure bottlenecks.

In 2005, the Federal Government established a Future Fund to hold Government financial assets, but has explicitly banned the Board of Guardians from investing in our nation's infrastructure. In mid 2005, John Howard also established his hand-picked Export and Infrastructure Taskforce.[10] The taskforce did not undertake effective consultation and did not even consider many infrastructure sectors, such as telecommunications and social infrastructure. Its terms of reference and enquiries were very narrow.

In 2006, the Federal Government responded to Labor's demands for greater investment in infrastructure by increasing spending on Australia's road and rail infrastructure. These spending increases were welcomed by Federal Labor and were well overdue. While addressing some of the backlog in much-needed infrastructure, they do not represent a comprehensive plan for the future but instead a belated and reactive approach.

The Coalition Government has allowed Australia's national infrastructure to deteriorate and fall well behind what is needed – and cannot be trusted with the nation-building task ahead.

ALP: A Strong Commitment to Nation Building for the Future

Since Federation, the Australian Labor Party has been the party of nation building. Particularly in the decades since the Second World War, the ALP's commitment to nation building stands in stark contrast to the short-sighted and complacent governance of the current coalition government:

- After the Second World War, the Chifley Labor Government commenced Australia's greatest ever nation building project: the Snowy Mountains hydro-electric scheme. In the 1970s, the Whitlam Government built suburban and regional infrastructure such as sewage pipes and hospitals and established universal healthcare through Medibank.

- In the 1980s, the Hawke Government built a modern and competitive economy by opening Australia to international forces, floating the exchange rate, creating more harmonious workplaces and giving businesses more incentives to sell innovative products the world wants to buy.

- In the 1990s, the Keating Government, embarked on a new wave of cooperative Federalism with State Governments by reforming utilities, and

[10] Australia's Export Infrastructure: Report to the Prime Minister by the Exports and Infrastructure Taskforce, June 2005.

standardising rail track gauges, creating Area Consultative Committees to foster regional development, investing in urban renewal through the Better Cities program, and building our national system of superannuation.

This commitment to nation building will be renewed in the twenty first century by a Beazley Labor Government. In November 2005, the Federal Labor launched its Infrastructure Blueprint and in May 2006 announced its commitment to a national broadband network for the future.

The ALP Inquiry into the Financing and Provision of Australian Infrastructure was established to assist the development of Labor's infrastructure policies in the lead up to the 2007 Federal Election. It has consulted a wide range of infrastructure experts from across the country, including business groups, infrastructure businesses, trade unions, academics, and representatives from the community sectors and from State Governments.

Subsequent chapters of the Inquiry's report detail the shortfalls in Australia's infrastructure, how this shortfall may be financed, the structures necessary for improved infrastructure delivery, and how infrastructure policies can be used to achieve broader objectives in the national interest.

The Inquiry's report provides detailed recommendations that will assist a future Labor Government build economic and social prosperity for the next generation of Australians.

PART II: AUSTRALIA'S NATIONAL INFRASTRUCTURE

2.1 Defining Australia's Infrastructure

Infrastructure is the architecture for our national economy and our community interactions.

Economic infrastructure like ports, roads, airports, railways and internet broadband enable our exports to efficiently reach their destination and contribute to national wealth.

Our schools, hospitals, aged-care facilities and childcare centres are the social infrastructure, which ensure fair access to services, innovation and the opportunities that flow from learning. The maintenance and enhancement of environmental infrastructure helps to protect urban and natural environments.

The Allen Consulting Group report, commissioned by the Property Council, defines infrastructure as:

> *"[T]he stock of facilities services, and equipment in a community, including roads, and schools, that are needed for it to function properly."*[11]

Infrastructure in all its forms is interconnected, supporting our society in all its activities. Our social and economic infrastructure provides the underpinnings for economic growth, family life and community. It has effects not only on profitability, but also productivity, quality of life, our security, the environment and social cohesion.

2.2 Infrastructure Shortfalls and Capacity Constraints

There are shortfalls in a number of infrastructure areas across Australia. However, there is no shortage of available finance for infrastructure. Federal budget surpluses attest to the strength of Commonwealth revenue; superannuation investment strategies point to the opportunities for private savings to be invested in community infrastructure; and private financial institutions continue to look for infrastructure projects to build and operate.

The key issue facing Australia is the effective planning and coordination of infrastructure – in terms of its assessment, delivery and operation. This requires leadership and forward planning from the Federal Government. Something that has been lacking over the last ten years.

Former Reserve Bank Governor Bernie Fraser in the Inquiry's Canberra hearings demonstrated the backlog in infrastructure in all sectors:

> *"There is a backlog in a number of areas of social and economic infrastructure… You only have to ask yourself, do we have sufficient road and*

[11] The Allen Consulting Group, 2003; Funding Urban Infrastructure, Report for the Property Council of Australia, Pvii.

port facilities, and transport facilities generally to make ourselves competitive in the years ahead? Do we have enough training, education and health facilities to lead to reasonable aspirations for our people? Is our environment being cared for? Do we have enough water? You only have to ask those questions to realise that there is an enormous requirement for investment."[12]

There is no doubt that the infrastructure challenge facing an incoming Federal Labor Government will be significant. Cooperation between all tiers of Government, business and representative groups will be critical in order to meet community expectations.

As the Council for Economic Development of Australia (CEDA) have highlighted, it is crucial that we develop the right institutional structures, which can audit infrastructure shortfalls, develop standardised processes and pipeline initiatives for all jurisdictions.13

The regeneration of the nation's infrastructure requires a national coordinating agency and a new model of cooperative Federalism.

Australia's unique Federal arrangements mean that the States and territories are major providers of infrastructure, yet negotiate with the Commonwealth for funding for many infrastructure projects.

The Western Australian Government Stated to the Inquiry:

"Benefits to the nation will be maximised if there is a cooperative relationship between the Commonwealth and the States to address potential infrastructure constraints. Without a collaborative approach, decision making by each level of Government can be inconsistent, and result in an inappropriate or inefficient allocation of funds, and infrastructure that fails to meet the community's needs. Even worse, it can result in infrastructure not being provided at all."[14]

A reform process driven by State Labor Governments through COAG has seen the first steps towards alleviating our national infrastructure bottlenecks. These processes are a start but by themselves will not provide sufficient national coordination for all Australia's infrastructure requirements.

COAG has indicated it will take control of the infrastructure reform process, shifting responsibility from the previous independent arbiter, the National Competition Council (NCC). Under Labor's old competition policy regime, States were granted 'competition payments' provided they achieved milestones in reforming their economies. These payments could be withheld on the recommendation of the NCC if they did not. Under this new agreement, the new 'COAG Reform Council' will only have the role of monitoring state performance in achieving agreed outcomes, and it will be up to this Council to decide what payments are due.

[12] Transcript Canberra hearings, 10 February 2006.
[13] CEDA, 2005, Infrastructure: Getting on with the job.
[14] Submission: the Hon Eric Ripper, Deputy Premier and Treasurer, Western Australian Government.

Further work needs to be done to genuinely address all the planning issues associated with infrastructure bottlenecks. Despite the establishment of a so-called Competition and Infrastructure Reform Agreement between the States and the Commonwealth, it is silent on addressing the more substantive issues of overlapping and complex regulations between the Commonwealth and the States.

COAG does not acknowledge the need for a ‘policy and performance’ audit of national infrastructure assets, relying instead on a self-appraised ‘report’ every five years, the first of which won’t be due until next year. The focus of these reports appears to be more on physical needs, rather than policy and planning issues and impediments. It is still unclear whether there will be follow-up action arising from these ‘reports’.

There must be a focus on infrastructure policy and planning, not just the physical needs at a State and Commonwealth level.

Finally, COAG makes no reference to an independent coordinating body for nationally significant infrastructure projects. Labor has been advocating the establishment of a National Infrastructure Advisory Council since as early as 2000, and a National Development Authority since 1998.

Recommendation 1: **A Federal Labor Government should establish a national infrastructure advisory council, *Infrastructure Australia*, to improve the planning and coordination of infrastructure investment, and drive the rebuilding of Australia’s infrastructure. *Infrastructure Australia* should conduct a National Infrastructure Audit and establish a National Infrastructure Priority List.**

Recommendation 2: **A Federal Labor Government should conduct an empirical analysis of all major infrastructure projects in Australia, including PPP projects, particularly focusing on whether these projects have delivered value for money for the public.**

The lack of planning from the current Federal Government is exemplified in their approach to a national transport strategy. The Commonwealth’s land transport funding program – AusLink – represents a considerable missed opportunity.

The reform agenda fails to address the competitive basis for funding, which results in political priorities driving infrastructure funding rather than community interests. This point was underlined by the Tasmanian Government in their submission to the Inquiry:

> *“[T]he competitive models being adopted by the Commonwealth for infrastructure funding are founded on an ideology which supports conflict rather than consensus. The AusLink process is based on States, local*

Government and other infrastructure owners submitting bids to the Commonwealth for it to use its discretion to choose suitable projects."[15]

The Western Australian Government also highlighted the failure of AusLink to link that State's eight export ports. Under AusLink, three of the largest exporting ports in Australia are excluded from the national road network.

Clearly, Australia's transport system needs greater cooperative planning, which can only be achieved through a truly national planning agency.

2.3 Quantifying the Backlog and the Impact

Over the past twenty years, investment in infrastructure has declined as a percentage of GDP in all jurisdictions. This has led to criticisms from industry groups and peak bodies in relation to economic infrastructure. Unmet demands, and rising community expectations, now also confront Government in areas of social infrastructure.

Over the last five years, State Governments, various professional organisations and peak industry groups have attempted to review and/or estimate the adequacy, capacity and condition of our national infrastructure. These organisations have included:

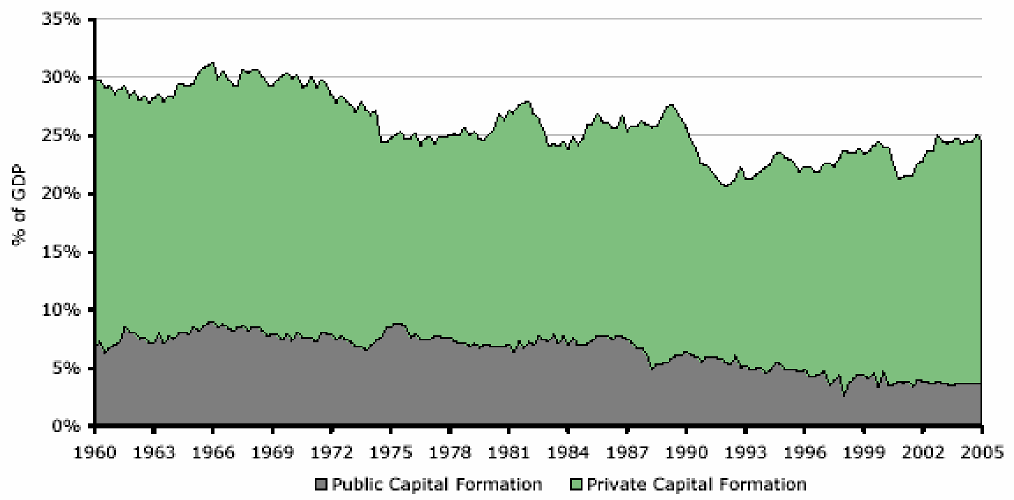
- Engineers Australia;
- The Council for the Economic Development of Australia (CEDA);
- The Australian Council of Infrastructure and Development (AusCID);
- The Business Council of Australia (BCA);
- ABN AMRO and other financiers; and
- State and Territory Governments of Australia

These attempts have provided valuable insights into specific infrastructure shortfalls, however it is generally recognised that they are an inadequate substitute for a genuine national infrastructure audit.

The Australian Council of Infrastructure and Development (AusCID) conservatively estimates Australia's infrastructure backlog to be $25 billion, with serious issues in water, energy and land transport. This is clearly demonstrated by the decline in public capital formation as a percentage of GDP which began in the 1990s and has continued since then.[16]

[15] Submission: The Hone Paul Lennon, Premier, Tasmanian Government.
[16] Submission ABN AMRO.

Chart 1 : Total capital formation



Source: AusCI, ABN AMRO

Engineers Australia has conducted a detailed analysis of infrastructure shortfalls at the State and Federal levels of Government over the last five years. Engineers Australia finds that:

- Electricity has an underinvestment of $1.15 billion
- Gas has an underinvestment of $2.6 billion
- Road has an underinvestment of $10 billion
- Rail has an underinvestment of $8.06 billion
- Water has an underinvestment of $3 billion

The Productivity Commission (PC) has also identified water, energy and land transport as areas of concern. The Business Council of Australia (BCA) has reinforced this with their own findings identifying energy, intercapital freight and urban transport, and urban and rural water as key areas of infrastructure shortfall:

- Energy: $30-$35 billion shortfall in investment, to support growing demand in the national electricity market.

- Intercapital Freight: an estimated shortfall of $9,560 million, predominantly in rail but also in road infrastructure.

- Urban Transport: Problems have emerged in outer-growth corridors and congestion is expected to grow with social and economic consequences.

- Urban and Rural Water: Drought and excess demand for water along the East Coast is putting major groundwater systems under stress. This is anticipated to increase to 2025.

Maintenance funding is also highlighted as a recurrent infrastructure issue. Local Government highlighted to the Inquiry this affects assets like rural roads and rail-track, but also urban infrastructure, most often initially financed through developer levies. These shortfalls have not been adequately quantified.

The direct economic benefits of infrastructure investment have been summarised in recent reports released by CEDA, the BCA and the Australian Property Council. Overall, the evidence points to a strong relationship between infrastructure investment and increased economic output.

According to CEDA:

> *"In summary there is strong evidence that investment in infrastructure has a positive and permanent effect on economic output, with a 1% increase in infrastructure spending increasing output between 0.17 and 0.39 per cent. Moreover, investment infrastructure in the country generates higher returns than investments in other areas."*[17]

The table below outlines selected studies on investment.

TABLE 1: Selected studies on public capital growth[18]

Study	*Description*	*Estimated output elasticity of public capital*
Australian studies		
Kam (2001)	Australia	0.10
Kamps (2004)	Australia (from 22 OECD country study)	0.29
Australian studies		
Otto and Voss (1998)	Australia	0.07
Otto and Voss (1996)	Australia	0.17
Song (2002)	Australia	0.27–0.39
Cross country studies		
Aschauer (2000)	Analysis based on 46 countries	0.15–0.32
Kamps (2004)	22 OECD countries	-8.58–1.77
Nourzad and Vrieze (1995)	7 OECD countries	0.05–0.06
Country specific		
Aschauer (1989)	United States	0.39
Lau and Sin (1997)	United States	0.11
Munnell (1990)	United States	0.34
Pereira (2000)	United States	0.04
Picci (1999)	Italy	0.7–0.36
Rodriguez-Valez et al (2005)	Spain	0.17–0.31
Wylie (1996)	Canada	0.41–0.44
Zugasti et al (2001)	Spain	0.24
Infrastructure specific		
Canning and Bennathan (2000)	Roads	0.04–0.09
	Electricity	0.06–0.09
Fernald (1997)	Roads	0.35
Moomaw et al (1995)	Roads	0.00–0.03
	Water and sewer systems	0.05–0.28
Pereira (2000)	Roads	0.01
	Water and sewerage	0.01

Source: Various.

[17] CEDA, "Getting on With the Job", 2005, Page 20

[18] Centre for international economics, "Building Wealth through Infrastructure – Setting priorities and valuing gains in New South Wales", Table 1.1, for Property Council of Australia, May 2006.

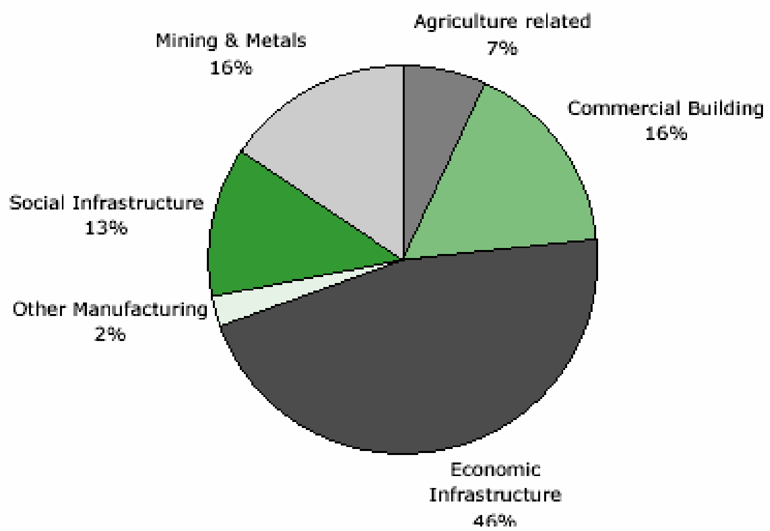
To further illustrate the effects of investment, AusCID commissioned Econtech in 2004 to analyse the effects of investing the required shortfall in five infrastructure areas, including: road; rail; electricity; gas; and water. AusCID found that business and housing investment increased, as did exports and GDP.

The Property Council of Australia's Building Wealth through Infrastructure report suggests that an $18.5 billion investment in the top 10 recommended NSW infrastructure projects, Real Gross State Product (GSP) would permanently increase by about 3 per cent ($8.8 billion per annum), while employment, export volumes, population and liveability would all improve.

Figures provided to the Inquiry by ABN AMRO estimate infrastructure expenditure over the next 10 years from both public and private sources at between $330 billion and $400 billion.

The graph and table below indicate where spending can be anticipated and where the shortfalls exist.

Chart 2: Value of definite projects as at 30 June 2005



Source: Access Economics
Definite projects: Under construction or committed.

Table 5: Forecast infrastructure spend 2005-2014

(A$bn)	High case	Base case	Low case
Assumed growth rate from 2005/06	*5% pa*	*3% pa*	*3% pa*
Economic infrastructure			
Base capex	175	160	160
Real backlog 1	25	10	0
New investment 2	25	10	0
Total spend: economic infrastructure	**225**	**180**	**160**
Social infrastructure			
Base capex 1	135	120	120
New investment 2	40	30	0
Total spend: social infrastructure	**175**	**150**	**120**
TOTAL INFRASTRUCTURE SPEND	**400**	**330**	**280**

1. AusCID estimate the backlog at A$25bn.
2. New investment is assets where demand is emerging, but not reflected in current capex levels.

Source: ABN AMRO estimates, Government Budget Papers

PART III: BUILDING BETTER INFRASTRUCTURE

3.1 Australia's Public Infrastructure

The Commonwealth remains a significant purchaser of infrastructure services in its own right. In 2004-05 total project costs amounted to $23.5 billion. The Commonwealth also plays a leading role in supporting State infrastructure initiatives.

While Government remains the largest owner of economic and social infrastructure, private sector involvement has increased in key areas such as rail, airports and roads. Substantial electricity assets have passed to private owners in the past decades, as have other power and communications assets. Social infrastructure remains dominated by State Government investment, however the private sector has expressed an interest in developing this area further.[19]

Increasingly, private sector entities now operate under contract to provide all levels of Government with the construction expertise to build and maintain various infrastructure assets. Increasingly, Government is also a major purchaser of infrastructure services from the private sector, reflected in the role of the private sector in the design and management of infrastructure.

With this shift in public policy, a consistent regulatory framework for infrastructure delivery has become increasingly important. Infrastructure procurement regulation, relating to both traditional and public private partnership (PPP) methods, continues to evolve with approaches, guidance material and processes becoming more streamlined and transparent.

3.2 Cost Effective Financing

Private sector involvement in public infrastructure procurement occurs in a variety of ways.

Design and construction remain the predominant areas, as does the use of private firms for the maintenance of facilities and even the delivery of core services. The use of private finance combined with privately commissioned design and/or asset maintenance and performance based payments is what is generally referred to as PPP development.

According to Professor Grahame Hodge, PPPs are about degrees of involvement by the private sector:

> *"The common ground amongst recent definitions appears to be that Government has a business relationship with the private sector, it is long term, with risks and returns being shared, and that private business becomes*

[19] Babcock and Brown in their presentation to the Inquiry highlighted the growing number of social infrastructure projects being developed by the State Governments, with an option for private sector investment.

involved in financing, designing, constructing, owning or operating public facilities or services."[20]

PPPs in all their forms represent an arrangement of joint service provision between both the public and private sectors.

The private sector has a long history of involvement in the provision of public infrastructure, both in Australia and internationally. State and Commonwealth infrastructure expansion in the early 20th century relied heavily on private finance, often sourced from overseas markets.

This situation continues today, however, contrary to popular perceptions, PPPs constitute a very small share of the total infrastructure market. In Victoria, Australia's most developed PPP infrastructure market, PPPs account for only 10 per cent of all projects. The Inquiry found that neither business nor Government believes that this figure will significantly change, with PPPs occupying a niche position among other procurement options.

Despite the small size of the PPP market in Australia, the use of PPPs by State and Federal Governments has attracted considerable commentary and significant opposition. Central to the debate about PPPs is the need for Government at all levels to finance infrastructure investment in the most cost effective 'whole-of-life' manner.

Analysis of the PPP Model

In Australia, PPPs are a relatively new method of infrastructure procurement. The modern version of PPPs has only been effectively operating in Australia for the last 6 years. In that time Government work on procurement guidelines, both with PPPs and more broadly, have 'raised the bar' on how all infrastructure projects are analysed.

In appropriate circumstances and for appropriate projects, PPPs can provide a cost effective means of asset or service provision.

Generally, PPPs are viewed to only be appropriate for large projects (over $100 million) in terms of total contract value, although not all States mandate a set contract price at which PPPs should be considered. This is often due to the substantial process and assessment costs associated with evaluating PPP projects.

PPPs are often criticised, however, on the following grounds:

- There is no need for direct private involvement in financing infrastructure as there is ample capacity for the public sector to do so itself;

- Government cannot adequately transfer some aspects of risk and therefore the rationale for the involvement of the private sector disappears;

[20] Quoted in Report No. 16/53(159, Public Accounts Committee – NSW Legislative Assembly: *Inquiry into Public Private Partnerships*, June 2006, pp10.

- The higher effective financing costs of the private sector mean that taxpayers can rarely, if ever, get value for money from private infrastructure financing;

- Super-normal profits can be earned by financiers in some cases;

- PPPs involve the creation of a whole new set of transaction and management costs for the public sector that do not arise under traditional infrastructure provision models;

- Accountability for public funds is weakened under PPP style arrangements; and

- Governments cannot adequately anticipate major future issues and make appropriately structured flexible contracts.[21]

According to Professor John Quiggin, from the University of Queensland, some of the claimed benefits of PPPs are not always a given and are often contingent on a range of factors.

> *"With a long term contract of the kind usual in PPP arrangements, the Government not only forgoes any benefit that might arise from the entry of new competitors, but loses any capacity to alter the contract terms to meet changing needs and circumstances…As anyone who's built a house knows, it is contract variations that are the source of most of the big blow-outs in any project."*[22]

Even proponents of the use of private finance recognise that there have been problems in the past with the use of PPPs and other similar financing models. According to Ernst and Young's PPP Survey:

> *"No one is disputing that a number of PPPs have encountered difficulties…However it is important to draw a distinction here – these deals were all done before Governments released their PPP policies in 2000/2001. The policies have drawn on the lessons learnt from these failed projects and the latest round of PPPs has implemented these policies to avoid the problems of the past."*[23]

Former Governor of the Reserve Bank, Bernie Fraser identifies one of the problems as a lack of competition amongst PPP providers:

> *"There are opportunities to make the PPP process more transparent. More competition around the table would be good"* [24]

[21] Policy Solutions, "Reform of Public Private Partnerships: How to Genuinely Harness Private Capital to Genuinely Work in Partnerships with the Public Sector", 2006, Report prepared for the CFMEU.
[22] Submission John Quiggan, pp19.
[23] Australian PPP Survey, 2005, Ernst & Young, pp9.
[24] Transcript Canberra hearings, 10 February 2006.

Professor Mervyn Lewis from the University of South Australia has summarised the results of two major UK studies into PPPs; the 2002 UK National Audit Office Report on PFI Projects and the 1999 Mott MacDonald Government Procurement Survey.

Professor Lewis finds that PPPs have delivered for the UK Government:

> *".. the relative performance of PPPs vis-à-vis traditional procurement. On this point, the results are clear-cut. About 75 per cent of major infrastructure projects in the UK were late and over budget before PPPs came into play. Under PPP/PFI arrangements, 75 per cent of projects are on time and to budget."* [25]

While it should be noted that UK PFI projects often commence later in the procurement process than traditional approaches, these findings highlight the urgent need for empirical evidence into the performance of infrastructure procurement approaches in Australia.

The Inquiry does not ideologically support or reject PPPs or other forms of private financing. It does, however, advocate the sensible evaluation of appropriate infrastructure projects against a number of potential financing options to determine the most appropriate procurement method.

Recommendation 3: **A Federal Labor Government should facilitate the construction of national infrastructure by encouraging the most appropriate financing instruments. Labor recognises it will continue to be necessary for some infrastructure to be jointly procured by Government and the private sector where appropriate.**

The Inquiry is supportive of the view that with appropriate guidelines in place, clear project objectives from Government and transparent negotiating between parties, private finance may be effectively employed to build national infrastructure.

Recommendation 4: **PPPs have a legitimate role to play as an approach to infrastructure financing and procurement. However that role should be clearly defined and subject to evidence of value for money. PPPs may be an appropriate procurement option for projects which are large (generally over $100 million), complex, one-off or non-standard, or standard Government projects in circumstances where there are challenges of a technical, innovation or design nature.**

Accordingly, the consideration of various technical issues regarding the evaluation of infrastructure projects and their suitability for PPPs is critical. The public policy debate should focus on:

[25] Professor Mervyn Lewis, *Are public private partnerships a viable method of providing infrastructure*, Paper to the Conference to celebrate the founders of the Discipline of Economics at Flinders University, 30 September 2005.

- The types of regulatory measures which should be employed in relation to PPPs;
- Categorising the types of projects where they may be appropriate;
- Examining the transparency arrangements which protect the public interest;
- Defining the level of service delivery the community expects from Government services.
- The level of capacity, skills and culture of government to manage the procurement process.

3.3 Transparent and Accountable Arrangements with the Private Sector

PPPs in all Australian jurisdictions operate within general Government procurement policy. However, there is some divergence in the evaluation, reporting and contract management techniques of the States and Territories.

Greater consistency between jurisdictions is desirable both in the public interest and also for bidding parties.

There are a number of key evaluation criteria which determine how a project is most appropriately delivered. This is where public procurement policy must focus.

Value for Money

The value for money (VFM) test is the driving benchmark in establishing the merits of a PPP proposal.

The proposal must demonstrate better value for money against the most efficient and likely method that the public sector would use to deliver the same outputs.

The assessment is not only based on the lowest price, but also qualitative measures, such as service standards, innovation and sustainable whole of life operation and design approaches.

Risk

Risk and its allocation are key to PPP’s as a procurement approach.

Risk in a PPP contract primarily concerns financial risk to parties, and normally excludes others forms of risk, such as ‘political’ risks.

The two standard forms of risk are:

- *Project Risk* – The idiosyncrasies associated with a particular project. This is determined and quantified by considering the outcomes from the projects, and how they will operate against existing infrastructure, people and other projects.

- *Systematic Risk* – The variability that derives from market regulation and risk that flows from broader economic and legal factors. Political risk is sometimes allocated within this definition.

The Inquiry believes that there are areas of risk which cannot be 'quantified' and allocated under the traditional conception of risk. Government will always retain some obligation through the democratic mandate which cannot be abrogated or referred. Those risks should be described as "retained risks". While risk of this type cannot be removed and nor should it, other types of risk can be effectively placed with the private sector – these are termed "transferable risks" – with benefits for the community as a whole (e.g. construction risks). Transferable risks are those that if they become part of the role of the private sector, will naturally attract a price premium.

It is important that risk be allocated to minimise exposure to risk for Government, maximise the success of the project and to protect the public interest. The Inquiry received submissions from groups arguing that risk allocation should be based on allocating risk to those parties best able to manage those risks. The Inquiry is generally supportive of this approach.

The Australian Constructors' Association (ACA) indicated in their submission to the Inquiry that the construction industry will not continue to participate in PPP projects with Government unless Government addresses the fact that,

> *"the allocation of risk is often inappropriate, unbalanced and unfair".*[26]

Whilst certainty and a degree of standardisation are important, project risk allocation should be evaluated on a case-by-case basis, with processes refined on a continuing basis.

Accountability

Ensuring that the public interest is maintained over the life of a project is an important and under-emphasised part of the PPP debate.

Government retains ongoing responsibility for some risk under all PPP arrangements and the public interest demands that contracts be continually evaluated to ensure they continue to represent value for money and that they continue to meet agreed criteria.

[26] Australian Constructors Association, *Public Private Partnerships – Putting Guidance into Action*, Sydney.

Probity & Transparency

More work is required to develop post-project evaluation methods to assess process and outcomes from earlier projects and to apply lessons learned to new PPPs. Such work is already under way in state Treasuries, in academe and by Auditors General.

The Inquiry is of the view that the empirical work done in other jurisdictions should form the basis of a comprehensive post-project evaluation of PPP projects, but also infrastructure projects more generally. This role could be a key evaluation area for *Infrastructure Australia's* audit of existing infrastructure

It is critical that commercial parties who transact business arrangements with Government can meet high probity standards. Ethical and transparent business dealings are essential to the effective delivery of infrastructure.

A common issue however is the cost of this process versus the protection of the public good. One of the elements which has drawn adverse comment from both practitioners in Australia and overseas experts is the over bearing probity regime that is practised in Australia.

According to Ernst & Young:

> *"Probity is a uniquely Australian response to addressing issues of equity and fairness in competitive tendering for public projects. …There seems to be an endemic fear in the public sector of being challenged on grounds of probity: so called project risk. … This inexperience (of "probity professionals") often manifests itself in overly controlled and contrived processes that actually stifle competition and fairness"*[27]

Others, from both the private and public sectors, have commented that probity is unduly restrictive, minimises innovation, reduces proper commercial dialogue, lengthens the process and unnecessarily increases the costs of transactions.

The Public Sector Comparator

The Public Sector Comparator (PSC) plays a key role in evaluating the value for money case put by the private sector.

According to Ernst & Young, the PSC is:

> *"a financial model that calculates the whole of life cost of implementing a particular public sector project. In simple terms, the components of the PSC are the raw costs of the project (the capital and operating costs) and the values attributed to project risks. The raw costs in the PSC are presented as cash flow at the time at which they are expected to occur."*[28]

[27] Submission Ernst & Young, pp37.
[28] Submission, Ernst & Young, pp10.

The Public Sector Comparator (PSC) ensures that value for money is met against the core competencies of the public sector. The PSC is usually expressed in Net Present Cost Terms and is built around the following four core elements:

1. *Base Costing* – including all capital and operating costs associated with Government construction, maintenance and delivery over the same period as a private proposal, excluding separate contingencies or valuation risks

2. *Transferable Risk* – the risks that would be born by the Government under traditional procurement methods but which are likely to be transferred to the private sector

3. *Retained Risk* – the risks which the Government will assume, regardless of the procurement option

4. *Competitive Neutrality Adjustment* – removes the net competitive advantages that accrue to Government by virtue of public ownership, including all exemptions from taxes and charges.

As part of the PSC analysis process, appropriate discount rates are required. There have been various studies undertaken in this area. The NSW Treasury's submission to the Public Accounts Committee Inquiry, November 2005, states that,

> *"[a]part from the broad rules of thumb developed jointly by all Australian jurisdictions in June 2002, there are no fixed rules regarding the discount rate, which is chosen on a case by case basis. For this reason, sensitivity analysis … is essential."*[29]

Some participants in the Inquiry hearings expressed concerns that the PSC was not an accurate measure of the real costs to the public sector of building infrastructure on its own. It was put to the Inquiry that the PSC needed to be a measure that was robust and reliable, and that delivered a fair analysis of real costs.

Cost of Funds

A justification for traditional Government procurement has been that the public sector cost of capital is less than that of the private sector.

It should be noted however, that where this occurs, risk in funding and delivering a project generally resides with Government if there are cost overruns, late finishes, performance failures, then Government will absorb that cost.

Often it is difficult to assess the real costs when projects are delivered by the public sector, and it is unclear how risks can be costed into the price of Government borrowing.

At the end of the day, the cost of funds reflects the risk of the project and the capacity of the borrower to cover any risk.

---

[29] See submission NSW Treasury (no 24), NSW Parliamentary Inquiry into Public Private Partnerships.

Off-Balance Sheet Issues

PPPs do not take costs for financing a project off the Government's balance sheet as ultimately, Government has to budget and pay for these long-term projects.

NSW Treasury emphasises that PPP's are not about achieving off-balance sheet financing for infrastructure and services:

> *"The payment commitments of a PFP are as real as those associated with servicing balance sheet debt and in the context of the Government's fiscal strategy, need to be considered in a similar manner. Ratings agencies have made it clear that their assessment of the Government's credit rating takes into account all its forward financial obligations, including payment commitments for privately financed assets, whether or not they are recognised on the Central Government sector's balance sheet."*[30]

Standardised Contract Clauses

The Inquiry received evidence that the lack of standardised processes and contract documentation between jurisdictions represents a considerable problem for PPP providers. This is a particular concern for social infrastructure and for newer areas for infrastructure delivery.

There has been considerable work by the States on standardisation in areas like road procurement, however the Federal Government has yet to take up this reform agenda.

The Inquiry supports greater standardisation across the industry for all procurement projects, including standard contract clauses which have predetermined elements to them such as, Risk Allocation, Public Sector Comparator (PSC) comparisons and Labour costs.

Standardised contract clauses could also be developed on an industry-by-industry basis looking at the role of core public services, and how best to protect their integrity. These expanded and industry specific guidelines would be of benefit to industry and also the broader public debate, with consumers and providers more aware of the issues involved in public procurement.

Such standardised contracts should ensure that PPP projects have robust abatement clauses, with appropriate penalty options, linked to measurable targets and review processes.

***Recommendation 5:* A Federal Labor Government should, through *Infrastructure Australia*, expedite the standardisation of tender processes and contract documentation between Commonwealth and State jurisdictions for the use of PPPs and other relevant procurement options.**

[30] See submission NSW Treasury (no 24), NSW Parliamentary Inquiry into Public Private Partnerships.

***Recommendation 6: Infrastructure Australia* should develop best practice procurement processes to maximise value for money; transparency and public accountability when evaluating differing procurement options. These processes must include, but not be limited to:**

- **Development and application of a rigorous Public Sector Comparator (PSC) adjusted to accurately reflect risks involved in specific projects;**
- **Public transparency in relation to the methodologies used for calculating risks;**
- **Allowance for the costs to Government of monitoring PPP projects;**
- **Ensure that the value for money test guarantees that employee pay and conditions are not the differentiating factor between two different procurement options or two different bids;**
- **When determining the net present cost of different procurement options, in the absence of revenue streams involving market risk, the discount rate to be used should be the 10 year Commonwealth bond yield prevailing at the time of the evaluation.**

***Recommendation 7:* A Federal Labor Government will be committed to high levels of transparency and accountability for all major infrastructure projects through:**

- **The publication of 'Public Interest Reports' and 'Value for Money Statements';**
- **The publication at the time of the public announcement of contract finalisation of appropriate and informative Contract Summaries that should include details of: the PSC; the discount rate and explanations of risk adjustments; the forecast payment schedule; the expected capital and operating costs; asset transfers; risk allocation tables; provisions for contract renegotiations; major contract obligations and management costs.**
- **The inclusion in the Contract Summary in relation to tollways and projects involving revenue from user-charges, all material financial and other underlying assumptions and revenue forecasts;**
- **The ability of the National Audit Office to review the timeliness and rigour of the above processes and review particular projects at its discretion; and**
- **The development by *Infrastructure Australia* of best practice in public accountability for PPPs such as those adopted by British Columbia in relation to the publication of contract summaries and value for money reports.**

3.4 Alternatives to PPPs

Public Private Partnerships represent a small part of Australia's infrastructure market. They are only one way in which Government can choose to deliver infrastructure. A number of alternative financing methods are employed in Australia and overseas. These methods should be viewed as part of the range of options open to a future Labor Government.

Government Financing & Traditional Procurement

With a strong budgetary outlook, many State Governments continue to use revenue and borrowings to fund infrastructure. Where appropriate, a Federal Labor Government may consider this method, consistent with its commitment to keep the budget in surplus over the economic cycle.

The Australian Industry Group (AIG) has supported Government financing for the construction of economic infrastructure.

> *"[I]f we rule out borrowing to make current investments in infrastructure and we deny ourselves the opportunity to share the cost across the generations that would benefit from those investments, we will under-invest and impose on future generations either the inconvenience of inadequate infrastructure or the costs of providing it themselves."*[31]

In 2003, the Allen Consulting Group found that traditional financing was under-utilised by Government. As the report established, significant budget surpluses provided the opportunity for increased investment.

Infrastructure investment, however, must continue to be pursued within a context of fiscal responsibility.

Public Interest Companies (PICs)

Public Interest Companies (PICs) have emerged in the UK as a 'not-for-profit' version of PPPs.[32]

The key features of PICs are largely shared with PPPs with some important exceptions:

- PICs do not have a generalised commercial role, but only exist for a specific public benefit.
- PICs cannot pay dividends to shareholders but can raise finance for the expansion of operations within their general charters (eg. build new buildings).
- PICs exist at arms length of Government. They are neither Government departments nor private sector entities. They are accountable to their stakeholders for service delivery and to Parliament for their administration, however Government plays no role in their day-to-day administration.

Three key areas have been identified as appropriate for PICs in the UK:

[31] Heather Ridout: Investing in the Future: Responsible Fiscal Policy and Building National Infrastructure: 3rd National Infrastructure Summit Melbourne August 16 2004 pp4.
[32] For a full explanation of the role of PICs in the UK see: Paul Maltby, 2003: *In the Public Interest? Assessing the potential for public interest companies*, IPPR, London.

- Monopoly utilities, such as air traffic control or Network Rail;

- Contracting for complex public services where safety or the public interest is paramount, but not as a replacement for successful PFIs (i.e. new road schemes);

- Small community enterprises and regeneration projects, where community involvement is a key aim.

PICs have the potential to allow innovation and public accountability in service provision, whilst maintaining public ownership.

Whilst noting the continuing debate in the UK concerning PICs, with the correct legislative environment and adequate regulation, this form of community-owned and run corporation may have a role in niche infrastructure provision and development in Australia.

Government (Infrastructure) Bonds

In 1994 the Federal Labor Government introduced a system of infrastructure bonds to encourage private sector investment in infrastructure. The scheme allowed lenders of funds to access Development Allowance Authority (DAA) approved projects to claim a rebate equivalent to the interest deduction otherwise available to the lender.

From the time of its commencement until 1996, the DAA approved twelve projects with a total borrowing of $4 billion, with a further six projects worth $2.6 million in the pipeline.[33]

Although this scheme was abolished and replaced by the Federal Infrastructure Borrowing tax Offset Scheme, a number of stakeholders including the Australian Manufacturing Workers' Union (AMWU) and National Farmers Federation (NFF), have called for a reappraisal of infrastructure bonds as a mechanism for boosting investment.

Infrastructure bonds have an established reputation in the US, Canada and Europe and may represent an opportunity to facilitate superannuation fund investment in infrastructure.

Statutory Authorities and Corporations

Specialised statutory authorities and corporations have played a significant role in infrastructure development. They have provided a means for State Governments to develop, construct and operate public infrastructure in areas such as water, electricity and public housing.

Statutory bodies have been particularly utilised for complex urban redevelopment or greenfields development in the United States and Canada. The Canadian Mortgage

[33] The Allen Consulting Group, 2003; Funding Urban Infrastructure, Report for the Property Council of Australia, p44.

and Housing Corporation (CMHC) is a Government owned corporation, which has assisted Canadians to purchase homes at an affordable price, improve access to housing for indigenous communities and renovated specialist accommodation for disadvantaged groups. The CMHC provides bond issues fully guaranteed by the Canadian Federal Government, which are tradeable in the public bond market. The authority also covers seed funding for projects and the cost of proposal development.

The Statutory Authority model may be applicable for specialist regional development projects and the expansion of social housing in Australia's urban centres.

Alliance Contracting

The alliance model has been described as a hybrid form of standard procurement, which draws many of the private sector innovation aspects which are associated with well-delivered PPPs.

The alliance model, predominately based on a process brought from the US experience, has been described as:

> *"…a collaborative, incentive driven method of contracting where all the participants work co-operatively to the same end, sharing the risk and rewards of bringing in the project within time and under cost, whilst respecting principles of good faith and trust".*[34]

The key features of alliance projects can be summarised as:

- A 'no blame' culture;
- The sharing of risks/gains;
- Encouragement of innovative approaches and continuous improvement;
- Improved communication between contracting parties; and
- Improved dispute resolution processes.

Alliance contracts are being used in many industries right across Australia. They are currently employed in the energy and utility sectors, and in the mining and construction fields. As an alternative method of harnessing the innovation of the private sector, alliance contracting may provide a viable procurement alternative.

3.5 Superannuation, National Savings Investing in National Infrastructure

Labor built the superannuation industry in partnership with industry and unions.

[34] Presentation by Tony Abrahams, Director, Construction and Infrastructure, KPMG Legal, as reported by Juliet Pratley, 'Project Alliancing: Does it work?' (1999) 15(2) Building Australia 33. (quoted in Andrew Stephenson, 2002; Alliance Contracting, Partnering, Cooperative Contracting Risk Avoidance or Risk Creation, Clayton Utz)

Superannuation is the dominant source of investment capital in Australia, making up some two-thirds of collective investment savings. As at March 2006 superannuation funds were $904 billion and projected to increase to $1 trillion, $2 trillion and $3 trillion by 2007, 2012 and 2016 respectively.

Given the rapid growth of funds under management superannuation funds have taken a greater interest in investing in PPP's. This has been driven not just by the growth in funds but also by the need to diversify into new asset classes, achieve higher long-term rates of return and a greater need for stable rates of return to underpin post retirement pension/annuity products.

Superannuation funds have responded in a number of ways. Some have directly invested by grouping together and purchasing assets. Examples given to the Inquiry include Brisbane and Adelaide airports. Others have invested indirectly in entities, separately established, which underwrite a particular project or group of projects.

Given the factors identified, this trend will accelerate rapidly. If the investment opportunities are not made available in Australia at least some of the capital will flow to PPP's off-shore.

Industry Superannuation Funds, in proportion to their size, invest about three times as much in infrastructure as the superannuation industry generally. Industry Funds Management (IFM) has been established as the frontline infrastructure investment manager of Industry Super Funds. IFM continues to grow with investment in both infrastructure and private equity holdings amounting to more than $9 billion, both in Australia and internationally.

Further, IFMs proposal to merge with the Members' Equity Bank will deliver a diversified player in investment banking and a major player in Australia's infrastructure market.

According to Gary Weaven, from Industry Find Services (IFS):

> *"Superannuation fund investors have an appetite for varying degrees of risk/return, including projects with a significant degree of patronage risk, as well as projects which are more in the nature of financing arrangements, with little equity risk and corresponding modest returns."*[35]

The superannuation industry, like any other financial area, takes account of due diligence requirements and fiduciary obligations when making investment decisions on infrastructure projects.

The CFMEU report *"Reform of Public Private Partnerships: How to Harness Private Capital to Genuinely Work in Partnership with the Public Sector"* calls for the reform of the taxation arrangements which currently constrain superannuation fund investment in infrastructure, to allow the sensible use of Australian superannuation to be used in Australian infrastructure projects.

---

[35] Submission Mr Gary Weaven, Industry Fund Services, pp2.

The CFMEU proposals include taxation concessions in the following areas:

- Exemptions for the earnings derived from qualifying infrastructure investment, including dividends and debt financing from such investment;

- Reducing the capital gains tax payable on equity investments on qualifying infrastructure. Currently superannuation funds are subject to a discount of 33% of the gain whereas individuals receive a 50% discount; and

- Providing a full or partial deduction for equity investments in qualifying infrastructure projects.

The report also proposes the creation of a National Infrastructure Financing Corporation (NIFC), which would facilitate joint ventures between Australian superannuation funds and the Building Australia Fund administered through an independent board, possibly linked to Infrastructure Australia. It is envisaged that the NIFC would finance infrastructure projects, including those utilising PPP arrangements.

While the details of this proposal should be properly evaluated by Labor on winning office, assuming the proposal meets with the fiduciary obligations of the super funds, it may appear to meet Labor's policy objectives of greater use of superannuation assets for infrastructure development, the use of the Building Australia Fund to 'kick-start' infrastructure development, and the constructive use of private finance for national infrastructure projects.

The proposal does not, however, resolve asset management issues, with a strong presumption that the NIFC would see a mix of outsourced management and continuing management by Government of some assets, with little direct role for the NIFC aside from finance. In terms of supplying a ready and accessible pool of finance, the NIFC would certainly be in a position to 'bid' for all major contracts, at all levels of Government.

Recommendation 8: **A Federal Labor Government should review existing public policy to facilitate greater involvement in infrastructure financing and delivery by Australia's superannuation funds.**

3.6 Taxation Reform – Removing Constraints on Investment

Taxation is a key issue in the infrastructure debate. Under-investment in infrastructure is partially a result of current impediments in taxation arrangements.

Currently, the *Income Tax Assessment Act 1997* restrains private investment in public infrastructure through the operation of Section 51AD. Under this provision certain infrastructure projects held by the private sector, controlled by Government and financed through limited recourse debt, do not receive tax deductions that would normally apply for capital expenditure of this type.

There is also the application of Division 16D of the *Income Tax Assessment Act 1997.* This applies in the case of finance leases with tax exempt bodies. The lease is treated as a loan and capital deductions are disallowed.

This illogical situation was first downplayed and then conveniently ignored by the Howard Government.

In September 2005 then Assistant Treasurer, Mal Brough finally conceded that the tax changes originally proposed by the Government were unworkable. The Minister promised further legislative reform.

A year on from the announcement, the Government is yet to act and firms such as Ernst & Young have raised significant issues concerning the scope and application of the proposed changes, which could further delay their implementation.

Recommendation 9: **A Federal Labor Government should, as a matter of priority, initiate legislative reform that facilitates greater private sector investment in infrastructure, including amending section 51AD and Division 16D of the Income Tax Assessment Act 1997, so that it is no longer an impediment to private sector investment in infrastructure.**

PART IV: LABOR'S DISTINCTIVE APPROACH

4.1 Labor's Distinctive Approach

At a time when the Federal Coalition Government has consistently ignored serious issues in relation to Australia's infrastructure backlog, Labor has consistently kept the issue on the national agenda.

Labor is the party of nation building.

The ALP has the strongest track record of infrastructure planning and investment at the State and Territory level, and the only party with an infrastructure plan for national Government.

Labor is a strong advocate for public sector investment in infrastructure, and understands the important role for private sector involvement. Labor appreciates that infrastructure is not solely about the provision of new roads, ports and hospitals – it is about the quality of service which flows from this infrastructure for the public and national interest.

Despite marginal seat 'pork barrelling' by the Coalition Government, Labor must invest in infrastructure that delivers national benefits based on real community priorities.

A best practice infrastructure approach requires:

- Expertise at both the political and implementation levels. A strategic approach must underpin the management, with the basis of long-term thinking for immediate implementation in action.

- Strategic planning based on sound information to prioritise the national interest. This should steer the infrastructure implementation process. Within this approach, there should be consideration of new infrastructure but also renewal and maintenance of existing infrastructure.

- Integrated management structures that incorporate representative stakeholder involvement. This should include the use of the best expertise from public, private, community sectors and trade unions, and prioritisation of 'whole of life' management approaches and commercial and public interest issues.

- Sustainable principles and solutions that provide the needs of the present without compromising the needs of future generations.

Labor initiatives such as *Infrastructure Australia* and the *Building Australia Fund* will play a crucial role in delivering these outcomes.

Infrastructure Australia

Currently there is no dedicated, national organisation with the authority to manage Australia's infrastructure needs and drive infrastructure investment.

The Business Council of Australia (BCA) summarises the inadequacy of current arrangements as follows:

> *"There is at present no overarching stocktake, vision or strategy that enables Governments to quantify, prioritise and deliver Australia's future infrastructure needs. There is no co-ordination between Federal, State and local Government, business and the wider community…no uniform database exists to keep track of the State of Australia's $300 billion infrastructure asset base… The fundamental problem is the lack of frameworks and policies by Governments and other decision makers to plan for and co-ordinate future infrastructure needs. Many of our basic infrastructure assets cross State boundaries, and therefore require a national approach, or are interdependent on the policies and practices of other jurisdictions. By getting consistent policies and signals in place, the required investment in our infrastructure will be encouraged and better financed."36*

To thrive in a modern, global economy, Australia must be internationally competitive.

A coordinated and cooperative long-term strategy between the three tiers of government and the private sector is required to identify, prioritise and redress:

- Inadequacies in Australia's nationally significant infrastructure; and
- Regulatory, planning, tax and financial obstacles.

Labor recognises the need to put in place the right national institutional arrangements to assess, coordinate and implement our nationally significant infrastructure requirements.

Labor has a longstanding commitment to providing national leadership for Australia's infrastructure needs.

Labor's policy approach since 2000 has been the establishment of a nationally led and coordinated authority to work in partnership with the States and Territories to identify and achieve the most effective outcomes for our nationally significant infrastructure.

Federal Labor has announced that it will create an independent statutory authority, called *Infrastructure Australia*, which will play a leading role in the planning and coordination of Australia's infrastructure needs.

Infrastructure Australia will be charged with responsibility for developing a strategic blueprint for Australia's infrastructure needs and facilitating its implementation, in

[36] R. Pearse: Chairman BCA Sustainable Growth Taskforce "We can arrest a crises and seize opportunities" The Australian, 28 March 2005.

partnership with the States, Territories, local government and the private sector. It will establish policy guidelines and standardised formats to facilitate consideration of infrastructure proposals and to expedite decision-making.

The failure of the Government to take an active role in infrastructure planning is at the core of the problems with infrastructure provision. With no plan, private business and State Government's rely on their own forecasting and bodies like COAG, rather than having the dedicated resources of dedicated national body to draw upon.

In its submission to the Inquiry AusCID highlighted that:

> *"Australia does … face significant infrastructure policy challenges. It starts with institutions. Whilst the private sector can build, operate and finance much of Australia's future infrastructure needs, co-ordination and ensuring the environment is correct for future public and/or private provision is only something Governments can do. AusCID strongly believes that the greatest contribution Governments can make to providing for Australia's future infrastructure needs is to develop a coherent national infrastructure strategy and that involves planning."*[37]

Labor's *Infrastructure Australia* initiative offers a coordinated and objective approach to the long-term planning and development of nationally significant infrastructure.

National Infrastructure Audit

Data integrity and adequate information is key to understanding our national performance and standards in infrastructure.

The Inquiry found that there are calls from many stakeholders, for a proper, periodic audit of Australia's national infrastructure.

The Inquiry believes it is totally inadequate that Australia has no official, up-to-date record or database on the state of the nation's economic infrastructure assets. Without an audit, without priorities, without integrity of data, it is impossible for Government to plan future investments and get other policy settings right. Without a clear baseline or benchmark it's impossible to accurately assess infrastructure adequacy and requirements.

Labor has previously proposed a National Infrastructure Audit, to be undertaken by Infrastructure Australia, to assess the adequacy and quality of infrastructure and identify the gaps. It is envisaged that this audit will compile a list of what infrastructure already exists and where it's deficient or inadequate, and a list of what infrastructure is still required.

The audit will give *Infrastructure Australia* the data it needs to identify and assess Australia's infrastructure assets – to analyse their adequacy, condition and capacity. It will also calculate future needs – based on population trends, settlement patterns

[37] Submission AusCID, pp5.

and urban growth, migration and demographic change, industry structure and geographic distribution.

Not only would this provide an informative database from which sound assessments could be made, but it would also be a strong aid in reaching consensus from various stakeholders.

National Infrastructure Priority List

The second stage is appropriate infrastructure planning through a National Infrastructure Priority List

Many organisations, among them business groups, professional associations, economists, industry peak bodies, national community organisations and government, have already identified what they see as the infrastructure priorities for Australia.

The Australian Local Government Association *State of the Regions* report identified the following national infrastructure projects of significance:

- inland freight rail projects, serving our primary industries;
- road projects including the Bruce Highway, Calder Freeway and Pacific Highway; and
- optical fibre to deliver broadband access throughout Australia.

The Business Council of Australia has pointed to infrastructure shortfalls in a number of sectors including:

- energy generation, transmission and distribution;
- intercapital freight transport; and
- urban public transport and roads.

The Engineers Australia 2005 Infrastructure Report Card states that the greatest weaknesses are:

- local roads (especially in South Australia); and
- rail (especially in New South Wales).

Many other groups have listed infrastructure priorities or issued report cards on Australian infrastructure.

As such, Labor has committed to develop a National Infrastructure Priority List, based on the findings of Labor's National Infrastructure Audit. The Infrastructure Priority List would also set targets in priority project areas so over time it would be possible to benchmark Australia's performance in these areas against the rest of the world.

Building Australia Fund

On 5 May 2006, the Commonwealth Government transferred $18 billion in accumulated budget surpluses into the newly created ‘Future Fund’, to off-set future superannuation liabilities for the Commonwealth Public Service.

Labor believes the income stream of the Fund should be used to enhance the productive capacity of our economy, not set aside solely to offset the cost of bureaucrats’ superannuation.

Public sector superannuation is an issue that has already largely been solved. Analysis from the Productivity Commission and the Government’s own Intergenerational Report and Long Term Cost Reports show the super liability and associated cash outlays are already declining as a share of GDP over the next forty years.

As such, Labor has committed to establish an intergenerational fund – the *Building Australia Fund* – to provide the flexibility to invest in Australia’s productive capacity, including investments in infrastructure.

Labor will adopt the same corporate governance arrangements as for the Government’s *Future Fund*. A Labor Government will set the broad investment mandate for the Fund. The Fund will be managed by an Independent Statutory Authority, who will set the investment strategy and contract fund management to the private sector.

In setting the broad investment mandate, Labor will ask the Board to consider the full range of investment opportunities suitable to the return and risk objectives of the Fund. Labor envisages that this would include commercially attractive infrastructure investments.

Recommendation 10: **A Federal Labor Government should create the *Building Australia Fund*, the earnings of which may be used to invest in the productive capacity of the Australian economy, including its infrastructure assets.**

Improving Public Sector Competency

The Inquiry believes there is a critical need to improve the competencies of those involved in contact negotiation, management and delivery. A comprehensive training and exchange programs should be developed for contract managers at the Commonwealth level, based on an expanded version already operating through Partnerships Victoria. This program should be open to those working in the public and private sectors, aiming to ensure that the skills of those involved in negotiating all forms of infrastructure are improved.

As the ACTU highlighted in their submission to the Inquiry:

> *“Attempts to involve the private sector through PPPs and other approaches are being inhibited because Governments are not investing sufficiently in the*

public sector capability required for contract negotiation and implementation with the private sector."38

The development of core competencies for Government negotiators and service providers at all levels may be incorporated into the functions of Infrastructure Australia.

The UK has a centralised advisory group through Partnerships UK (PUK), which is a peak coordinating, evaluation and skills sharing body for infrastructure in the UK. PUK describes its work as being at the forefront of delivering new skills to all in the infrastructure market:

> *"PUK is a dedicated and permanent centre of expertise available solely to the public sector. It provides senior strategic support to public bodies, sharing responsibility for delivering successful PFI/PPP solutions, from the appointment and management of advisers to the scoping, development, troubleshooting and negotiation of value for money projects."*

Much of the lessons, skills and rigour that are used in PPP's can be utilised across the range of infrastructure delivery options.

Although PUK has been set up to provide advice to the public sector for PPPs, Australia might consider a similar group which could provide advice across all infrastructure delivery approaches.

***Recommendation 11:* Consistent with the experience of Partnerships UK (PUK), a Federal Labor Government should consider establishing a professional advisory source to the public sector on all infrastructure delivery models, with an emphasis on skills sharing across the public, private and community infrastructure sectors.**

Skills Enhancement

The Inquiry heard from many participants in public hearings that skills shortages represented a considerable impediment to building much-needed infrastructure. Increased contracting costs, reflecting high labour costs, are contributing to the deferral of needed infrastructure projects.

Skills shortages have been allowed to go unaddressed under the Coalition Government, with respected economic forecasters predicting a dire effect on the national economy. As BIS Shrapnel reported in June 2006:

> *"Australia has entered a new era of constrained growth. Businesses are already grappling with the problems of tight capacity, infrastructure bottlenecks and an acute shortage of labour."*

[38] Submission Australian Council of Trade Unions (ACTU), pp11.

In regional areas such as Gladstone and the Illawarra, skills shortages and infrastructure provision and maintenance are closely tied, with both regions lacking the skilled trade's people to both construct infrastructure and run the services they are designed to provide. ALGA further reinforced this view in their written submission, while also providing some ideas on how to overcome them:

> *"Local Government for example is chronically short of engineers and other skilled professionals. By way of further example isolated councils have to pay huge incentives for skilled people to come to their localities, which in turn prejudice their capacity to fund their programs. Innovative programs to address these issues should not be difficult to conceive. For example, special purpose funding programs could contain an element to assist local councils with applying the appropriate asset management, IT and engineering skills required to deliver the programs concerned. Seed funding to attract more people into engineering disciplines might be another such example."*

Engineers Australia has repeatedly raised concerns about the lack of technical expertise and contract management skills available to Government at all levels. They estimate that over the last decade there has been a 20% to 40% reduction in the number of engineers in the Commonwealth, State and local Government sectors. Engineers Australia has recently drawn attention to these shortages now impacting on the capacity of State Governments to deliver on their infrastructure plans.

The Howard Government has belatedly accepted that without qualified engineers infrastructure bottlenecks cannot be addressed. The Government has finally responded to Labor's campaign on skills with an announcement of an extra 500 places for engineering. For current infrastructure shortfalls, this is a case of too little too late.

In Gladstone the Inquiry heard that despite sound long-term planning and investment from the State Government, skills remained a considerable issue in this major regional centre. In existing energy infrastructure, maintenance of infrastructure assets and design and construction, skills shortages were all commented on. Shortly after the Inquiry visited Gladstone, Labor's Education Spokesperson, Jenny Macklin, revealed that the Government's bungled technical college in Gladstone had only one student enrolled in it.

Labor has highlighted the issue and proposed solutions to address the chronic shortages in key skills areas linked to Australia's infrastructure needs. Labor recognises that unless we have a new generation of skilled constructors and engineers, our infrastructure delivery will be inefficient and not be able to meet our needs. Labor's nation building agenda recognises that skills and infrastructure are linked – both drive the economy by increasing our productive capacity and potentially greater exports.

Labor's trade completion bonus, school based apprenticeships and skills account scheme have the potential to address the shortages in construction and other trades if implemented now. Other initiatives will also be necessary from Labor in Government.

Recommendation 12: A Federal Labor Government should promote initiatives to address the shortages of skilled workers and professionals in the construction and engineering industries. It should ensure skills and training provisions are in all relevant procurement contracts for major infrastructure projects.

4.2 Infrastructure Asset Classes

Broadband Infrastructure

Australia lags far behind the rest of the world in delivering broadband communications infrastructure. Australia is ranked 17th out of the 30 countries surveyed by the OECD for up to 256kbps broadband speed. The World Economic Forum (WEF) also ranks Australia 25th in the world for available internet bandwidth and Australia's 'Networked Readiness' is at 15th in the world and falling. The World Bank has found that Australia's average ADSL speeds are one of the slowest in the world behind countries like Britain, France, Germany, Canada and the United States.

The failure of the Federal Coalition Government to secure a national high speed broadband network was again demonstrated by the inability of the ACCC and Telstra to reach agreement on the terms under which Telstra would implement its proposal for a $4 billion national broadband roll-out.

While supportive of Telstra's proposal, the Inquiry heard from the CEPU, that the distribution of existing infrastructure represented a considerable issue:

> *"There is, it must be emphasised, no shortage of fibre in Australia. It is current distribution that is the problem. There is a glut of capacity in CBDs and in trunk routes along the eastern seaboard. There are capacity constraints in the CAN (and perhaps on some thin long-haul routes in regional areas). It is here that investment needs to be refocused."*[39]

The Inquiry also heard that the construction of a broadband network represented one side of a complex policy issue. The other significant issue in the management of a national broadband network remains pricing, at both wholesale and retail levels, which will affect the extent of commercial roll-out and ancillary commercial services.

These issues have been further highlighted in a competing national broadband proposal launched by the 'Group of 9'[40] telecommunications providers. This proposal centres on a broadband network either jointly constructed or owned by all telecommunications providers, or a privately financed project, possibly involving Government as a major contributor. In its submission to the Inquiry, Optus has

[39] Submission: Communications Division, Communications, Electrical and Plumbing Union (CEPU) pp13.
[40] The Group of 9 are: AAPT, iiNet, Internode, Macquarie Telecom, Optus, Powertel, Primus, Soul and TransACT.

flagged the involvement of Australia's superannuation industry in financing such a project.

The advocates of this proposal claim that it will be truly national network, with competitive access for all players in the market. This proposal contains key criticisms of the Telstra proposal which the Inquiry regarded as pertinent:

- Telstra's proposal will only reach 4 million homes and businesses, creating a two tier Australia, with half the country remaining stuck on low speed broadband.

- Telstra's Fibre-to-the-Node (FTTN) network will establish a monopoly network which cannot be 'unbundled' for other providers.

- Telstra's model will damage competition from rival ULLS networks.[41]

The Inquiry regarded these criticisms as of concern, especially as Telstra's model would potentially exclude all regional centres with a population above 50,000. This would include Albury-Wodonga, Ballarat, Cairns, Canberra, Darwin, Geelong, Gold Coast, Hobart, Launceston, Newcastle, Rockhampton, Toowoomba, Townsville and Wollongong.[42]

Access to high quality and fast internet has huge implications for national development and economic growth. A 2001 Accenture report estimated that the next generation of broadband technology could produce benefits of $12-$30 billion a year for Australia.[43]

A broadband network will assist business to develop better product distribution and communication with customers and clients. Broadband will also be a boost to our emerging innovation industries and assist the future growth of education services for Australian students and future international students.

Addressing the issues around broadband provision requires leadership. In France and the UK, national Governments work closely with telecommunication carriers and their competitors to upgrade broadband networks and expand competition. This has been lacking from the Howard Government, which is only interested in the sale of the remaining Government stake in Telstra and delivering piecemeal and inadequate broadband initiatives in rural Australia. In rural Australia, modern telecommunications can be used in leading edge farming techniques, including smart and efficient watering methods.

Labor has addressed these issues in its recently announced broadband initiative.

In cooperation with the private sector, Labor in Government has committed to deliver a world class, national broadband network. Labor will draw on the $757 million

---

[41] A competitive Model for National Broadband Upgrade, 2006, Allen Consulting Group, pp25.
[42] ibid, pp26.
[43] Innovation delivered – Broadband for Australia, An economic stimulus package, 2001, Accenture, pp8. Cited in Allen Consulting report broadband pp7.

Broadband Connect Program and the $2 billion earmarked for the Communications Fund to deliver the Government share of this scheme.

***Recommendation 13:* A Federal Labor Government recognises that information and communications technology (ICT) infrastructure is a priority area and will develop the broadband Fibre-to-the-Node (FTTN) joint venture proposal to ensure that the Australian economy has a world-class competitive telecommunications system.**

Water Infrastructure

The management of Australia's most precious national resource – our water supply – requires national leadership. The infrastructure needed for this task can only be delivered in conjunction with leadership at the national level, with the Federal Government working in cooperation with the States and Territories.

Australia's water infrastructure needs consistent regulation and national coordination. Our emerging water infrastructure must not be built and regulated in the way Australia's early railway system was – with competing and contradictory regimes and gauges hampering the performance of the national network. The threat of climate change and prolonged drought make an effective nationally coordinated water management system more important than ever.

Labor has four priorities for water management and water infrastructure, integrating it into our broader nation building agenda:

- Properly pricing water resources so that they are valued and their use maximised;
- Ensuring that we set and meet national targets for water recycling;
- Restoring the Murray Darling by returning 1500 gigalitres to its flow; and
- Planning and constructing necessary physical infrastructure, in conjunction with State Governments and the private sector.

Historically, Australia has not managed its water resources well. We have sufficient water nationally for household and industrial use, and for effective environmental management, however we have failed to make the best use of the water resources we have.

The Whitlam Government first took the issue seriously through the River Murray Working Party. The Keating Government initiated significant reforms, looking towards a competitive water market, driven through National Competition Policy. These major initiatives are only now beginning to deliver benefits, with the first stages of a national water market developing.

The National Water Initiative is a welcome next stage in this process, emphasising the need for cooperative effort, in the national interest.

Australia needs to develop an effective pricing regime for all our natural resources, with water an obvious example. In order for a national pricing regime to be effective

Australia urgently needs renewal of existing and construction of new water infrastructure. Additionally, Australia must continue to prioritise infrastructure that sustains environmental benefits for the whole community.

In urban centres Australia needs to do more to conserve water and to recycle it. Greater use of recycled water by industry and agriculture will free up valuable drinking water and help increase environmental water flows in rivers.

Labor has previously committed to set a realistic and achievable goal of 30 per cent of wastewater being recycled by 2015. Most recently, Labor has also announced that it will commit up to $500 million from the Australian Water Fund to support the Queensland Government Western Corridor Recycled Water Scheme. This scheme will be the largest recycling operation in the southern hemisphere, freeing up 200 megalitres in water for community use. Labor has also committed to adding 1500 gigalitres annually to the Murray River and to explore the purchase of existing water entitlements to assist this process.

The Inquiry was also briefed on the Pratt Water Action Plan which among other initiatives calls for the Government to issue water bonds, to provide finance for a private sector driven renewal of Australia's irrigation infrastructure. This and other innovative uses of cooperative industry models are of particular interest in ensuring sustainable water resources.

A consistent message from presenters to the Inquiry has been to get a badly needed and long overdue coordinated national approach and direction to water management. Uncertainty is at the heart of enabling commercial long-term decision-making and input by much of the private sector. This uncertainty has been highlighted through a simple lack of strategic planning, leadership and management.

Recommendation 14: **A Federal Labor Government should:**

- **Ensure *Infrastructure Australia* incorporate water infrastructure investment as a priority infrastructure area;**
- **Set a national target so that 30 per cent of wastewater is recycled by 2015;**
- **Provide the leadership, support and investment necessary to achieve this target;**
- **Develop consistent and comprehensive national guidelines for water recycling; and**
- **Encourage innovation and new technological solutions to deliver efficient water infrastructure and a sustainable water supply for Australia.**

Energy Infrastructure

References to the energy sector typically relate to gas and electricity infrastructure. The infrastructure facilities involved are primarily poles, wires and pipelines.

Energy infrastructure providers are typically natural monopolies, which mean that it often does not make sense to have competing infrastructure serving the same consumers. The natural monopoly features of the infrastructure and the ‘essential service’ nature of energy means that there has traditionally been a high degree of Government ownership and more recently a high degree of price regulation.

Because of the regulatory arrangements in place across the energy infrastructure sector in Australia, capital works proposals by the utilities are typically vetted as part of extended regulatory review processes of the Australian Energy Regulator and respective State regulators. Proposals that are accepted then become part of the funding base for regulatory pricing purposes.

The Inquiry received representations from many parts of the Energy Infrastructure Sector including utilities, State Governments, financiers and industry associations.

A number of other key issues were raised, including:

- There is a no real planning or co-ordination for major new energy infrastructure including a lack of co-operation between Federal and State Governments, even for projects of clear national importance.

- The “worst served” areas for energy are all regional and rural townships. The contrasting standards of reliability for electricity might typically involve small towns of 2000 people having five times the electricity outages of the major cities (10 hours versus 2 hours per annum). The funding of efforts to improve these efforts remains problematic.

- The refusal of the ~~Howard~~ Government to embrace Kyoto is doing no favours for the Energy Infrastructure Sector. Indeed it has imposed risks and not provided any long-term policy solutions. It has also discouraged the level of investment in renewable energy technology.

As sustainability needs to be one of the underpinning elements of infrastructure delivery, the current national policy deficiencies are having a material effect the continued level of development in our renewable energy sector. Our research and development in energy is not broadly based enough to encourage the necessary investment that will bring, over time, the technological breakthroughs.

As one presenter stated:

> *“No one policy measure or one single technology will solve the energy challenges, you need a suite of approaches.”*

Overall, there appears to be no evident crisis in the financing and operation of energy infrastructure, the issue is more a lack of certainty and direction. It is clear that there is no broad national vision for the way that energy infrastructure investment should be conceived and prioritised.

***Recommendation 15: Infrastructure Australia* should provide the formal institutional arrangements for the planning and coordination of nationally significant and sustainable energy infrastructure projects.**

***Recommendation 15: Infrastructure Australia* should provide the formal institutional arrangements for the planning and coordination of nationally significant and sustainable energy infrastructure projects.**

Housing & Urban Development

A number of presenters highlighted urban infrastructure as a key constraint facing Australia's development. Recent media reports have also drawn attention to the negative affects of under-investment in urban infrastructure on our nation's growth and liveability.

The last serious national approach to urban development, living issues and related infrastructure in Australia was from the previous Labor Government.

Under the Keating Government, Labor invested $816 million in urban development through the Better Cities program. Labor directly assisted 26 areas in Australia, including regional centres like Townsville, Mackay, Newcastle, Geelong, Launceston and Bunbury. Better Cities provided a policy context for urban infrastructure investment including the following areas:

- The redevelopment of public housing.
- Improved water efficiency, recycling and efficient drainage systems.
- Modernisation of urban rail networks and other transport modes.

The urgency for Federal involvement in urban development issues continues today, with population movements to the coast and semi-rural areas and the clogging of the major urban centres.

As the NSW Council of Social Service (NCOSS) put to the Inquiry:

> *"…many of our infrastructure pressures are occurring in urban growth centres, redevelopment centres and corridors, and in 'sea-change' non-metropolitan areas. At present the Federal Government is the missing partner in developing and funding appropriate urban and regional development strategies in these areas, in partnership with State Governments, local councils, the private sector and non Government agencies…"*[44]

Many major urban centres have issues in relation to infrastructure availability. In many outer urban areas in particular, lack of adequate transport infrastructure is particularly acute. COAG has agreed to commission a Commonwealth-State review,

[44] Submission: Mr Gary Moore, Director, NSW Council of Social Service.

in cooperation with local Government, into the impact and management of urban congestion in Australia's cities.45

The Planning Institute of Australia (PIA) submitted compelling evidence that the frontline for social infrastructure remains within the framework of liveable communities, and more specifically liveable cities. The Inquiry agreed with the PIA that the Commonwealth Government "lacks a focus" on urban development, despite the impact that settlement and land use can have on the environment, economy and local communities.46

Of the many issues in relation to the provision of housing, presenters to the Inquiry stated that the better utilisation of existing urban areas is required in the provision of housing. This approach to public housing provision is being realised by redeveloping within existing urban footprints and not on new land.

It is pertinent that NSW Department of Housing is redeveloping these existing large housing estates as "brown field" developments, and attempting to create greater efficiencies, better planning and density outcomes, improved lifestyle outcomes and with a greater and more diverse mix of residents. NSW Housing is utilising the existing infrastructure where practical and funding new infrastructure when needed as part of its whole redevelopment approach. Any new infrastructure provision is part of the internal cost of these projects. They are important examples of challenging projects attempting to use innovative urban rejuvenation approaches.

One view put in the PPP debate has been that often private consortiums have become involved with toll roads and other large engineering projects because the physical and financial engineering are reasonably straight forward and profits are to be had for relatively little identified risk. However, areas such as public housing and broad acre urban redevelopment are much more problematic. The challenge of getting private finance and private risk into the provision of quality social housing is one that cannot be under-estimated.

State Governments have experimented around the edges of this challenge with relatively small scale projects such as Westwood in Adelaide and Kensington in Melbourne. The most important example in this area will be the Bonnyrigg development in NSW.

***Recommendation 16:* A Federal Labor Government should commit to the national coordination of urban development infrastructure through *Infrastructure Australia*. This would also include identifying priority areas across sectors, including water, public transport, energy, social and knowledge infrastructure.**

[45] http://www.coag.gov.au/meetings/100206/attachment_b_ncp_review.rtf
[46] Submission, Planning Institute of Australia (PIA), pp1

PART V: EMPLOYMENT & PROCUREMENT STANDARDS

The Inquiry recognises that infrastructure construction and management has an impact on workplace relations and industry employment standards. The creation and use of national infrastructure has a clear role to play in this. Labor's nation building agenda contains within it the creation of more and better targeted infrastructure, increasing skills for future generations of Australians with working conditions that promote fair and safe workplaces.

Public procurement has long been recognised and used by Governments as a mechanism through which to pursue these policy objectives.

Within Australia, the Commonwealth and State and Territory Governments already use public procurement as a technique to regulate employment conditions. They differ, however, in the standards promoted; the sanctions imposed for breach; and in the use of monitoring and evaluation mechanisms.

The Inquiry was impressed by the number of stakeholders, including financial institutions, constructors and unions, who identified industrial relations and occupational health and safety issues as a core issue for public procurement, and as such, worthy of inclusion in procurement guidelines. Rather than financial institutions and constructers opposing the inclusion of industrial relations clauses in procurement guidance materials, the Inquiry found that the principle of fairness in wages and conditions meant that there was a broad acceptance that procurement should be used by Government to set a fair standard, which all tendering parties would adhere to.

The Inquiry found broad support for the idea that wages and conditions should be taken out of the bidding equation, with tendering parties' bids not being ruled out of contention purely on the basis of higher wages or conditions.

Clearly the promotion of higher wages and conditions, as well as the promotion of industrial relations and occupational health and safety best practice in the building and maintenance of public infrastructure remains relevant to the development of a mature infrastructure market in Australia.

5.1 Procurement and Fair Employment

A survey of the existing procurement regimes across the States, Territories and Commonwealth Governments demonstrates that public procurement currently plays an important role in reflecting community values and the aims of Government with regard to employment relations.

Commonwealth

In recent years the Howard Government has used public procurement as a technique of labour market deregulation in order to promote its policies of individual work contracts and union exclusion. The Commonwealth Government's principal document governing procurement, the *Commonwealth Procurement Guidelines*, provides that Commonwealth agencies are required to ensure that suppliers to the Commonwealth Government comply with relevant employment laws and Government workplace relations policies.

The Guidelines also make particular note of the need for compliance with the Building and Construction Industry Code of Practice. In doing so, the Government has gone further than promoting employment law and best practice, instead promoting its own philosophy regarding labour relations and discouraging collectivist practices in industry.

The Government's Implementation Guidelines for the National Code of Practice for the Building and Construction Industry (reissued in June 2006), for example, remind parties that the Code supports,

> *"a direct relationship between employees and employers and contractors/ subcontractors, with a reduced role for third party intervention in workplace arrangements."*[47]

This blunt form of labour market deregulation should be removed by Labor in Government, with value for money, best practice, and fair and safe workplaces prioritised in new procurement guidelines.

***Recommendation 17:* A Federal Labor Government should withdraw the current National Code of Practice for the Construction Industry and develop a new set of procurement guidelines that incorporate a best practice model requiring pre-qualifying contractors to meet appropriate minimum labour, safety, training and quality accreditation benchmarks.**

States and Territories

State and Territory procurement policies require that those who supply goods and services to State Government departments and offices comply with all legislative obligations, including relevant State and Federal employment legislation, as well as State and Federal awards and agreements.

There are also some examples of State Governments using procurement policies to encourage and promote decent work practices in contracting firms beyond requiring compliance with employment legislation. For instance, the Queensland Government's procurement policy requires compliance with relevant codes of practice.[48]

These codes are intended to encourage best practice in the particular industries, through promoting cooperative and consultative industrial relations, for example through the negotiation of collective agreements.

[47] Australian Government, *Implementation Guidelines for the National Code of Practice for the Building and Construction Industry*, Revised September 2005, Reissued June 2006, [8.2.2].
[48] Queensland Code of Practice for the Building and Construction Industry; Queensland Government Code of Practice for Employment and Outwork Obligations – Textile, Clothing and Footwear Suppliers, and Queensland Government Code of Practice for Call Centres.

International

The limited extent to which Australian Governments at all levels use public procurement to promote desired workplace practices becomes apparent when compared to other countries.

The Canadian Government's Federal Contractors Programme (FCP), designed to promote employment equity, requires contractors take proactive steps to achieve change. Among other matters, the FCP mandates that employers contracted to perform Federal work must:

- Conduct an extensive review of all formal and informal employment policies and practices to eliminate systemic, actual or potential barriers to employment that may exist in the ways in which the organisation traditionally recruits, selects, hires, develops and trains, promotes, retains, terminates and accommodates employees

- Modify any policies and practices that might discourage designated group members from applying for employment or participating fully in the organisation's opportunities and benefits

- Demonstrate that new policies and practices used at all levels of the organisation where human resource decisions are made are free of bias toward designated group members

Under the FCP, contractors must implement an organisational change strategy that includes identifying and removing artificial barriers to the selection, hiring and promotion and training of designated groups and take steps to improve the employment status of these designated groups through particular measures.[49]

In the United States, a number of statutes require contractors engaged by the US Government to abide by specified wage rates and other labour standards.[50] Under the *Davis-Bacon Act* of 1931 and the Best Value Contracting laws, Federal agencies are able to accept bids which provide the same level of contract service, for fair wages and conditions. In addition, the Office of Federal Contract Compliance Programs has the task of ensuring that employers doing business with the Federal Government comply with all non-discrimination and affirmative action laws and regulations.

---

[49] See A Erridge and R Fee, 'The Impact of Contract Compliance Policies in Canada – Perspectives from Ontario' (2001) 1 *Journal of Public Procurement* 51. Interestingly, the Canadian programme combines requirements for contractors to comply with EEO policies with a rewards programme, which recognises those companies who have achieved 'outstanding' equity programmes that exceed the contract compliance requirements.

[50] The *Davis-Bacon Act* mandates the payment of prevailing wages and benefits to employees of contractors engaged in US Government construction projects. The *McNamara-O'Hara Service Contract Act* sets wage rates and other labour standards for employees of contractors providing services to the US Government; and the *Walsh-Healey Public Contracts Act* requires the Department of Labor to settle disputes of awards to manufacturers supplying products to the US Government.

The International Labour Organisation (ILO) also promotes the inclusion of labour considerations within public procurement contracts. The *Labor Clauses (Public Contracts) Convention 1949 (No 94)*, which Australia has not yet ratified, provides that all contracts involving the expenditure of public funds between central public authorities and another party shall contain clauses ensuring wages, hours of work and other conditions of labour are no less favourable than those established for work of the same character in the trade or industry concerned in the district where the work is carried on.[51] The Convention also applies to sub-contractors.

The Inquiry believes that compliance with the core ILO standards should form a part of any new procurement policies.

5.2 Integrating 'Best Practice' into Procurement

The following points provide a guide to the most effective ways, and possible issues, with incorporating labour standards into Federal procurement guidelines.

Standard Setting

The promotion of labour standards through public procurement is generally regarded as being complementary to existing labour legislation and policies. There are two distinct ways in which labour standards may be linked to public procurement programmes.[52]

1. Procurement may be used as a method of enforcing existing legal obligations: to complement existing mechanisms for the enforcement of minimum standards set by legislation, or industrial instruments such as awards or collective agreements.

2. Procurement may be used to promote desired standards of labour relations, forms of agreement, or terms and conditions of employment above and beyond those required by law or an applicable industrial instrument.

The Inquiry believes that the following prequalification criteria should apply for Federal Government tenders:

- Consultation and cooperation with employees, and their representatives;
- Demonstrated occupational, health and safety record;
- Work / life balance initiatives; and
- Demonstrated and measurable training record.

---

[51] Article 2(1). Art 2(2) notes that where the conditions of labour referred to in the preceding paragraph are not regulated in a manner referred to therein in the district where the work is carried on, the clauses to be included in contacts shall ensure to the workers concerned wages (including allowances), hours of work and other conditions of labour which are not less favourable than (a) those established by collective agreement or other recognised machinery of negotiation, by arbitration, or by national laws or regulations, for work of the same character in the trade or industry concerned in the nearest appropriate district; or (b) by arbitration award; or (c) by national laws or regulations.

[52] Howe, above n 3. A similar taxonomy is used by C McCrudden, 'Using Public Procurement to Achieve Social Outcomes' (2004) 28 *Natural Resources Forum* 257, 259.

It is also important to consider the decline of the award safety net under the Howard Government, as well as the establishment of the Australian Fair Pay Commission (AFPC) which has now replaced the Australian Industrial Relations Commission's (AIRC) annual safety net wage hearings in setting the minimum wage.

Clearly, these changes, part of the Howard Government's so-called Work Choices package do not provide an adequate safety net of fair employment standards.

It is important that labour standards and practices are clearly articulated in procurement criteria, acknowledging the relevance of fair minimum standards, rather than just an additional, often ill defined, consideration in the evaluation of tenders. It is also essential that guidelines provide practical examples for contractors of businesses effectively managing value for money considerations and fair employment conditions.

Integrating Labour Standards into the Procurement Process

In examining how to integrate labour standards into the procurement process, there are two broad considerations.

- The first is determining which type and value of contract the standards will apply. For example, enforcement of standards may be limited to contracts above a threshold value, while others may specify that they only apply to firms employing a certain minimum number of employees, or only cover sub-contractors.53

- The second is identifying at which stage of the procurement process relevant labour standards and best practice policies will be integrated. There are three stages in the procurement process at which Governments may integrate labour standards:

    1. Qualification / eligibility;
    2. Tender assessment process; and
    3. Contractual requirements.

Ideally, compliance with nominated labour standards should be a component of each stage. Labour standards must be seen as an element of, rather than separate to, other relevant procurement criteria such as 'value for money'.

Provision for Monitoring Compliance

The ability to promote and regulate labour standards through public procurement and other forms of Government contracting will depend on an effective monitoring and enforcement regime. Whatever the standards, there will be a need to ensure

[53] In Victoria, for example, the Ethical Purchasing Policy only applies to the purchase of goods and services by Government in excess of $100, 000, and to the purchase of goods and services below $100,000 for 'high risk industries', such as textile, clothing and footwear, cleaning and security services.

tenderers and their subcontractors comply with their obligations under the tender guidelines and procurement contract.[54]

Consideration must be given to the composition of the bodies which assess eligibility and tender selection, to ensure that labour criteria are given adequate consideration in the tender process, and are then complied with during the term of the contract.

One option is for Government to establish an independent agency to assist in the development, monitoring and review of labour standards in procurement documents. The monitoring and evaluation of the effectiveness of labour criteria can also be facilitated by providing for adequate disclosure of information regarding procurement processes.

Enforcement

Standards set through public procurement programs are generally supported by the threat of sanctions for non-compliance, ranging from warnings to preclusion from tendering opportunities for a certain period of time. Some programmes also 'name and shame' contractors who are unable to meet labour criteria.

5.3 Public Private Partnerships and Labour Standards

The principles outlined above with respect to the use of procurement to promote and regulate labour standards could be extended to other areas where the deployment of Government resources can be used as an effective tool for promoting fair labour standards and best practice in workplace relations.

One example is private finance initiatives, including PPPs. The Commonwealth Government and most State Governments now have PPP policies and guidelines in place. However, there is very little consideration within these policies and guidelines of the possibility for PPPs to establish, promote and encourage fair labour standards and industrial best practice more broadly.[55]

There are two areas in which concern over the impact of PPPs on employment standards has been particularly prominent. The first is the potential for PPPs to result in a decrease in wages and working conditions enjoyed by employees as a result of the transfer of projects and/or employees from the public to the private sector.

The second, which arises largely out of mechanisms to address the first concern, is the tendency for PPPs to give rise to a 'two-tiered' workforce.

[54] N Gunningham et al, *Smart Regulation: Designing Environmental Policy* (1998); R Baldwin, 'Regulation: After "Command and Control"' in K Hawkins (ed) *The Human Face of Law: Essays in Honour of Donald Harris* (1997); and R Howse, 'Retrenchment, Reform or Revolution? The Shift to Incentives and the Future of the Regulatory State' (1993) 31 *Alberta Law Review* 455.

[55] For similar criticisms in relation to NSW PPP policy, see the submissions of the United Services Union and Unions NSW to the NSW Legislative Assembly Public Accounts Committee Inquiry into Public-Private Partnerships, October 2005. It should be noted that, in general, Federal and State Government public procurement policies and guidelines do apply to PPPs. As explored below, however, these policies do not address the particular challenges posed to employment standards by PPPs.

While protections for public sector employees mean that employees transferred to private companies through PPPs may continue to have their employment conditions regulated as they did in the public sector, new employees employed by the private company do not enjoy such protection. The result is that employees working alongside each other, doing the same work, for the same employer, may be entitled to very different levels of wages and employment conditions.

Neither the Commonwealth Government's *Policy Principles for the Use of Private Financing*, nor the supporting guidance material, addresses the issue of two tiered employment conditions.

State Government policies and guidelines are more encouraging, providing that public sector employees transferred to the private sector as a result of a PPP should be provided with remuneration and entitlements that are no less favourable than those provided by the Government.

In the United Kingdom, a number of initiatives have been introduced in response to the negative effects on workers' employment conditions arising from PPPs.

The PPP debate in the UK has moved on from those during the 1990s which prioritised balance-sheet considerations and private sector involvement over the promotion and maintenance of proper/appropriate labour standards. The expansion of 'partnerships' to include a 'social compact' on wages and conditions is now an established, and growing, feature of PPP delivery in the UK.

To overcome the problem of a 'two-tiered' workforce, the UK Government has introduced a code of practice that requires Government authorities entering into PPPs to ensure that contractors offer new staff working alongside transferred staff 'fair and reasonable terms and conditions which are overall no less favourable than those of transferred employees'.[56] The code also requires contractors offer new employees 'reasonable pension arrangements'.[57] It also provides for consultation arrangements between employers and elected employee representatives, including trade unions, on the terms and conditions offered to new employees.[58]

A second initiative is the Retention of Employment model (ROE). This model applies only to the National Health Service (NHS), and was developed in response to trade union campaigning on private finance initiatives in that sector. Under the ROE model, all non-supervisory staff that fall within five 'ancillary staff groups' (catering, cleaning, laundry, portering and security) remain public sector employees, and therefore entitled to public sector terms and conditions of employment, even though they are managed by the private sector partner. The ROE model covers around 85 per cent of staff normally affected by PFIs in the NHS.

[56] See the Best Value Code of Practice on Workforce Matters in Local Authority Service Contracts, reproduced in *UNISON Guide: Best Value Code of Practice on Workforce Matters in Local Authority Service Contracts in England,* 25 April 2003, 5.
[57] Best Value Code of Practice, [7].
[58] Best Value Code of Practice, [9].

Recommendation 18: A Federal Labor Government should note the issues surrounding the transfer of public sector employees to the private sector and ensure that procurement processes guarantee no loss of wages and conditions for all existing employees.

Recommendation 19: A Federal Labor Government should note the agreement reached by the UK Labour Government with unions in relation to UK health and hospital staff, and consider a similar agreement for public sector services in Australia.

Recommendation 20: A Federal Labor Government should promote 'best practice' employment standards through Government procurement policies and guidelines. This includes the identification of appropriate standards for all parties entering into PPPs, tenders or other commercial arrangements with Government, with specific consideration of appropriate wages and conditions, fair employment standards, best practice industrial relations, and guidelines on achieving fair and safe workplaces.

FUTURE DIRECTIONS FOR LABOR

The ALP Inquiry into the Financing and Provision of Australia Infrastructure has completed a rigorous consultation schedule to provide the Australian Labor Party with the most up-to-date commentary on the state of Australia's infrastructure, and future directions for Labor's policies.

Amongst many issues raised in the deliberations of the Inquiry, some consistent messages are clear in relation to Australia's national infrastructure:

- There is a lack of national leadership and no long term strategic approach;
- There are significant infrastructure backlogs in specific sectors;
- Availability of capital is not an issue in the provision of infrastructure, though the availability and adequacy of appropriately qualified and skilled personnel is;
- The efficient, cost effective, targeted and timely delivery of infrastructure is key, however transparency, certainty, consistency and due process are required; and
- Funding approaches often do not address the ongoing maintenance of infrastructure assets

In relation to the financing of infrastructure, particularly private finance arrangements such as PPPs, the Inquiry received useful evidence from the United Kingdom which is of particular relevance in an Australian context.

Specifically, it was highlighted that:

- The infrastructure model in the UK is now based on a contract service model, rather than one driven by the creation of public assets.
- Despite the emphasis on skilling in UK public services, there remain concerns in regard to competencies particularly in contract negotiation. This is particularly the case with local Government authorities.
- Contract standardisation, deal flow, clarity, expertise and transparency can play a clear role in lowering bid costs and improving competition.
- The division between 'core' and 'non-core' services is being increasingly considered as flexible.
- The delivery of intensive and critical human services in which volunteering and community participation have been integral to achieving successful outcomes should be avoided under the PPP model.

- The inappropriate application of "commercial in confidence" clauses within PPP contracts can limit transparency and accountability.

The Inquiry believes that a future Labor Government needs to focus on the infrastructure project development phase as an opportunity to find the best method of procurement for the service or asset in question. The project development phase has to be much more than simply a comparison of public versus private financing models and should focus on three key criteria:

- The needs which are being serviced by the asset.

- The risk profile for the asset.

- Any unique characteristics or unique requirements which need to be addressed in provision of the asset.

The options for infrastructure investment remain open for a future Labor Government, however policies should emphasise providing the best method of infrastructure delivery irrespective of the funding approach that is used.

To achieve this, the Inquiry has provided detailed commentary and recommendations across a number of areas, including infrastructure provision, the role of infrastructure in the skills and workforce debates, and also on the central role that national Government can play in infrastructure coordination.

APPENDICES

APPENDIX 1

Taxonomy of PPPs[59]

The forms that a partnership between a Government and a private service provider can take are varied. The partnership agreement should be structured to utilise the skills of the respective parties as effectively as possible so that they are responsible for the aspects of service delivery they are best capable of managing. The exact nature of this structure will vary depending on the nature of the sector and the specific project details. There are many types of PPPs, the most common of which are explained briefly below

Contract Type	Characteristics
Design & Construct (D&C)	The Government specifies the asset it requires in terms of its functions and the Governments desired outcomes. The private sector is responsible for designing and building the asset and any related risks. The asset is then passed to the Government to operate.
Operate & Maintain (O&M)	An existing, Government owned asset is managed by a private sector organisation for a specified period. The contractor will be responsible for providing the services to the customer (retail or wholesale), maintaining the asset to a specified condition and ensuring that management practices are efficient.
Design Build Operate (DBO)	Effectively a design and construction contract and an operation and maintenance contract rolled together. The service provider is usually also responsible for financing the project during the construction period. The Government purchases the asset from the developer for a pre-agreed price prior to (or immediately after) commissioning and takes all ownership risks from this time. The contractor retains the management function and related risks.
Build Own Operate Transfer (BOOT)	The service provider is responsible for design and construction, finance, operations, maintenance and commercial risks associated with the project. It owns the project throughout the concession period. The asset is transferred back to the Government at the end of the term, often at no cost.
Build Own Operate (BOO)	Similar to BOOT projects, but the service provider retains ownership of the asset in perpetuity. The Government only agrees to purchase the services produced for a fixed length of time.
Lease Own Operate (LOO)	Similar to a BOO project but an existing asset is leased from the Government for a specified time. The asset may require refurbishment or expansion but no 'new build' assets are necessary.
Alliance	An agreement between the private contractor and the

[59] The following definitions were provided to the Inquiry by AusCID.

	Government to share the pain or the gain associated with project risks. The parties agree to a benchmark price, time and service standard and any benefits (or costs) achieved are shared between the parties according to a pre-agreed formula.

APPENDIX 2

Code of Practice on Workforce Matters in Public Sector Service Contracts

1. This document sets out an approach to workforce matters in public sector service contracts which involve a transfer of staff from the public sector organisation to the service provider, or in which staff originally transferred out from the public sector organisation as a result of an outsourcing are TUPE transferred to a new provider under a re-tender of a contract. This Code will form part of the service specification and conditions for all such contracts, except those where the Best Value Code of Practice on Workforce Matters in Local Authority Service Contracts applies, or where other exemptions have been announced.

2. The Code recognises that there is no conflict between good employment practice, value for money and quality of service. On the contrary, quality and good value will not be provided by organisations who do not manage workforce issues well. The intention of the public sector organisation is therefore to select only those providers who offer staff a package of terms and conditions which will secure high quality service delivery throughout the life of the contract. These must be sufficient to recruit and motivate high quality staff to work on the contract and designed to prevent the emergence of a ‘two-tier workforce’, dividing transferees and new joiners working beside each other on the same contracts.

3. Service providers who intend to cut costs by driving down the terms and conditions for staff, whether for transferees or for new joiners taken on to work beside them, will not be selected to provide services for the public sector organisation. However, nothing in this Code should discourage public sector organisations or service providers from addressing productivity issues by working with their workforces in a positive manner to achieve continuous improvement in the services they deliver.

<u>Treatment of Transferees</u>

4. In its contracting-out of services, the public sector organisation will apply the principles set out in the Cabinet Office Statement of Practice on Staff Transfers in the Public Sector and the annex to it, A Fair Deal for Staff Pensions. The service provider will be required to demonstrate its support for these principles and its willingness to work with the public sector organisation fully to implement them.

5. The intention of the Statement is that staff will transfer and that TUPE should apply, and that in circumstances where TUPE does not apply in strict legal terms, the principles of TUPE should be followed and the staff involved should be treated no less favourably than had the Regulations applied.

6. The annex to the Statement requires the terms of a business transfer specifically to protect the pensions of transferees. Transferring staff should be offered membership of a pension scheme which is broadly comparable to the public service pension scheme which they are leaving.

Treatment of New Joiners to an Outsourced Workforce

7. Where the service provider recruits new staff to work on a public service contract alongside staff transferred from the public sector organisation, it will offer employment on fair and reasonable terms and conditions which are, overall, no less favourable than those of transferred employees. The service provider will also offer reasonable pension arrangements (as described at paragraph 10 below).

8. The principle underpinning the provisions of paragraph 7 is to consider employees' terms and conditions (other than pensions arrangements which are dealt with in paragraph 10) in the round – as a 'package'. This Code does not prevent service providers from offering new recruits a package of non-pension terms and conditions which differs from that of transferred staff, so long as the overall impact of the changes to this package meets the conditions in paragraph 7. The aim is to provide a flexible framework under which the provider can design a package best suited to the delivery of the service, but which will exclude changes which would undermine the integrated nature of the team or the quality of the workforce.

9. The service provider will consult representatives of a trade union where one is recognised, or other elected representatives of the employees where there is no recognised trade union, on the terms and conditions to be offered to such new recruits. References to 'trade unions' throughout this code should be read to refer to other elected representatives of the employees where there is no recognised trade union.) The arrangements for consultation will involve a genuine dialogue. The precise nature of the arrangements for consultation is for agreement between the service provider and the recognised trade unions. The intention is that contractors and recognised trade unions should be able to agree on a particular package of terms and conditions, in keeping with the terms of this Code, to be offered to new joiners.

Pension Arrangements for New Joiners to an Outsourced Workforce

10. The service provider will be required to offer new recruits taken on to work on the contract beside transferees one of the following pension provision arrangements:

    - membership of a good quality employer pension scheme, either being a contracted out, final-salary based defined benefit scheme, or a defined contribution scheme. For defined contribution schemes the employer must match employee contributions up to 6%, although either could pay more if they wished;

- a stakeholder pension scheme, under which the employer will match employee contributions up to 6%, although either could pay more if they wished.

  On a re-tender of a contract to which this Code applies the new service provider will be required to offer one of these pensions options to any staff who transfer to it and who had prior to the transfer a right under the Code to one of these pension options.

Monitoring Arrangements

11. Throughout the length of the contract, the service provider will provide the public sector organisation with information as requested which is necessary to allow the public sector organisation to monitor compliance with the conditions set out in this Code. This information will include the terms and conditions for transferred staff and the terms and conditions for employees recruited to work on the contract after the transfer.

12. Such requests for information will be restricted to that required for the purpose of monitoring compliance, will be designed to place the minimum burden on the service provider commensurate with this, and will respect commercial confidentiality. The service provider and the public sector organisation will also support a review of the impact of the Code, drawn up in consultation with representatives of the public sector organisations, contractors, trade unions and will provide information as requested for this purpose. Such requests will follow the same principles of proportionality and confidentiality.

Enforcement

13. The public sector organisation will enforce the obligations on the service provider created under this Code. Employees and recognised trade unions should, in the first instance, seek to resolve any complaints they have about how the obligations under this Code are being met, directly with the service provider. Where it appears to the public sector organisation that the service provider is not meeting its obligations, or where an employee of the service provider or a recognised trade union writes to the authority to say that it has been unable to resolve a complaint directly with the service provider, the public sector organisation will first seek an explanation from the service provider. If the service provider's response satisfies the public sector organisation that the Code is being followed, the public sector organisation will inform any complainant of this. If the response does not satisfy the public sector organisation it will ask the service provider to take immediate action to remedy this. If, following such a request, the service provider still appears to the public sector organisation not to be complying with the Code, the public sector organisation will seek to enforce the terms of the contract, which will incorporate this Code. In addition, where a service provider has not complied with this Code, the public sector organisation will not be bound to consider that provider for future work.

14. The contract shall include a provision for resolving disputes about the application of this Code in a fast, efficient and cost-effective way as an alternative to litigation, and which is designed to achieve a resolution to which all the parties are committed. The service provider, public sector organisation and recognised trade unions or other staff representatives, shall all have access to this ‘alternative dispute resolution’ (ADR) process (Annex A to this Code sets out the ADR mechanism).

15. Alongside this Code, the appropriate Government Department will publish contact details for employees or trade unions to seek advice in cases where they consider that the public sector organisation has failed to meet its responsibilities under paragraph 13.

Sub-Contractors

16. This Code sets out procedures for handling matters between the public sector organisation and a primary service provider. Where the primary service provider transfers staff originally in the employ of the public sector organisation to a sub-contractor in consequence of the terms of the primary service provider’s obligations to the public sector organisation, the primary service provider will be responsible for the observance of this Code by the sub-contractor.

Operation of the Code

17. Government departments will monitor the operation of the Code, following consultation with relevant employers and trade unions.

Cabinet Office
March 2005

APPENDIX 3

Code of Practice on Workforce Matters: Alternative Dispute Procedures

1. Introduction

This sets out a procedure for resolving disputes arising from the application of the Code of Practice on Workforce Matters. The procedure should be a last resort and all parties will make their best efforts to resolve problems by agreement. The ADR should be fast, efficient and cost-effective.

2. The Need to Exhaust Local Procedures

The parties must exhaust all normal local procedures as required by paragraph 9 and paragraph 13 of the Code before invoking the Alternative Dispute Resolution procedure (ADR) provided for in paragraph 14.

3. Who is Responsible for Resolving Disputes?

The ADR procedure will be under the supervision of an independent person appointed from an approved list supplied by ACAS. If the parties so agree, they may appoint two “wing members” with an employer and trade union background to assist the independent person.

4. The Dispute Resolution Process

Disputes will be resolved using the following three-stage procedure.

Stage 1: Initial reference to the independent person

The independent person will be invited to answer three questions:

(i) Is this a dispute about the application of the Code?

If the answer is no, the matter can proceed no further. If yes, then the independent person will move to question (ii).

(ii) Have the parties exhausted local procedures?

If the answer is no, then the parties will be invited to make further local efforts to resolve the dispute. If yes, then the independent person will conduct an independent assessment, by answering question (iii) and giving reasons for the answer.

(iii) Do the terms and conditions of employment on offer to new employees comply with the Code?

If the answer is yes, then the matter is deemed to be concluded and the contractor can continue to offer the same package of conditions to new employees. If the answer is no, then the dispute will proceed to Stage 2.

Time limit: Twenty working days.

Stage 2: Discussions With a View to Reaching an Agreement on Compliant Terms and Conditions

Stage 2 begins with the parties being invited to seek to resolve the matter through further discussions.

The independent person will make themselves available to the parties to facilitate the process. The parties also have the option of establishing other arrangements for mediation.

If the parties can reach an agreement consistent with the Code then the matter is closed and the new package of conditions of employment will be applied both to new starters and to those employed during the dispute.

If no agreement can be reached within the allotted time then the dispute will proceed to Stage 3.

Time limit: Ten working days, with the possibility that this might be extended by the agreement of the parties and with the consent of the independent person.

Stage 3: Final Reference to the Independent Person

The independent person invites the parties to make final submissions. If the independent person then believes it would be worthwhile, the parties may be given a short period of further discussion.

If there is no value in giving the parties more time - or if during any discussion the parties were unable to agree on how to bring the matter to a successful conclusion - then the independent person will proceed to a final binding arbitration. Having heard the evidence and reached a conclusion the independent person will impose a revised package of terms and conditions applicable to each of the affected employees.

Time limit: Ten working days

APPENDIX 4

Participants in Inquiry Hearings

1. Australian Trucking Association (ATA)
2. Minerals Council of Australia
3. Mr Ric Simes
4. Engineers Australia
5. Mr Bernie Fraser
6. Australian Chamber of Commerce and Industry (ACCI)
7. Mayor of Gladstone – The Hon Peter Corones
8. Gladstone Regional Development Board
9. Central Queensland Port Authority
10. Queensland Government - The Hon Anna Bligh MP, Deputy Leader
11. Brisbane Airport Corporation
12. Brisbane City Council – Majority Leader David Hinchliffe, Cr Maureen Hayes
13. Babcock and Brown
14. Queensland Infrastructure Association
15. Dr John Quiggan
16. Mr Jim Soorley
17. Serco Institute, UK – Mr Gary Sturgess, CEO,
18. NSW Government - The Hon Michael Costa MLC, Treasurer
19. NSW Government – The Hon John Watkins, Minister for Transport
20. Westpac
21. AMP Capital
22. UnionsNSW
23. Investment and Financial Services Association (IFSA)
24. Australian Manufacturing Workers' Union (AMWU)
25. State Public Service Association (SPSF)
26. Australian Council for Infrastructure Development (AUSCID)
27. Leighton Holdings
28. Infrastructure Partnerships Australia (IPA)
29. Veolia Water
30. ABNAmro
31. Spotless
32. Renewable and Sustainable Energy Roundtable
33. Jennie Mattilla and Associates
34. Price Waterhouse Cooper (PWC)
35. Business Council of Australia, (BCA)
36. Minister for Infrastructure, SA, the Hon Patrick Conlon
37. Professor Mervyn Lewis, University of South Australia.
38. Flinders Ports and SA Freight Council
39. Eyre Regional development Board
40. Unions WA
41. Alcoa
42. Rio Tinto
43. Treasurer, WA, the Hon Eric Ripper
44. WA Minister for Planning and Infrastructure, the Hon Alannah MacTiernan

45. Sparke Helmore
46. CBA, WA
47. Freehills WA Division
48. Treasurer of Victoria, the Hon John Brumby
49. Industry Super Funds
50. Ernst & Young
51. Australian Industry Group, (AIG)
52. Macquarie Bank
53. Pratt Water
54. Australian Council of Trade Unions (ACTU)
55. NSW Council of Social Service (NCOSS)
56. BHP Billiton
57. World Wildlife Fund (WWF)
58. Australian Local Government Association (ALGA)
59. South Coast Trades and Labor Council
60. Illawarra Area Consultative Committee
61. Illawarra Coal Holdings
62. i3net – Illawarra Industry Innovative Industry Network
63. Illawarra Business Chamber
64. NSW Farmers Federation
65. National Farmers Federation (NFF)
66. European Investment Bank, Dr Tim Stone
67. Sir Steve Robson
68. Partnerships UK
69. Mr Douggie Sutherland, 3i
70. KPMG UK, Mr Nic Chism
71. Mr John Laing PLC
72. NSW Housing
73. Chamber of Minerals & Energy of WA
74. Fortescue Mining Group
75. Hawker Britton WA
76. Allphones Group
77. ACIL Tasman
78. GRD Limited
79. Australian Information Association
80. Optus
81. Property Council of Australia – Mr Peter Verwer, CEO
82. IBM
83. WA ALP Economic Development Policy Committee
84. Energy Supply Association of Australia (ESAA)
85. Australian Council of Social Service (ACOSS)
86. NSW Department of Housing
87. Australian Conservation Foundation (ACF)

The Inquiry also received written submissions from the following organisations:

1. Tasmanian Government, The Hon Paul Lennon, Premier
2. Commonwealth Bank of Australia
3. Combined Unions Report "Financing our Future"
4. Australian Constructors' Association (ACA)

5. Rail Tram and Bus Union (RTBU)
6. The Planning Institute of Australia (PIA)
7. The City of Mandurah
8. Mr Greg Smith
9. Mr Alan Taylor
10. Transport Workers Union (TWU)
11. Communications, Electrical and Plumbing Union (CEPU)
12. Optus
13. Northern Territory Government, the Hon Dr Burns
14. Construction, Forestry and Mining Union (CFMEU)
15. Transport Workers' Union (TWU)
16. Australian Council of Trade Unions (ACTU)
17. New South Wales Council of Social services (NCOSS)
18. Victorian Government, the Hon John Brumby etc
19. The NSW Govt, The Hon Michael Costa
20. WA Govt, The Hon Eric Ripper
21. Ernst & Young
22. Professor John Quiggin
23. Australian Council for Infrastructure Development (AUSCID)
24. Australian Local Government Association (ALGA)
25. Australian Service Union (ASU)
26. Australian Conservation Foundation (ACF)
27. Renewable Energy Generators Association (REGA)
28. Macquarie Bank
29. ABN Amro
30. Australian Services Union (ASU)

The Inquiry thanks Dr John Howe and Ingrid Landau for their expert advice on parts of this report.