

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### **Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects**

Melbourne — 20 March 2012

#### Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

#### Staff

Executive Officer: Ms V. Cheong

#### Witness

Mr R. Brennan, Executive Director, Infrastructure Australia.

**Necessary corrections to be notified to  
executive officer of committee**

**The CHAIR** — I declare open the Public Accounts and Estimates Committee hearing on the inquiry into effective decision making for the successful delivery of significant infrastructure projects. On behalf of the committee I welcome from Infrastructure Australia, Mr Rory Brennan, executive director, by telephone. Members of Parliament, departmental officers, members of the public and the media are also welcome. In accordance with the guidelines for public hearings, I remind members of the public gallery that they cannot participate in any way in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Members of the media are also requested to observe guidelines for filming or recording proceedings in the Legislative Council committee room, and no more than two TV cameras are allowed at any one time in the allocated spaces. May I remind TV camera operators to remain focused only on the person speaking and that panning of the public gallery, committee members and witnesses is strictly prohibited.

As previously advised to witnesses today, I am pleased to announce that these hearings are being webcast live on the Parliament's website. All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. This committee has determined that there is no need for evidence to be sworn; however, witnesses are reminded that all questions must be answered in full and with accuracy and truthfulness. Any persons found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript, to be verified and returned within two working days of the hearing. Verified transcripts and PowerPoint presentations will be placed on the committee's website within two weeks of the hearing. I ask that all mobile telephones are turned off. I now pass over to Mr Brennan of Infrastructure Australia for any opening comments of no more than 4 minutes, if desired.

**Mr BRENNAN** — Thank you, Philip. I do not have any opening comments.

**The CHAIR** — That saves us 4 minutes. Thank you very much. Thank you for the contribution your organisation has already made to the committee by way of our meeting in Sydney in November last year. Whilst it is important to acknowledge that meeting and discussion, we were then not in the process of taking formal evidence, which we are now doing. The purpose of this public hearing, given that you are operating remotely, towards the end of a day of a series of public hearings is to get on the record some of the observations which you gave less formally in November.

I will lead off, and then other members of the committee will join in the discussion. The first issue I want to raise in a general sense is in respect of the committee's terms of reference. Are there any comments that Infrastructure Australia would like to address in the context of this public hearing in relation to its national advisory role on infrastructure funding and on the development of PPP policies and guidelines?

**Mr BRENNAN** — Perhaps just to put on record that Infrastructure Australia is the caretaker of the national public private partnership policy and guidelines. Those guidelines were developed and agreed by the commonwealth and each state and territory government around Australia, and then they were endorsed by the Council of Australian Governments in November 2008. The policy and guidelines have been formally adopted by each of the states and territories and the commonwealth government in their preparation for and delivery of public-private partnership projects. The policy and guidelines have been revised a number of times since then without any significant material change to policy and with really a refinement of guidelines.

Infrastructure Australia has a very strong interest in efficient delivery of infrastructure, particularly nationally significant infrastructure, and we have a number of initiatives under way to assist, or hopefully assist, with improving the situation in infrastructure delivery in Australia, to get it on par with the world's best approaches. We are quite supportive of other inquiries such as this one and more than happy to contribute.

**The CHAIR** — Thanks very much, Rory. I will just follow up with a supplementary question, in effect, to tease out issues relating specifically to competencies in the workforce around the issue of PPPs particularly. The issue goes to the national PPP working group identifying initiatives in relation to development of skilled and experienced staff, and I ask: does the working group plan to undertake some specific research on that subject as part of its planning framework?

**Mr BRENNAN** — We do not have any projects in progress or planned looking at development of skills in the government sector, no.

**Mr PAKULA** — Rory, I suppose I am in a position where a number of the things that I would have wanted to ask you I asked you when we met late last year, but I think it would be useful to have some of those matters on the record of the hearing. I have just gone back over my notes. A couple of things that we talked about then that I think were of interest and that I would not mind you expanding on a bit were the attempts to engage with some of the consortia from places like Spain and Italy in terms of bringing more competition into the construction market to help bid down some of the cost of Australian PPP projects. Anything you could add on that would be useful. Also in regard to the bids that come before Infrastructure Australia, I know you still want to continue with the prioritisation model, or the prioritisation work, even though the cupboard is a little bare at the moment. What do you say about the importance of the quality of bids for prioritisation from your end and how Victoria fares in that regard?

**Mr BRENNAN** — Perhaps to update you on our activities in terms of promoting greater levels of competition in the infrastructure market in Australia, I have just returned from a mission which was put on by the Australian Trade Commission. We visited France, Italy and Spain two weeks ago, and it was really to promote opportunities that exist in Australia as well as governments' — plural — keenness to get more competition in the infrastructure market in Australia.

It is interesting from my point of view to see the very high levels of appetite, particularly in Spain, also in Italy and perhaps a little less so — maybe not less appetite in France but probably less understanding and awareness of the Australian market. The understanding and awareness in Spain of the Australian market is extremely high. It is also very high in Italy. Probably the French have not had the same level of on-the-ground presence in Australia which would give them that level of understanding and awareness.

Notwithstanding that, the appetite from major contractors, suppliers and financiers in all three countries is very high. It seems like we have Spanish contractors and infrastructure providers setting up office regularly in Sydney and Melbourne. We were able to convince them that the appetite, or the keenness, from the Australian government is still very strong.

**The CHAIR** — I just want to pick up an issue that sort of relates to that matter of the overseas interest in the Australian market. It is to do with some comments you made to us in November about the pipeline. One of the issues — I am coming back to the skills issue — is that clearly the evidence is that we have to have projects in the pipeline. Would you like to make some observation about the nature of that in the present environment, given the constraints on all jurisdictions in terms of budgets? Are we facing a significant impact in terms of a skills base as a result of pipeline issues?

**Mr BRENNAN** — On the pipeline there are a number of initiatives happening. The Department of Infrastructure and Transport in Canberra is developing as we speak a National Infrastructure Construction Schedule, which will bring together committed projects from every state and territory and the commonwealth and put them into one database on the department's website. That is keenly awaited by people offshore.

The other thing to note is that the Infrastructure Finance Working Group, a subcommittee of the Infrastructure Australia Council, has been looking at how private financing of infrastructure might be facilitated or improved. One of the big issues they have identified is that if you want more private investment in infrastructure and you want a stronger market, then we need a strong pipeline. The pipeline is very important, not only for a competitive market but also for improving skills in the public sector, because without projects to develop and apply the skills on, then those skills can tend to atrophy and perhaps even transfer to the private sector.

**Mr MORRIS** — A number of submissions to the committee have suggested that there is a particular shortage of engineering expertise in government, which may impact on the timing and the cost of future large infrastructure projects. They also suggested that it has already impacted significantly in terms of timing and the cost of projects already completed. I wonder whether you have made an assessment of the extent, if it exists, of a shortage of engineering skills within government ranks across jurisdictions and, if it does in fact exist, whether you think that there are cost implications to governments — in particular the potential for costs arising from those shortages to be passed on by private sector businesses in PPPs?

**Mr BRENNAN** — Infrastructure Australia has not undertaken any research into or analysis of the appropriateness of the level of ensuring skills within government. I can speak from personal experience within Sydney Water, Sydney's water and sewerage utility and also a major infrastructure procurer. It has a very solid engineering resource base, which it draws on both in terms of managing its assets as well as procuring new assets. It also relies heavily on outsourcing a lot of engineering advice, and that is generally the case in most of the largest infrastructure agencies. I suspect it is not the case in smaller agencies that do not procure large infrastructure regularly — for example, local government. But I think the approach that most infrastructure-related agencies have taken is one that has proven to be a perhaps more cost-effective approach, which has been to be an informed purchaser rather than necessarily having all the necessary engineering skills in house.

**Mr SCOTT** — I would like to ask a follow-up from the second half of Mr Pakula's question which relates to the quality of the work that comes across Infrastructure Australia's desk from Victoria, because one obvious measure of the skill sets within Victoria is obviously a comparative look at the quality of work we are producing. Could you give comment on the quality of work that is coming out of Victoria across your desk, particularly in reference to the strategic planning frameworks within that work?

**Mr BRENNAN** — I would be happy to do that. Since Infrastructure Australia's inception Victoria has featured quite strongly at the pointy end of our priority list — that is, the projects which we have judged as ready to proceed. That has come very much from the quality of the strategic planning that happens in Victoria, particularly around transport — that is where most of the projects we are getting come from — as well as project development work, the governance arrangements that exist in Victoria in terms of oversight by Treasury of spending proposals and the strong governance over delivery of projects. Our office has just this morning met with officers from the Melbourne Metro project, and we continue to be impressed by the quality of planning and project development work that is done in Victoria.

**Mr ANGUS** — Some of the inquiry's terms of reference require us to examine the management of infrastructure projects against a range of criteria, including protection of the public interest and maximisation of transparency and accountability over the life cycle of projects. Could you please comment and provide Infrastructure Australia's perspective on the characteristics necessary for infrastructure projects to be consistent with these criteria?

**Mr BRENNAN** — I think we would say that for infrastructure projects to be successful they must be based in a sound strategic framework, which is not just in the sector that they come from but which looks more broadly across state and city development. They must come out of a robust prioritisation process that refers back to that strategic framework, and that includes the gateway process that exists in Victoria and the budget process for allocation of funding. Then there needs to be an experienced and competent procurement process — and people who operate that process — as well as managing the delivery of the infrastructure once it is procured. Then management of either the operation of the infrastructure, or the contract for the operation and maintenance of the infrastructure.

**Mr O'BRIEN** — Following on from some of the questions about the Victorian submission, obviously I am not wanting you to pre-empt or go into the outcome of that, but one of the issues that we received a document from you on was a *National Land Freight Strategy — Discussion Paper February 2011*. I am picking up, for example, road infrastructure funding, which you have picked up on page 22, where you say:

The condition of some rural local roads used for freight, and the asset management and financial position of some local governments, also has attracted attention and Infrastructure Australia has commissioned research to further explore this issue.

You will be aware that the Victorian government submission seeks Infrastructure Australia's support in delivering inter alia funding for a green triangle freight transport program, which I should disclose is an area in my electorate. In relation to this funding issue, exploring with the three levels of government and particularly the question of centralised or decentralised delivery, I note there was a Roads to Recovery project as well, which was a federal program but effectively delivering funds directly to local government. Also the state government recently had a program of delivering local government funding directly from the state government for 40 regional councils. In this concept of funding and delivery, are you able to shed any light for the committee in general terms or in any way specifically on what type of issues are best delivered in a central way and what type of issues or infrastructure are best delivered in a decentralised way, particularly having regard to state, federal and local government distinctions?

**The CHAIR** — It is a big question, and I am sure you have got a very good answer, Rory.

**Mr BRENNAN** — We have got a range of papers that we are developing for the national land freight strategy. We have an update to our discussion paper, which will be released shortly. That may even be the one that you are talking about, because I have been out of the country for a few weeks. Particularly in terms of freight our view would be that there is a lot of scope for reform of the funding arrangements for the national freight network. We would think that there is a lot of scope for opening up those funding arrangements to something akin to other forms of monopoly infrastructure and allowing for the private sector users of the freight network to be able to nominate and contribute to augmentations of the freight network.

We do not necessarily have a view on whether there is a right way or a wrong way in terms of the funding, especially from the level of government. It is more that there is a lot of scope in the freight network for private sector users to nominate and contribute to upgrade or extension of the network, but if there is also scope for the existing users of the freight network to contribute in ways which more accurately reflect their use of the network — things like mass distance location charging rather than a rather disconnected registration charge and fuel excise.

**Mr O'BRIEN** — Could I just follow up with one supplementary?

**The CHAIR** — Yes.

**Mr O'BRIEN** — One aspect that may be lightly touched on is the delivery aspect, particularly in relation to local roads. If, for example, there is a concept that it would be delivered generally by local government, as has been done in the past, are there opportunities for state and federal governments — or perhaps state and federal funding — to work together in terms of scalability of some of these projects? Is that something you are considering; in other words, a large area can get efficiencies that have not been available unless there is essentially a large commitment to funding a large project? Is that an option in terms of still being delivered but funded and therefore scaled up in the manner of delivery, or is that in danger of over-centralising too much in a realm of government activity that has traditionally been carried out by local government?

**Mr BRENNAN** — I do not think we have got a position in terms of efficiency that could be achieved through a more centralised funding and/or delivery approach. Our work in the water sector has identified that, particularly in New South Wales and Queensland, some local governments struggle to have the scale which enables them to deliver water services efficiently. We have proposed in the water sector that local government in those states should consider the formation of larger scale water utilities across local government areas, such as happened in Victoria and Tasmania. We have not got a position in terms of roads on that, but there may be some similarities there in terms of efficiencies of scale that are able to be obtained by local government.

**The CHAIR** — I have a further question relating specifically to teasing out international comparisons or relevant international jurisdictions where there are strategies relating to the development of infrastructure projects given that our terms of reference require us to specifically examine relevant national and international jurisdictions. I wonder, Rory, if you are in a position to give us any commentary about your awareness of any contemporary international developments that focus specifically on the development of expertise in the management of infrastructure projects?

**Mr BRENNAN** — No, I am not aware of anything that spoke specifically to development of expertise. I think the work that is done around the world typically identifies expertise, particularly on the government side — it is more or less assumed on the private sector side — as a key factor in being able to deliver infrastructure effectively and efficiently. Most countries have taken steps to optimise the level of expertise on which government can draw, in similar ways to Victoria — for example, at Major Projects Victoria and Partnerships Victoria. That approach is quite common for major infrastructure around the world.

**Mr PAKULA** — Rory, would it not be fair to say that, judging by some of the comments you have made to us previously, one of the differences between our jurisdiction and, say, the work being done by Infrastructure Ontario, as an example, is that it is focusing on a large number of smaller projects? I have some notes that talk about it having something like 10 or 12 projects and 6 or more of them are under \$150 million — so a pipeline of many smaller projects rather than just a handful of large ones — or is that not an accurate portrayal of the way it is working?

**Mr BRENNAN** — It is interesting. There has been a bit of development in the Canadian PPP market. The Canadian government — or the Canadian governments — are experiencing the sorts of budgetary constraints that Australian governments are facing, probably to a larger extent. Interestingly I was in Ontario late last year for their annual PPP conference, and Infrastructure Ontario released its PPP pipeline for the next three years. While they have had a very solid pipeline in other provinces as well, that pipeline has thinned down considerably, so it is looking at probably no more than three PPP projects a year for the next three years — similarly in British Columbia — and those projects are quite small, so 50 to 100 million or 150 million. A number of those projects are what they term design build finance, which in effect is where the private sector finances construction and then the government pays on completion, with no operation or maintenance element to the contract. They are certainly not what we at Infrastructure Australia and most of the states would consider real PPP projects.

The additional thing is that most investors in PPP projects are not interested in projects of that size. It is almost as if you have a situation where the Canadian provinces have created a capability within government and the private sector and in straitened financial times are trying to keep those capabilities alive.

**Mr PAKULA** — Using it regardless of interest. So when you say that private providers are not interested in projects of that size, are you talking about there or here?

**Mr BRENNAN** — Both. I was there for a superannuation and pension fund conference as well, and one of the larger Canadian pension funds said it was not interested unless it could write an equity cheque for \$200 million or more. Now, you are not going to get anywhere near that on a \$50 million project. Most financiers say the cost of participating in a PPP project makes anything probably less than \$200 million not worth thinking about.

**The CHAIR** — That is an interesting point on which to conclude. We are out of time regrettably. Thank you very much, Rory, for your contribution. I regret that we had a bit of a slow start, but we were trialling a bit of new technology for the first time. We will possibly get back to you subsequently. I am grateful for your time. It has been a useful additional contribution to our informal discussions in November last year.

In relation to going forward I would be grateful if there are any matters of which you become aware and you feel are relevant to this inquiry you could refer them to us by way of email, mail or whatever form. I am sure we will have further questions to ask of you in due course. I thank you for your participation. That concludes this part of the hearing.

**Witness withdrew.**