



Australian Government

Department of Infrastructure  
and Regional Development



AUSTRALIAN GOVERNMENT RESPONSE

# Productivity Commission Inquiry Report into Public Infrastructure





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# 1. Australian Government Response

The Australian Government welcomes the findings of the Productivity Commission Inquiry into Public Infrastructure. The Australian Government asked the Commission to undertake a wide ranging inquiry into public infrastructure, with a view to bringing down costs of infrastructure projects and minimising delays. The report that the Commission has produced significantly advances the debate on what action is required to improve infrastructure provision in Australia.

The Australian Government is committed to delivering the productivity-enhancing infrastructure that Australia needs for the 21<sup>st</sup> century. In the 2014–15 Budget, the Government announced an additional \$11.6 billion in investment in transport infrastructure, bringing the Government's total infrastructure investment to a record \$50 billion, including capital upgrades to Australia's road and rail networks. In addition, the Government is investing up to \$29.5 billion in the national broadband network and a further \$100 million to address mobile phone black spots. These investments are critical for positioning Australia to take advantage of the opportunities available.

The Productivity Commission highlights that whilst efficient infrastructure provides services which both improve productivity and quality of life; poorly chosen infrastructure can reduce productivity and financially burden the community for decades. A key message of the Productivity Commission report is that there is a need for a complete overhaul of poor processes currently used in the development and assessment of infrastructure investments. Reviewing a wide range of economic public infrastructure projects, the Productivity Commission found many examples of where inadequate processes and project governance have led to costly outcomes to users and taxpayers. The National Broadband was highlighted as an example.


As a majority investor in Australian public infrastructure, the Australian Government takes seriously its responsibility for ensuring tax payers' funds are spent appropriately and to the maximum benefit for the Australian community. The Commonwealth has a critical role to play in working with the states to ensure the right infrastructure projects are delivered at the right time. Getting project selection and prioritisation right will generate the greatest productivity benefits to the Australian economy and ensure value for money for taxpayers.

## *Areas for reform*

The Productivity Commission has identified a range of reforms that will improve the delivery of public infrastructure by governments, particularly in regards to the selection, prioritisation and governance of public infrastructure projects. The Commission's findings and recommendations broadly sit across five key themes:

1. reforms to **institutional and governance arrangements**, including greater transparency of the economic assessment of public infrastructure proposals and tying Commonwealth funding to the implementation of good governance principles;
2. improvements to **project planning and prioritisation**;
3. governments to consider various **public and private financing models**, including wider use of user charging for infrastructure services and new models of road infrastructure project selection and funding;
4. improvements to **project delivery in order to reduce costs**; and
5. achieving **better labour and construction markets** through reforms, including reforms similar to those underway by the Commonwealth to review the industrial relations and occupational health and safety accreditation schemes.





There were few surprises in the Productivity Commission's final report; indeed, many of the findings reaffirm the direction of reforms already underway at Commonwealth and state level, including through the Council of Australian Governments. The critical value of the Commission's analysis is that it brings together a consolidated view of Australian infrastructure provision and provides a clear mandate for action in those areas where progress may be lagging.

While the scope of the Commission's inquiry was predominantly economic infrastructure, it has broader application than simply transport infrastructure, including electricity, gas, water and, importantly, communications.

To this end, the Government has also considered the recommendations of the Independent Audit of the NBN Public Policy Processes (the Scales inquiry) in the context of the Productivity Commission's recommendations. Both sets of recommendations were broadly consistent, particularly with regard to the need for robust project selection and assessment. This response therefore also covers the five infrastructure recommendations made in the report of the Scales inquiry. The remaining two recommendations of the Scales inquiry will be addressed separately.

### *Role of state and territory governments*

It is important to recognise that the majority of the reforms recommended by the Productivity Commission have direct and substantial implications for state and territory governments. In most cases, the jurisdictions have the most direct responsibility for delivering major infrastructure projects, providing infrastructure services to the community and industry, and owning and managing public infrastructure assets.

In developing this response, the Government has worked closely with the states and territory governments, and with industry, to ensure detailed and balanced consideration of reform options.

The Australian Government would like to take this opportunity to thank the state and territory governments and industry for their robust and constructive engagement in considering these important recommendations. We look forward to continuing to work with all stakeholders as we move to implement the Australian Government response, and to identify future and ongoing reforms in order to continue to drive best practice in infrastructure investment and delivery.

### *The Australian Government's response*

The Australian Government is committed to improving the selection, prioritisation and delivery of public infrastructure and many of the PC's findings and recommendations are already supported through reforms being implemented by the Commonwealth, state and territory governments. In addition, the Australian Government has identified a series of reforms responding to the Productivity Commission's findings that will be delivered by the Australian Government, in partnership with the states. These reforms will build on and reinforce the work already underway by the Government to improve the delivery of major infrastructure, such as its substantial reforms to Infrastructure Australia.

A detailed Australian Government response, addressing each of the Productivity Commission's recommendations, is attached to this document. However, it is important to recognise that these responses should not be considered in isolation, but rather form a framework of reforms that, in combination, will help address many of the concerns raised by the Productivity Commission.



These initiatives will have long term benefits for building and investing in infrastructure. Areas of immediate focus include: greater transparency in infrastructure funding, procurement and delivery; and better project selection, tendering processes, benchmarking and evaluation. These immediate reforms will reduce costs and get better value for money from infrastructure projects.

In particular, the Australian Government has already made progress in these following areas:

- reforms to Infrastructure Australia (IA) to improve the robustness and transparency of the assessment of major infrastructure, and enhance IA's governance structure and ability to provide effective, independent advice to Government. In particular, IA is:
  - required to undertake an audit of Australia's nationally significant infrastructure;
  - develop a 15 year infrastructure plan, which will identify Australia's future infrastructure priorities;
  - required to determine a robust method for evaluating projects across economic and social infrastructure sectors;
  - required to evaluate all nationally significant infrastructure proposals, but more importantly all projects seeking more than \$100 million in Commonwealth funding must be submitted to Infrastructure Australia for evaluation, including the cost benefit analysis; and
  - required to publish its findings;
- the commitment by the Australian Government to consider, on a project by project basis, alternative funding and financing mechanisms for major Commonwealth-supported transport infrastructure projects' and the establishment of the Asset Recycling Initiative to encourage the privatisation of mature public infrastructure assets and support investment in additional infrastructure. Both of these initiatives are designed to encourage greater private sector engagement in infrastructure investment;
- the introduction of legislation to re-establish the Australian Building and Construction Commission to improve workplace relations' conduct in the sector (ABCC); and
- changes to work health and safety accreditation arrangements for builders working on Australian Government-funded construction projects, which will cut red tape, boost competition and ensure safety standards are enhanced.

## *New reforms*

Today, the Australian Government can announce the following additional reforms in response to the Productivity Commission's findings.

### *An increased emphasis on planning*

Early planning is important to ensure the right projects are built at the right time. The Australian Government will enhance its existing Infrastructure Investment Programme to refocus state and territory planning efforts on priorities identified in the Infrastructure Australia 15-year plan. This will support long-term planning for major land transport infrastructure projects, and encourage states to preserve corridors and economic precincts from incompatible uses.

This emphasis recognises the substantial benefits that effective, long-term planning can bring to future infrastructure investment. The Government has already committed over \$260 million to planning works through the current Infrastructure Investment Programme.

## Improvements to governance and project selection

In addition to, and to support the reforms made to Infrastructure Australia, the Australian Government is committed to undertaking further reforms to promote good governance and robust project selection, in conjunction with the states and territories. These include:

- a. reviewing the National Guidelines on project delivery, including Public Private Partnerships, Alliance Contracting, Traditional Contracting and Design and Construction delivery models, to provide for greater transparency, accelerated delivery, better risk allocation and better value for money. These guidelines will be updated in early-2015;
- b. publishing a national best practice framework for evaluating projects. This provides for a nationally consistent approach to the use of benefit cost analysis, as well as providing a framework for considering broader benefit and cost assessments, including assessing productivity gains and wider economic impacts. A proposed project appraisal framework was released for public comment in early September 2014 with the final release in November 2014. This work will underpin key elements of the updated National Guidelines on Transport System Management (the NGTSM) to be finalised in 2015. It is anticipated that IA will use the NGTSM as part of its method for evaluating infrastructure projects;
- c. the Australian Government supports in-principle the adoption of technology and processes aimed at delivering more efficient and cost-effective procurement of infrastructure projects. Stakeholder discussions have particularly highlighted interest in the Commission's recommendations with regard to Building Information Modelling and the use of inverted bid models to lower bid costs. We consider, however, it is critical that all jurisdictions retain the flexibility to determine on a project-by-project basis the benefits and appropriateness of using such approaches; and
- d. the Commonwealth will also work with states and territories to look at options to streamline tendering processes and facilitate greater competition. While we note that jurisdictions already consider flexible tendering approaches, as proposed by the Commission, industry stakeholders indicated during consultation there would be value in governments requiring less upfront paperwork, which can be cost-prohibitive for smaller companies, with more extensive documentation to be provided by successful bidders later in the process. These matters will be addressed through the review of the National Guidelines on Project Delivery, expected to be completed in early 2015.

## Preferencing projects that deliver long-term priorities

The PC Inquiry identified the need to ensure that projects are robustly assessed, with due consideration of alternatives to construction and opportunities for efficient private sector involvement.

In considering funding for new infrastructure projects, jurisdictions and the Commonwealth have already started to take into consideration many of the requirements identified by the Commission. However, in line with the PC's recommendations, the Commonwealth proposes to further strengthen the robustness of its project selection and governance processes for its existing major economic infrastructure funding programmes by giving preference to projects which:

- a. demonstrate strong economic productivity benefits;
- b. have been identified as a long-term priority through IA's 15-year plan;
- c. have been evaluated by Infrastructure Australia;
- d. have considered, and where appropriate applied, alternatives to construction, including enhanced use of existing infrastructure and through technological solutions;

- e. have evaluated and, where appropriate and efficient, both applied cost recovery, including user charging to support both project funding and ongoing maintenance; and
- f. have evaluated and, where appropriate and efficient, developed alternative delivery options and options to encourage greater private sector involvement in the development and delivery of public infrastructure, including through Public Private Partnership (PPP) models.

As a first step to implementing this reform, the Commonwealth will incorporate these matters into existing major infrastructure project assessment guidelines immediately.

### Project and cost-benchmarking

The PC recommends the development and implementation of a detailed benchmarking framework for infrastructure, in order to improve the future planning and evaluation of projects, and ultimately bring down the cost of infrastructure projects.

As a result, the Australian, state and territory governments have agreed to the development of a benchmarking framework. As a first step, governments have agreed to the systematic collection of project information for land transport infrastructure.

This work will commence immediately and be led by the Australian Government's Bureau of Infrastructure, Transport and Regional Economics, in consultation with states and territories. This initial work in the land transport infrastructure sector will inform the future development of project benchmarking for all major economic infrastructure, which is expected to begin in 2015.

### Post-build evaluations as part of Assurance and Compliance programme

In accordance with the Productivity Commission's recommendation, the Australian Government proposes to conduct robust and consistent post-build evaluations for Commonwealth-funded land transport projects, to ensure projects that are delivered with Australian Government funds are completed satisfactorily.

This will involve testing variations from the original scope and timelines, comparison of cost estimates with final costs, and effectiveness and efficiency of particular delivery mechanisms such as Public Private Partnerships or Project Alliances.

These evaluations will improve future delivery of projects by building a database of lessons learned, ensuring that decisions on funding future projects can be made with more awareness of potential risks.

The Department of Infrastructure and Regional Development will implement this reform by incorporating guidance on post-build evaluations into its existing Assurance and Compliance Programme for Commonwealth-funded land transport projects immediately.

### Privatisation of Commonwealth assets

The Australian Government notes the Productivity Commission's recommendation to undertake scoping studies to examine efficiency gains and other merits of privatising some or all of the Australian Rail Track Corporation (ARTC), Airservices Australia and Snowy Hydro Limited.

The Government supports in principle the privatisation of public assets where this results in greater economic efficiency and improved services for the community. The Government is undertaking detailed consideration of the sale of Commonwealth-owned assets, including public infrastructure assets, and will make formal announcements in due course.

## Longer Term Reform

The short and medium term initiatives will build on reforms currently underway at a Commonwealth level and in the states and territories. The most significant longer term reform initiative identified by the Productivity Commission is a transition to an increased market approach to land transport infrastructure services, and specifically road infrastructure, which has traditionally lagged behind other infrastructure sectors in adopting cost recovery from users and consumer involvement in investment decision-making. In particular, the Productivity Commission has recommended considering user charging as the default option to fund road infrastructure, where efficient and considering alternative road governance models, including Road Fund models.

The Australian Government acknowledges there are sound economic arguments for user charging on certain key freight and transport corridors that are under significant pressure; indeed some states already have road user charging or tolling on specific routes in their capital cities.

For example, opportunities to test the practical application of Road Funds could be implemented as pilot schemes, such as building on the regional-based Roads and Transport Alliance model currently in place in Queensland, which allows multiple local governments to cooperate and have greater input into road improvements specific to their regions' needs. Additionally, pilot schemes for user charging using telematics for commercial road users on particular stretches of roads could also be trialled, for example on the Perth Freight Link.

It is important to also recognise that alongside the Productivity Commission's inquiry into public infrastructure, other significant policy processes are underway that will help shape Australia's future. These include the development of white papers looking at taxation, federalism, agricultural competitiveness and Northern Australia, and the Financial Systems Inquiry. Clearly, the policy directions arising from these separate but interrelated bodies of work will require consideration as a package to ensure a unified and consistent approach.

## 2. Attachment to the Australian Government Response

### *Australian Government's Response to the Productivity Commission's Recommendations*

#### A. Better institutional and governance arrangements are crucial

##### Recommendation 7.1

All governments should put in place best practice institutional and governance arrangements for the provision of public infrastructure. This includes:

- clearly defining the principal objective of ensuring that decisions are undertaken in the public interest, taken to be the wellbeing of the community as a whole
- setting clear and transparent public infrastructure service standards
- instituting effective processes, procedures and policy guidelines for planning and selecting public infrastructure projects, including rigorous and transparent use of cost-benefit analysis and evaluations, public consultation, and public reporting of the decision
- use of transparent, innovative, and competitive processes for the selection of private sector partners for the design, financing, construction, maintenance and/or operation of public infrastructure
- ensuring efficient allocation and subsequent monitoring of project risks between government and the private sector
- regularly reviewing funding and financing policies, including application of transparent user-charging mechanisms as the default setting where this is efficient
- monitoring of project performance and ex-post independent evaluation and publication of project outcomes (including periodic reporting of benchmark costs by Infrastructure Australia)
- retaining sufficiently skilled public sector employees to be responsible and accountable for performing these functions
- establishing mechanisms for transparent review or audit of the decision-making process by an independent body, for example, an Auditor-General or Infrastructure Australia

**The Australian Government supports this recommendation**, noting that a number of Commonwealth Government (the Commonwealth) policies are already being put in place to deliver against these recommendations.

In particular, it is important to recognise that this recommendation is not met by individual reforms in isolation, but through the package of overarching checks and reviews undertaken through the Government's major project assessment and development processes.

This includes amendments to Infrastructure Australia (IA) to provide for it to develop a 15-year plan for nationally significant infrastructure, undertake evaluations of proposals, including assessing the cost benefit analysis, determining a robust and consistent methodology for cost benefit analyses for all economic and social infrastructure; determining how any proposals evaluated would be considered in an infrastructure priority list; and publishing its findings.



In addition, a further suite of reforms has been agreed by state and territory transport Ministers, including publishing updates to the guidelines on: Public Private Partnerships (PPPs); Alliance Contracting; Traditional Contracting; and Design and Construction delivery models to take account of the Commission's recommendations with regard to procurement.

The publication of an Overview of Project Appraisals developed by the Bureau of Infrastructure, Transport and Regional Economics in consultation with states and territories and Infrastructure Australia, provides an overview of the cost benefit assessment methodology and the use of wider economic benefits. This work will underpin key elements of the National Guidelines on Transport Systems Management (the NGTSM) to be finalised in 2015.

Additionally, the expansion of the Department of Infrastructure and Regional Development's existing Assurance and Compliance Programme to include post-build evaluations is to be rolled out for new and existing land transport infrastructure. Post-build evaluations will assess whether a completed project has achieved the value for money envisaged by policy makers, and make recommendations to improve value for money from future projects. In combination with other reforms, including assessment of project cost benefit analysis by Infrastructure Australia and undertaking project benchmarking, both of which will improve Government's capacity to assess the feasibility of a project's implementation, this reform will address the issues raised by the *Independent Audit of the NBN Public Policy Process* (the Scales Review) Recommendation 3 that Governments should use a 'taking stock' approach to assessing projects or reforms which are unlikely to deliver expected outcomes.

These reforms also address the Scales Review Recommendations 1, 4, 5 and 6, which recommended that infrastructure proposals are evaluated in a consistent manner across Government and for Government to take care in determining and deciding appropriate, realistic timeframes are put in place for the design and implementation of large and complex infrastructure projects and reforms.

### Recommendation 2.3

All governments should commit to subjecting all public infrastructure investment proposals above \$50 million to rigorous cost-benefit analyses that are publicly released and made available for due diligence by bidders. In general, analyses should be done prior to projects being announced. If a project is announced before analysis is done, for example, in the lead-up to an election, this should be conditional on the findings of a subsequent analysis.

***The Australian Government supports subjecting public infrastructure investment proposals to rigorous cost-benefit analyses, but at the existing threshold of \$100 million or more in Australian Government funding.***

The Government considers that cost-benefit analysis (CBA) is the most appropriate tool to determine the merit of infrastructure projects. If undertaken correctly, a CBA will comprehensively cover the benefits and costs without double counting. The Commonwealth expects that all land transport infrastructure projects seeking Commonwealth funding are subject to a CBA.

Additionally, all infrastructure projects seeking \$100 million or more in Commonwealth funding are required to provide a proposal to IA that includes a cost-benefit analysis for IA's evaluation. IA is required to make a summary of each proposal evaluated and publish it on its website at least quarterly.

Lowering the threshold to \$50 million for project assessment is not supported, due to the costs associated with undertaking cost-benefit analysis on these projects and the increased costs involved for government agencies to review these assessments, particularly IA. This response also addresses the Scales Review Recommendation 4 that projects over \$1 billion should be subject to a CBA and these results made public before the project commences.

### Recommendation 7.3

Australian Government funding or other forms of financial assistance (including incentive payments under Commonwealth-State agreements) for public infrastructure that is provided to State and Territory and Local Governments should be conditional on the adoption of the governance arrangements outlined in Recommendation 7.1. This assistance should only be provided where there is evidence of a demonstrable net public benefit from the project that would otherwise not be obtainable without Australian Government support.

The Australian Government should support the incorporation of the framework in Recommendation 7.1 for project assessment in the energy network investment framework.

Consultation on the criteria to be applied and any potential implementation issues associated with such an approach should be undertaken with the State and Territory and Local Governments.

#### ***The Australian Government supports this recommendation.***

In providing funding and other financial assistance, the Commonwealth will continue to consider the quality of State, Territory and Local Government infrastructure development processes, including whether projects demonstrate strong national productivity benefits. Future projects will also be required to demonstrate alignment with Infrastructure Australia's 15-year infrastructure plan. Conditional funding arrangements are already in place through the National Partnership Agreement for the Land Transport Infrastructure Investment Programme and the related Notes on Administration, which enhance the implementation and governance arrangements for land transport projects.

This includes requiring that the proponents provide detailed project proposals for each stage of the Commonwealth funded projects; ensuring that major projects have been costed in accordance with the Commonwealth's best practice costing methodology; and linking Commonwealth grant payments for infrastructure projects to the achievement of specifically negotiated milestones, amongst other conditions. Making payments against project milestones provides a direct mechanisms to 'take stock' of projects at key delivery phases, as recommended by the Scales Review (Scales Review Recommendations 3).

These governance arrangements are expected to deliver enhanced value for money and improved savings for the Commonwealth.



## B. Various public and private financing models have a role to play

### Recommendation 2.1

State and Territory Governments should privatise their government-owned:

- electricity generation, network and retail businesses; and
- major ports.

Privatisation should be subject to appropriate processes to ensure that the public interest is protected through structural separation, regulation, sale conditions and community service obligations.

***While this recommendation is a matter for State and Territory governments, the Australian Government supports in principle the sale of mature public infrastructure assets.***

The Australian Government announced in the 2014–15 Budget the \$5 billion Asset Recycling Initiative, which will provide the state governments with incentives to privatise existing, mature infrastructure assets on the basis that the proceeds are reinvested in additional, productivity-enhancing infrastructure. It is expected that states will bring forward their proposed asset sales over the coming months.

### Recommendation 2.2

The Australian Government should conduct scoping studies to investigate the efficiency gains and other merits of privatising some or all of the business activities of the Australian Rail Track Corporation and Airservices Australia. The study into Airservices Australia should include a review of the efficiency of its capital expenditure program, as recommended by the National Commission of Audit.

The Australian, New South Wales and Victorian Governments should similarly investigate the sale of Snowy Hydro. Sale of shares by any one of these governments should not depend on the decisions made by the other governments.

***The Government supports in principle*** the privatisation of public assets, where this results in greater economic efficiency and improved services for the community. The Government is undertaking detailed consideration of the sale of Commonwealth-owned assets, including public infrastructure assets, and will make formal announcements in due course.

### Recommendation 6.1

Governments should undertake pilot procurement programs without the requirement for bids to be fully financed at the time of tendering for the project.

***The Australian Government supports*** the use of flexible tendering arrangements, including consideration of semi-financed bids, provided risks are appropriately understood and managed. It is expected that such options will only be used on a case by case basis.

The Commonwealth is working with the states and territories to streamline procurement policies to minimise the administrative burden on governments and industry, while also providing greater options for private investment and more flexibility and innovation in delivery.

### Recommendation 5.1

The Financial System Inquiry should investigate characteristics of Australia's corporate bond market to identify whether there are factors impeding its development that could be corrected by policy action and provide a net benefit to the community.

**The Australian Government supports this recommendation.** The Inquiry is investigating the merits of bonds, including their use to finance infrastructure projects. A final report for the Financial System Inquiry will be provided to the Treasurer by November 2014.

## C. Road-specific institutional and funding reforms are required

### Recommendation 8.1

The first step in a long-term transition to a more efficient and effective approach to the provision and funding of roads should be the establishment of Road Funds by State and Territory Governments. State Governments, and local Government associations, should actively encourage and support local governments to form regional Road Funds for networks of local roads.

To be effective, Road Funds should:

- have the objective of clearly linking road-user preferences with investment and maintenance decisions
- integrate the tasks of road funding and provision
- have a significant degree of autonomy
- have access to adequate revenue to meet the costs of the road network they administer, as required by the relevant road users
- entail transparent processes for determining the level and allocation of funds
- include an open and transparent procedure for direct involvement of road users and consultation with the broader community on project selection, funding, and road charging decisions
- involve systematic post-project evaluation and periodic review of the arrangements.

The implementation of Road Funds should take into account the research and analysis developed for heavy vehicles by the Heavy Vehicle Charging and Investment reform project.

**The Australian Government supports in principle as a long term reform option.**

The Commonwealth has begun working with State, Territory and Local government to investigate options to trial road fund models as an initial step, including focusing on commercial freight routes.

## Recommendation 8.2

There are complex issues associated with establishing Road Funds, such as determining what sources of road revenues should be directed to Road Funds (including Australian Government road revenues) and the method of allocation.

The Australian Government should assist in this reform effort by directing the Productivity Commission to undertake a public inquiry on the design and implementation of Road Funds.

**The Australian Government notes this recommendation**, but does not support the undertaking of a Productivity Commission inquiry into road funds at this time. The Commonwealth is considering the broader, long term issues around wider application of road pricing. In the medium term, the Commonwealth is pursuing investigations into trials of road funds with State, Territory and Local governments directly. It is possible that, following the proposed trials of road fund models, there may be merit in commissioning the Commission to review their effectiveness.

## Recommendation 4.1

The Australian Government should actively encourage State and Territory Governments to undertake pilot studies on how vehicle telematics could be used for distance and location charging of cars and other light vehicles. To do so, the Australian Government should:

- offer to partly fund these pilot studies;
- work with the States and Territories to address privacy concerns and share lessons; from the trials and overseas experience;
- ensure that motorists are directly involved via roads and motorists associations.

The pilot studies should be designed to inform future consideration of a shift to direct road user charging for cars and other light vehicles, with the revenue hypothecated to roads. Heavy vehicle trials could also be developed on a similar basis.

The Road Funds proposed in recommendation 8.1 could be tasked to undertake the trials if this does not result in unreasonable delay.

**The Australian Government supports this recommendation in principle as a long term reform option.**

There is sound economic rationale for wider application of user charging in relation to transport infrastructure. However, there are many complex issues that need to be worked through before user charging could be rolled out on the scale proposed by the Productivity Commission. To implement an effective user charging system, it will be critical to consider matters such as equity, the technological and privacy implications of options like vehicle telematics and the availability of alternatives.

Implementing wider application of user charging will require ongoing discussion with the states and territories, industry and the broader community. The Commonwealth is currently working with State, Territory and Local government to investigate options to trial distance-based road user charging for heavy commercial vehicles on commercially significant road corridors.

## D. Planning and tendering arrangements can be significantly improved

### Recommendation 9.1

Given high and rising land costs in urban areas, Australian governments should ensure that project selection take explicit and detailed account of available alternatives, including the enhanced use of existing infrastructure, pricing solutions and cheaper build options. Australian governments should also consider ways in which land policies can be improved in this area, given the deficiencies in the current planning of land reservation in most jurisdictions in Australia.

#### ***The Australian Government supports this recommendation.***

Infrastructure Australia will evaluate and report to Government on whether proposals for new infrastructure works have adequately considered alternatives to construction, including the enhanced use of existing infrastructure or regulatory reforms. Infrastructure Australia will also assess the extent to which the proposals have incorporated technological solutions, pricing options and cheaper build options in the project designs.

To support long-term planning, Infrastructure Australia will also undertake five-yearly evidence-based infrastructure audits, develop top-down priority lists at national and state levels and develop a national 15-year infrastructure plan, which will identify Australia's infrastructure needs over the medium to longer term.

To encourage States and Territories to undertake early planning for the right projects, future access to planning funding under the Infrastructure Investment programme will be better aligned with the priorities identified in Infrastructure Australia's 15 year Infrastructure Plan.

### Recommendation 12.1

All governments should invest more time and resources in the initial concept design specifications to help reduce bid costs, but in doing so provide opportunities in the tender process for tenderers to contest the specifications of the design.

#### ***The Australian Government supports this recommendation.***

As indicated under Recommendation 6.1, the Australian Government endorses additional refinement to infrastructure tendering and procurement policies and processes in order to deliver better value for money, and better management of project and investment risk. This issue will be reflected in the updated National guidelines on Public Private Partnerships (PPPs), Alliance Contracting, Traditional Contracting, and Design and Construction (the National Guidelines on Project Delivery).

## Recommendation 12.2

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

***The Australian Government supports this recommendation.***

As with Recommendation 12.1, this issue will be reflected in the updated National Guidelines on Project Delivery.

## Recommendation 12.3

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

***The Australian Government supports this recommendation.***

Governments already consider flexible tendering approaches, as proposed by the Commission. Industry stakeholders indicated during consultation that there would be value in governments requiring less upfront paperwork through their tendering process, which can be cost-prohibitive for smaller companies. The Commonwealth will work with states and territories to determine how this can be implemented without prejudicing current government policy with regard to issues such as Occupational Health and Safety requirements and report back to transport Ministers by mid-2015.

## Recommendation 12.4

The 'early contractor involvement model' should be trialled by government clients to test the costs and benefits of applying past contract performance by tenderers as a means of constructor selection, consistent with the practices of some private sector clients.

***The Australian Government supports this recommendation.***

This is already provided for in the National Guidelines on Project Delivery, to be used on a case-by-case basis. The Commonwealth continues to support this approach, as this process may offer some benefit in shortening future tender timeframes in certain cases. However, the Commonwealth notes that the approach should consider possible impacts on competition, to ensure market entrants are not placed at a comparative disadvantage when tendering for new work.

### Recommendation 12.5

For complex infrastructure projects, government clients should provide concept designs using Building Information Modelling (BIM) to help lower bid costs, and require tender designs to be submitted using BIM to reduce overall costs. To facilitate the consistent use of BIM by public sector procurers, Australian, State and Territory Governments should:

- facilitate the development of a common set of standards and protocols in close consultation with industry, including private sector bodies that undertake similar types of procurement
- include in their procurement guidelines detailed advice to agencies on the efficient use of BIM.

**The Australian Government supports the use of modelling technology**, as it is likely to drive down costs and provide detailed information for whole-of-life infrastructure. The Government notes some Commonwealth and state agencies are already using BIM for a variety of projects including social infrastructure, defence and land transport; and sees the move to a technology-based design system being required in the medium future. The Government does not, however, endorse any specific technology in procurement activities and considers that individual government agencies are best-placed to consider the benefits of using of such technology.

### Recommendation 12.6

Within the request for tender, government clients should provide opportunities for tenderers to contest some key standards of the design where they have previously assessed scope exists for innovation to occur.

**The Australian Government supports this recommendation**, in particular the importance of efficient tendering and procurement policies and processes that deliver better value for money and promote innovation.

We consider it is a matter for individual government agencies to determine the appropriateness of allowing tenderers to contest key standards of design, on a project-by-project basis and will provide for this as appropriate in the updated National Guidelines on Project Delivery.

### Recommendation 12.7

Australian, State and Territory Governments should remove the requirement for local content plans, such as the Australian Industry Participation plans, from tenders.

**The Australian Government notes this recommendation at this time.**

The Australian Government is considering simplifying Australian Industry and Participation policies and programmes, but does not intend to remove the requirements at this time.



### Recommendation 12.8

For larger and more complex projects, government clients should pre-test the market to gain insights into possible savings from packaging the project into smaller components, reducing the level of risk borne by any one contractor, and promoting greater competition from relatively smaller construction companies.

***The Australian Government supports this recommendation***, noting that how a Government client approaches the market for the procurement of infrastructure projects should be determined on a project-by-project basis.

As with the other recommendations in relation to tendering, the introduction of pretesting the market should be integrated into the National Guidelines on Project Delivery as one of the tools available for governments to derive the greatest value for money, promote competition and lower bid costs through infrastructure project procurements.

### Recommendation 12.9

Government clients should invest more time and money in understanding the site risks for infrastructure projects and update the information provided to tenderers during the request for tender stage in consultation with potential contractors.

***The Australian Government supports this recommendation.***

As with Recommendations 12.1, 12.2, 12.3 and 12.6, the Australian Government endorses additional refinement of infrastructure planning, tendering, and procurement policies in order to deliver better value for money, improved outcomes and better management of project and investment risk.

States and Territories currently undertake routine assessments of the site risks for infrastructure projects and provide this information in the lead up to a tender. There is potential for project modelling technology, including the use of BIM or similar technologies, to improve the consistency of analysis and provide a common medium to allow better comparison between projects.



## E. Achieving better labour and construction markets through reforms

### Recommendation 13.1

Australian, State and Territory Governments should adopt codes and guidelines with an essentially similar framework to the Victorian Code of Practice for the Building and Construction Industry for their own major infrastructure purchases.

The Australian Government should require compliance with these guidelines as a precondition for any infrastructure funds it provides to State and Territory Governments.

**The Australian Government supports this recommendation**, and is committed to acting to improve workplace relations in the construction industry through re-establishment of the Australian Building and Construction Commission (ABCC), the introduction of the *Building and Construction Industry (Improving Productivity) Bill 2013*, and the adoption of the Building and Construction Industry (Fair and Lawful Building Sites) Code 2014.

The Code will commence at the same time as the Bill. The Commonwealth published an advance release of the new Code in April 2014. The new code will apply higher standards of workplace relations behaviour on construction projects funded by the Commonwealth. The new Code adopts a similar framework to existing state government codes, including the new Victorian Code of Practice for the Building and Construction Industry published by the Victorian Government in October 2014.

### Recommendation 13.2

The Australian Government should:

- increase the ceiling of penalties for unlawful industrial relations conduct in the construction industry.
- ensure that the specialist regulator has adequate resources to give genuine and timely effect to the enforcement regime.

**The Australian Government supports this recommendation**, and is committed to acting to improve workplace relations in the construction industry, as detailed in the response to Recommendation 13.1.

The Bill provides for the re-establishment of the ABCC which will ensure a specialist regulator with increased powers to address unlawful industrial action, unlawful picketing, coercion and discrimination. The Bill also provides for increased penalties for unlawful industrial relations conduct in the industry. The Government has also restored the funding levels of the industry regulator to ensure it is adequately resourced.

### Recommendation 14.1

The Department of Industry should make and publish regular projections of labour demand from public infrastructure construction. Information collected and produced as part of the proposed benchmarking activities (recommendation 9.2) should support this activity, as should data held by Infrastructure Australia. The Department should also seek agreements with all private sector infrastructure providers and State and Territory Governments to provide data pertaining to their expectations of future need.

**The Australian Government supports this recommendation.** The Department of Industry will continue to monitor the labour market outlook for specialised occupations on an annual basis, including specialised occupations that are critical for public infrastructure projects. Commonwealth agencies, including the Bureau of Infrastructure, Transport and Regional Economics, the Australian Bureau of Statistics and the Department of Industry are working collaboratively to identify data gaps and needs.

## Recommendation 14.2

The Australian Government should request the Productivity Commission to conduct a public inquiry into Australia's apprenticeship arrangements. The inquiry should include, but not be limited to, an assessment of:

- the deficiencies of the current system, how these arise and who they affect
- the role of the current apprenticeship system within the broader set of arrangements for skill formation
- factors that affect the supply and demand for apprenticeships
- the structure of awards for apprentices
- potential reforms to improve the efficiency and effectiveness of Australia's apprenticeship arrangements.

### ***The Australian Government notes this recommendation.***

The Government is committed to delivering a more effective and efficient skills and training system, with a focus on providing job-ready skills that employers want. Through our Vocational Education and Training (VET) reform process, the Commonwealth has been working with stakeholders to build a flexible, high quality national training system, with industry at the centre. As part of this reform process, The Commonwealth has also given consideration to Australia's apprenticeship arrangements. A review by the Productivity Commission could inform further reforms to apprenticeship arrangements.

The Government has announced new arrangements for the delivery of support to Australian Apprentices and their employers. The new Australian Apprenticeship Support Network will commence from 1 July 2015. In addition, the independent workplace relations tribunal, the Fair Work Commission, is currently undertaking the first four-yearly review of modern awards which includes consideration of apprentice provisions.

## Recommendation 15.1

The current Review of the Australian Government Building and Construction OHS Accreditation Scheme should examine options such as 'recognition' and 'provisional accreditation', with a view to the implementation of measures to improve access to Commonwealth-funded projects for firms not presently operating in Australia.

***The Australian Government supports this recommendation in principle***, which was considered in the 2014 review of the Australian Government Building and Construction OHS Accreditation Scheme (the Scheme). The Government's response to the Scheme review was announced on 22 October 2014. Changes from 1 January 2015 to work health and safety accreditation arrangements for builders working on Australian Government-funded construction projects will cut red tape, boost competition and ensure safety standards are enhanced. The Federal Safety Commissioner will undertake consultations to identify further opportunities to improve access for international firms to increase competition and utilisation of international expertise, while ensuring competitive neutrality for domestic firms.

## F. Better data collection and some improvements to Infrastructure Australia are needed

### Recommendation 9.2

The Australian Government should fund the development and ongoing implementation of a detailed benchmarking framework for major infrastructure projects in Australia – in transport, electricity, water, gas and social infrastructure. This would substantially assist in the future planning and evaluation of projects, and is an essential factor in the much-cited pipeline of projects.

The benchmarking should include sufficient information of a strategic nature, including on costs per major unit, using a standard cost breakdown, and average expenditures over the construction period.

The provision of data to support the benchmarking framework should be a requirement attaching to all Australian Government funding for major infrastructure projects. The Australian Government should ensure data relating to its own projects are also captured. Mechanisms should also be developed to capture similar data from projects funded by other levels of government and consideration should be given to what information might be gathered from the private sector to enhance the quality of information provided by the benchmarking.

This ongoing benchmarking must be seen to be independent of both government and industry influence and also be seen as technically robust and credible. Infrastructure Australia should be responsible for packaging and publishing the benchmarking results, but should outsource the development and implementation of the benchmarking framework to agencies expert in the relevant areas, including the Bureau of Infrastructure, Transport and Regional Economics for transport projects.

**The Australian Government supports this recommendation.** Australian, state and territory transport Ministers have agreed as a first stage to the development of a benchmarking framework. As a first stage, governments agreed to the systematic collection of project information for land transport infrastructure.

Development of this benchmarking framework and collection of data for this process is being led by the Commonwealth's Bureau of Infrastructure, Transport and Regional Economics. A wider roll out of this benchmarking framework, to include other economic infrastructure, will start during 2015.

### Recommendation 7.2

The Australian Government should not proceed with those amendments to the Infrastructure Australia Act 2008 that restrict Infrastructure Australia from publishing information on project proposals it has evaluated, including cost-benefit analyses. The Board of Infrastructure Australia should have the power to limit the publication of information if, in its view, this would be likely to cause significant commercial harm to a government, individual or corporation.

The Board should make it clear to project proponents and sponsoring governments that all information will be publicly disclosed except in these limited circumstances, and that it will not accept redactions in project proposals.

**The Australian Government notes this recommendation.** The legislative amendments already undertaken to reform Infrastructure Australia have overtaken this recommendation. It is expected that these reforms will improve the robustness and transparency of its assessment of major infrastructure projects.

These reforms will also address the Scales Review recommendations around delivering a more consistent approach to developing and evaluating major infrastructure proposals and reforms, and in ensuring that proposals have in place appropriate, realistic timeframes for design and implementation (Scales Review Recommendations 4, 5 and 6).

### Recommendation 10.1

The Australian Bureau of Statistics should be funded to revise its approach to collecting productivity and other data within the construction sector. Separate collection and regular reporting of data for building construction and heavy and civil engineering construction would greatly improve the statistical information available to researchers and policymakers.

**The Australian Government does not support additional funding.** The Australian Bureau of Statistics, the Bureau of Infrastructure, Transport and Regional Economics, and the Department of Industry are working collaboratively to identify data gaps and needs.

## G. Implementation of reforms

### Recommendation 16.1

Governments should commence implementing the recommendations outlined in this report that are relevant to their jurisdiction immediately. A formal Agreement across all jurisdictions is not a prerequisite for Australian, State and Territory and Local Governments pursuing most of the recommendations made by the Commission, as they relate to implementing best practice or improved processes within each jurisdiction.

**The Australian Government supports this recommendation,** and is committed to the implementation of reforms designed to deliver best practice or improved processes in infrastructure funding, financing and procurement within each jurisdiction. The Commonwealth has already undertaken extensive consultation with the states and territories.

The Commonwealth will work with jurisdictions through multilateral mechanisms where appropriate, but agrees with the Productivity Commission's finding that a formal agreement is not required, and that bilateral discussions are likely to be more effective in achieving lasting reform.

### Recommendation 16.2

The Australian Government should consider entering into formal bilateral agreements with State and Territory Governments that commit each jurisdiction to implementing a subset of the reforms (such as those identified by the Commission in table 16.2, or some combination of these recommendations).

The agreements should contain effective monitoring and public reporting arrangements, an agreed timetable for implementation, and a commitment to conduct an independent review of the reforms after a set time period.

**The Australian Government supports this recommendation.**

As outlined at recommendation 16.1, bilateral agreements will be considered on a case by case basis and the Commonwealth supports in principle the parameters outlined in 7.3 to be included in those agreements where feasible.



