

1 August 2007

## Keynote Address

*A Presentation Infrastructure Partnerships Australia's "Partnership 2007" Infrastructure & Investment Conference by the CEO of Leighton Holdings Limited, Mr. Wal King AO.*

### Introduction

Today I want to do three things.

- 1) To describe the current environment and some of the issues facing the nation;
- 2) To outline some of the challenges that we face in delivering our future infrastructure needs; and
- 3) To lay out a better way ahead for the business community and governments - at various levels - to improve infrastructure delivery.

### Current environment

Australia is the best country in the world in which to live. We have an easygoing lifestyle to match our national personality, underpinned by a growing economy and a strong democracy.

The vast majority of Australians are healthy and gainfully employed. Unemployment is at a 30 year low of around 4.5%. Productivity growth of 1.5% per annum is forecast for the next decade.

We're living longer, we are better educated and we are earning more.

With the economy operating at near full capacity, general wages growth is tracking above inflation at just over 4% and is likely to remain around this level. In more capacity-constrained sectors such as mining and construction, wages growth is running at about 6% or higher.

The rapid growth of China and India is creating a seemingly insatiable demand for our resources and the outlook for the world's economic growth remains strong.

Our own economy is robust, with growth forecast to stay around 3% for the next few years, peaking at close to 4% in 2008. Business investment is around 15% of GDP, particularly in the engineering and construction sector.

All of the positives are translating to high levels of activity in the non-residential construction industry, which is expected to be sustained over the medium term. Many major road, rail, water and health projects are planned over the next five to 10 years.

The Australian Industry Group's latest Construction Outlook predicts the total value of domestic construction by the private sector will reach \$72 billion in 2008, which is more than double the level of 2003 and significantly above historical levels.

Recent announcements of increased expenditure on infrastructure, by both the Federal and State governments, indicate that there will be no shortage of opportunities for civil engineering work.

Australia has a strong economy and a great outlook; but we also face some big issues that can and will influence this country's future, depending on how we respond.

Issues like political will. Issues like climate change. Issues like demographic change. And issues like the strengthening 'green' agenda.

### **Challenges to implementation**

Everywhere you look there are issues with our infrastructure – it's stretched to breaking point. This is why we are seeing water restrictions, traffic snarls, disintegrating trains, power outages and ships queuing off the coast.

Why, in a first world country like Australia?

#### Political will.

In this year of a Federal election, the battle lines are not just being drawn around the economy and short term populist promises, but around who has the greatest "vision" for Australia. Yet recent history suggests that politically expedient policies - rather than nation building ones – are what gets delivered post-election. There is a lack of political will at all levels in this country.

The Federal and NSW Governments agreed in 1995 that 70% of the Pacific Highway would be four lanes by 2006, yet we're still building it in three to five kilometre stretches. It should be possible to sell the short term benefits of job creation and business investment while delivering nation building infrastructure. That was how the Snowy River scheme was delivered.

#### A lack of integrated planning.

This lack of political will is reflected in a lack of integrated, long term infrastructure planning – reinforced by the imperative for short-term political pay-offs - driven by the electoral cycle. I believe this a common theme in the Western world; infrastructure is delivered in arrears, rather than in advance.

The IPA's case for integrated infrastructure planning in economically important precincts such as Sydney's Airport and Port Botany, where major assets reside alongside each other, is compelling. The NSW Government has ambitious plans to upgrade the port but these

need to be supported with integrated solutions for the road and rail network. Not much good having a great port if you can't get into or out of it!

It is not a lack of water that has led to the current restrictions, but a lack of long term planning. Under investment in new water supplies over the last 20 years has now been exacerbated by the drought. So we see a knee-jerk political response with the imposition of water restrictions.

We are also having to invest quickly in new supply solutions like desalination. But the country should have been investing in water storage, recycling, storm water harvesting and desalination a long time ago; as well as looking after its old, leaking assets through planned maintenance programs.

Similarly, the resources boom did not happen overnight. It seems every time you go to Newcastle dozens of ships are lined up - or parked up on the beach - waiting to be loaded. It wasn't a sudden increase in the demand for exports that choked our ports, but a restrictive mix of Federal, State and Local Government planning practices.

#### Climate change

And climate change did not become a reality because Al Gore made a film. After all, it's been 10 years since the Kyoto Protocol.

There are many complicated issues to do with the environment. We are a lucky country in that we have vast reserves of coal, but we have largely ignored the need to secure base-load energy supply sources that recognise the issues of climate change.

We need a mature debate about future base-load energy supply as part of a multi-faceted approach which includes clean coal, solar, hot rocks, wind technology and nuclear.

#### Inappropriate funding and risk allocation.

It is also a perennial complaint from the construction industry that the planning, procurement and risk processes in Australia are far from effective.

With the pressures on Government budgets - from both the demand and supply side, Australia's future infrastructure is becoming increasingly reliant on the private sector.

Private sector innovation needs to be encouraged through appropriate tender processes and risk taking should be rewarded. But risk should be borne by those best able to manage it, not those least able to resist. There needs to be a more equitable approach.

For example, the RTA took several years to survey the route for the Lane Cove Tunnel and expected the contractor to accept the risk on face value. Because we were unable to test the Government Department's work before submitting our tender, the 2m variation in the survey cost us substantially in extra retaining walls and other remediation.

Some governments want to offload as much risk as possible. Governments are saying that unless they can do PPPs under a model that suits them, they won't do them. The construction industry has an equal right to say that if we can't agree a risk sharing model that suits our industry, we won't do them either.

A lack of resources to deliver the infrastructure.

The country faces a demographic induced shortage of people and skills across a whole range of services. Don't think its just Australia, this is a global issue.

The most acute problems are becoming evident in the health sector – for registered nurses and specialists such as physiotherapists – and among other professionals such as accountants and child care workers.

And it is only going to get worse. We see a lack of skilled employees in critical areas of technical people, including civil engineering and trades. The talent pool is shrinking.

The number of engineering graduates from our universities has remained static at around 5000 a year, while the engineering workforce has doubled over the last five years.

A business environment that is not supportive.

We need the right business environment to facilitate the delivery of infrastructure, with supportive tax, investment and industrial relations regimes that foster excellence in productivity and in relations between employers and employees.

In this time of widespread industrial harmony it is easy to forget it was only four years ago that the Commissioner Cole handed down his final report from the Royal Commission into the Building and Construction Industry.

His report identified widespread unlawful and inappropriate industrial behaviour in the industry, driven by unions with far too much power in the bargaining process. For example, we had 24 non-working union delegates on the Spencer Street Station Project in Melbourne.

Concerted industrial action by the CFMEU on the Perth to Mandurah Railway Project caused around 70 days to be lost to industrial action at a cost of more than \$150,000 per day. Since the new workplace laws came into effect and we initiated legal proceedings for damages against the union, we have had not lost a single day in 15 months.

A study by the Institute of Public Affairs estimated the additional costs to the EastLink project in Melbourne, if it was constructed under industrial agreements outside the ABCC and the WorkChoices environment. “The study found significant cost differentials amounting to \$295 million in direct costs and toll revenues by not opening on time ... (or) ... about 11.8% of the total construction cost.”

The WorkChoices reforms and the related construction industry reforms have been highly successful in improving industrial relations. They have led to higher productivity, with a reduction in time lost due to industrial disputes and lower costs, as we no longer need to include substantial IR contingencies in our bids.

The Australian Industry Group's submission to the Cole inquiry estimated that the pricing of industrial risk in Victoria could add between 20% and 30% to the cost of a project. A lower allowance for industrial disputation would typically be built into tender prices in New South Wales and Queensland.

Econtech's recent analysis of building and construction industry productivity for the Australian Building and Construction Commissioner shows that the reforms have delivered a \$15 billion boost to the economy and produced a 9.4% increase in productivity. The workplace relations laws have lowered costs and stimulated demand for construction work.

Australia is currently experiencing a record low level of industrial action, with working days lost in construction due to industrial disputes dropping from 335,000 in 1996 to 15,000 in 2006. The biggest single generator of additional earnings for construction workers is the fact they don't go on strike anymore – that's worth about \$50 million a year in wages that would not have been paid under the old regime across the non-residential industry.

Importantly, these benefits have not come at the cost of safety. The construction and mining industries can be dangerous, but we have been striving to improve our safety performance. Over the last five years the injury rate as a whole has been trending down. A good measure of injury rate trends is the number of compensation claims made.

There's been a significant improvement in the construction industry over the past decade, coming down from 39 claims involving an absence of a week or more per thousand employees in 1996/97 to 27 in 2004/05.

The major head contractors in Australia have made further headway largely due to a push from the top down to put workers safety first. The Australian Constructors Association measures the number of lost time injuries per million man hours worked which has fallen from about 8, when the first data was collected in 2002, to 3 now.

### **A better way ahead**

So how do we improve infrastructure planning and delivery to ensure we meet the challenges of the future?

#### Improve the political will/political environment

We need to revive political will by invoking the inspiration of projects like the Snowy River Hydroelectric Scheme and the Harbour Bridge.

It remains to be seen whether foresight and promises are followed up after the election. I wonder whether either Party is inclined to take up the IPA's recommendation to appoint a Commonwealth Minister for Infrastructure with a mandate to deliver nation building projects. Let's hope so.

#### Improve the skill base

We need to address the current shortage of tradespeople and engineers, not only by providing incentives for young people to study engineering and trades, but also by encouraging workforce mobility and competitiveness.

We're an increasingly mobile society and our skilled people are globally sought after. If we don't look after our employees, we'll be an exporter of those skills to the detriment of our nation.

We need coordinated education and migration strategies to ensure we have a skilled workforce and to reduce the demand pressures on labour inputs in the construction industry.

#### Improve the demographics

The use of 457 visas has helped to provide a temporary skilled workforce, but with continued demand for our sector we need a longer-term solution.

We need a larger and more targeted engineering skills migration program. We should also consider adopting the UK's migration model which eases restrictions for in-demand skills.

#### Improve the procurement process

We need to improve the procurement processes. I believe we need a more commonsense approach when determining whether it is the State or the private sector that is best placed to deliver infrastructure and services.

Often debate is driven by philosophical arguments first articulated at the beginning of the industrial revolution, rather than realities of a modern Australia. The current debate about rail maintenance in NSW is more about shoring up support for the rail unions than it is about ensuring the trains run on time so that people can move quickly around the city.

The growth of superannuation funds management gives Australia a great future investment opportunity - in infrastructure especially. These funds are growing exponentially – capital is looking for investment.

But projects have to be economically viable for the private sector to accept the risk. For example, you won't see the private sector investing in hospitals in remote areas of Australia because it just won't give investors the required return.

We also need a mature approach from Government to the supply of infrastructure by the private sector to encourage improved performance. Why not create a market for discretionary water through a user-pays system, as the IPA has suggested? Why not allow the private sector to compete?

Private sector innovation needs to be encouraged through tender processes and risk should be rewarded. Risks should be borne by those best able to manage them and we welcome the opportunity for genuine partnerships.

#### Maintain and improve the industrial relations climate

We need to ensure that we remain productive. That means we need to retain the current industrial relations environment and regulatory framework.

This is not about Liberal versus Labor, or bashing the unions. But we can't risk our future economic livelihood by turning back the clock on IR.

You can dispute the various productivity statistics flying around but you cannot dispute the fact that the construction industry today is more stable, more peaceful, more productive and more efficient than 5 years ago.

Industrial dispute levels make the point very clearly. For the March quarter 2007, 1.5 working days per 1000 employees were lost in the construction industry compared to 109.1 working days lost for the March quarter 2000. Compare this with the 2408 working days lost per thousand employees in the same period in 1982, or a total of 5,426,200 working days lost in the 1973/74 year.

There are numerous reasons for historic low level of industrial disputes:

- our continuing robust economy,
- additional spending on infrastructure by both the public and private sectors, and
- the federal legislative IR framework.

These factors have contributed to a complete change of culture in the industry.

Research commissioned by the Australian Constructors Association has confirmed that relationships have improved greatly and the climate of conflict has largely disappeared.

Employers, workers and subcontractors report that workplaces are more harmonious, with no more constant confrontation or disruption to work. Unions are still raising issues, but follow the rules and are more approachable, not intimidating or spoiling for a dispute as they were in the past. And safety is no longer used as a lever to bring management to heel, rather companies are driving safer work practices from the top down.

Construction and mining workers are not worse off. Agreement figures show that construction workers are better paid than ever before and enjoy one of the highest annual wage increases of any sector.

Salaries have increased strongly in the mining sector – the biggest shift has been the development of performance oriented bonus payments and retention payments for equipment operators, especially in strong markets such as WA.

As sites recognise the shift in culture driven by a closer working relationship between management and award employees, these incentives enable the workers to share the benefits of greater productivity and improved safety behaviour. It also allows for adjustments to occur during the period of agreements to stay competitive from a salary perspective. This would have been difficult before WorkChoices, where discretionary payments were often viewed with suspicion.

For employers, compliance with the new laws have posed some challenges but the results are apparent for all to see.

The industry has been stressing the importance of maintaining the 5 key pillars of the construction industry reform program. These pillars are:

- the Building and Construction Industry Improvement Act,
- the ABCC,
- the Federal Safety Accreditation Scheme,
- the National Code of Practice, and
- the anti-pattern bargaining laws and other elements of WorkChoices.

Many elements of the Work Choices legislation that relate to the building and construction industry were proposed by our industry. That is why we are concerned about any proposals to water down the laws, regardless of the timing of their introduction.

The Australian Constructors Association has commissioned research into the economic and social benefits of the reforms and we will present this to the ALP leadership team in coming weeks.

Preliminary findings suggest that changes to the IR laws will lead to a productivity decrease of about 10% from today's levels. The research forecasts that by 2020 the resulting productivity shock will cut real GDP by \$13 billion, cut real consumption by \$2.1 billion and cut investment by \$4.2 billion.

Industries reliant on construction services will be affected, with predicted downturn in outputs in metal ores mining (down 3.8% in 2020), coal mining (down 3.4%), iron and steel (down 2.9%) and transport equipment and iron ore mining (each down 2.8%). Worst affected would be Western Australia and Queensland.

We can't afford those outcomes as a nation.

## **Conclusion**

Australia is already one of the greatest countries in which to live, work and play.

But as our population gets older, our workforce gets more diverse, our lifestyles become more mobile and the world becomes more global, we need to ensure we build the infrastructure that underpins our future economic competitiveness and productivity.

The Prime Minister of the time declared Australia was "on the threshold of a new era of great industrial and rural development". This was Ben Chifley heralding the commissioning of the Snowy scheme in 1949.

And so we are today on the verge of another era of great infrastructure development.

We need to support Governments as they plan for the future and then help them implement their integrated infrastructure plans.

We need to address the looming skills shortages through training, education and migration.

We need to get funds appropriately allocated to infrastructure and to get the risk allocation model right.

We need to ensure we preserve the benefits of a more flexible workplace relations regime so we can continue to manage projects efficiently and productively – ultimately providing taxpayers with value for money when we deliver public infrastructure.

And, we need a business environment that is supportive of developing the sort of world class infrastructure that we should aspire to in this country.

Thank you.