

Roadblocks to Australia's prosperity

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You may recall the tragic death of a family earlier this year after a section of the Old Pacific Highway collapsed during flooding on the central NSW coast.

After the public shock, the debate centred on who should have ensured the road was safe.

There are still inquiries underway, but blame has variously been apportioned to:

- The local council which apparently knew the highway was in need of repair;
- The State Government which handed over the road to local government; or
- The Federal Government which vowed to fix the damaged road after the disaster – too late for the grieving relatives.

Sound familiar?

It's a dramatic example of what I want to talk about today - the accountability for infrastructure.

When our roads and other vital infrastructure are inadequate, not only are our exports bottlenecked and our cities gridlocked, but safety is put at risk. The progress of our society is impeded.

Today I will discuss roadblocks to Australia's prosperity and what we can do to overcome them.

They are the decision-making process that leads to:

- The lack of coordinated investment in infrastructure;
- Access to engineers and other skilled employees;
- The challenges of climate change; and
- The implementation environment.

We are a prosperous nation.

Our economy is operating at near full capacity.

Unemployment is at a 30 year low and productivity growth is forecast to continue to be strong.

General wages growth is tracking above inflation at just over 4%, and running about 6% in more capacity-constrained sectors such as mining and construction.

There is a huge demand for our resources from China and India.

It is disappointing that at a time in which the country is experiencing excellent economic conditions, we cannot fully exploit the benefits.

The backlog in investment in water, energy, land transport and other major infrastructure that CEDA puts at \$25 billion is denying us higher productivity and wealth creation.

Our nation and our industry is busy delivering infrastructure in arrears.

The Australian Industry Group's latest forecast predicts the total turnover by the private sector of non-residential construction will reach a record high of \$82 billion in 2008/09. This is more than double the level of 2003/04.

Engineering construction is forecast to be the major driver of growth.

This reflects a sizable backlog of work.

Many major road, rail, mining and heavy industry projects are planned over the next five to 10 years.

There are also significant projects in the pipeline in:

- telecommunications infrastructure,
- water supply projects,
- power generation, and
- other civil projects such as the construction and upgrading of freight and port facilities to ease export bottlenecks.

Infrastructure Partnerships Australia published a list of 166 priority projects four months ago.

These include seven critical road projects such as the M4 East, the Pacific Highway upgrade, the F3-M2/M7 connection in New South Wales and the East-West growth corridor integration in Victoria.

But the M4 has been planned since 1992 and there's still no firm timetable for getting it done!

Planning is not the issue. Implementation is the issue.

The problem is not a lack of capacity in the construction industry, but the lack of coordination between State and Federal Governments to ensure that as each stage of a major project is completed – from the bid, to construction, to delivery – another is ready to go.

This constraint is a significant roadblock to prosperity, affecting not only project delivery but also job security.

For example, at one stage in NSW we had three mega projects at once – the Cross City Tunnel, the M7 and the Epping to Chatswood railway. There were serious discussions about whether there was enough basic materials like concrete in Sydney, let alone trucks or people.

Now there is not one major project in Sydney.

This week we're seeing bids close for the \$2.5bn-\$3bn Airport Link, a mainly underground toll road in Brisbane. The tender process has involved around six or seven hundred very experienced and skilled people, many of whom will now be looking for something else to do as there are no other major bids coming out in the near future.

Similarly, the EastLink toll road in Melbourne is nearing completion with thousands of skilled people available to move to another major project.

What a pity Airport Link is not ready to go into construction.

It's good to see the new Rudd Labor Government has promised to tackle this problem with the appointment of the first Federal Minister for Infrastructure.

The new *Infrastructure Australia* body that's due to be set up within what is now 93 days will be given 12 months to audit the nation's infrastructure, identify weaknesses and list the priority projects.

This is a good start. What will the Governments do then?

Part of *Infrastructure Australia*'s scope is to look at regulatory issues and to evaluate project business cases, financing options and probity processes.

This evaluation should include assessment of where risk should be allocated.

A constant complaint from the construction industry is that the planning, procurement and risk processes in Australia are far from effective.

Procurement is very expensive with huge costs of tendering. For example, a project like EastLink in Melbourne would cost a consortium some \$20 million to bid. Airport Link is costing about \$30 million per bid.

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.

Given Canberra's track record of service delivery, the task of the new Minister should also be to get the States on board and to smooth the way to further real investment in infrastructure from the public or private purse.

This will necessarily involve reforming Commonwealth- State relations so that infrastructure is delivered in the national interest, with a long-term view of the needs, the challenges and the best model of procurement and delivery.

The new Minister has indicated the government's support for public private partnerships.

I believe we'll also see more PPPs and alliances as the burden is shared more equitably and more opportunities open up for a cooperative approach to project delivery and long term arrangements.

I hope we will also see some more sensible procurement processes to shortlist bidders earlier in the process to reduce bid costs and, ultimately, project costs.

Already about one third of the projects of our work in hand are being delivered through an alliance project delivery method.

The M7 in Sydney is a successful PPP – where the client and contractor worked closely with proper risk allocation to deliver a vital piece of Australian infrastructure that is working very well.

The North South Bypass Tunnel in Brisbane is another good example of cooperative project delivery.

Another constraint to infrastructure delivery is the chronic shortage of skilled workers and the potential for productivity losses if the current industrial relations regime is wound back dramatically.

It is not surprising that four out of five respondents to the Australian Road Forum's recent survey believe the skills shortage will impact on their ability to deliver major road programs on time and on budget in the medium term.

Most in demand are engineers and field supervisors, with specialist equipment operators and trades and road construction workers also in short supply.

The problem is worst in Queensland and WA.

The skills shortage does not just apply to contractors – our clients are also finding it difficult to recruit and retain skilled project managers.

We need to address this in the short term, through a sensible mix of skills migration and incentives to encourage workforce mobility and competitiveness.

We also need to do more to encourage young people to study engineering and trades so we combat this problem in the longer term.

The Leighton Group is committed to building skills through a raft of education sponsorship and skills training initiatives.

For example, we've just selected two more rural students to receive an engineering scholarship to the University of NSW.

- They will join seven other young people who we support through their studies and to whom we provide industry training during their semester breaks.

As the ARF has identified, there also needs to be more incentives to contractors to train people.

As our tenders increasingly encompass not just the technical elements of the job, but also how bidders address community and environmental issues, I expect clients will soon demand that we also demonstrate our commitment to training.

Without these critical skills, we cannot continue to build on the productivity gains we've seen over the past decade.

One of the most significant drivers of productivity in the construction industry has been the dramatic decrease in industrial disputes and the resulting stability under the former government's specific building industry and Workchoices legislation.

In this time of widespread industrial harmony it is easy to forget it was only four years ago that the Royal Commission which looked at our industry handed down its final report.

The Australian Constructors Association has lobbied strongly for the retention of key elements of the laws that relate to our industry.

The new Government has gone a long way to addressing our concerns, but we await further detail.

Another future challenge for infrastructure planning and delivery is a prominent feature of the current public debate – climate change.

Numerous studies have examined the impact of changing weather patterns on existing infrastructure and have modelled the potential risks and implications for future projects.

Climate change has the potential to lead to hotter days, more frequent extreme weather and higher sea levels.

This will put pressure on energy and water supplies, health infrastructure and services, transport, building, food industry and tourism.

Roads will be particularly vulnerable. Heatwaves and floods could damage road pavement, leading to more accidents and requiring increased maintenance with more expensive materials. Sea level rises can increase salinity in coastal areas.

These impacts will affect the performance and longevity of the road asset.

To ensure we build roads that will meet the challenge, we may need to change design, alignment, construction and maintenance techniques – all potentially at a higher cost.

But the cost of doing nothing or being slow to respond could be much higher.

For example, salinity is already causing significant damage to urban infrastructure. An estimated 20,000km of roads and 1600 km of railways are affected. Already the cost of repairing, replacing and protecting vulnerable infrastructure from salinity is about \$100 million a year.

It's an issue that Leighton Holdings has been tackling through our partnership with Landcare Australia since 1999.

The Leighton Salinity Assault program provides practical support to local communities to repair salinity damage and preserve the environment and the infrastructure we have built for future generations.

Today I have covered just some of roadblocks to Australia's prosperity.

They are perennial complaints that are usually exacerbated by the short timeframes of the political cycle.

There are so few political pay offs for presenting a long term vision that, as Jerry Seinfeld has said, "sometimes the road less travelled is less travelled for a reason".

But the challenge is now for the Federal and State Labor Governments to work more closely to deliver infrastructure critical to sustain Australia's growth.

Without that, we're on a road to nowhere.

Thank you.

ENDS