CONSULT AUSTRALIA

2016-17 BUDGET

RESPONSE TO THE CALL FOR IDEAS AND PRIORITIES FOR THE 2016-17 COMMONWEALTH BUDGET

FEBRUARY 2016

Megan Motto *Chief Executive*
Jonathan Cartledge *Director of Policy & Government Relations*

Consult Australia
Level 6, 50 Clarence Street
Sydney NSW 2000
P. 02 9922 4711
F. 02 9957 2484
E. info@consultaustralia.com.au
W. www.consultaustralia.com.au

CONTENTS

ABOUT CONSULT AUSTRALIA

Consult Australia is the industry association that represents the business interests of consulting firms operating in the built and natural environment.

Our member firms’ services include, but are not limited to: design; architecture; technology; planning, engineering; surveying; stakeholder engagement and project management.

We represent an industry comprising some 48,000 firms across Australia, ranging from sole practitioners through to some of Australia’s top 500 firms. Collectively, our industry is estimated to employ over 240,000 people, and generate combined revenue exceeding $40 billion a year.

EXECUTIVE SUMMARY

> *infrastructure spending has a role to play in sustaining growth and also in generating confidence. […] it would be confidence-enhancing if there was an agreed story about a long-term pipeline of infrastructure projects, surrounded by appropriate governance on project selection, risk-sharing between public and private sectors at varying stages of production and ownership, and appropriate pricing for use of the finished product. […] The real economy would benefit from the steady pipeline of construction work – as opposed to a boom and bust. It would also benefit from confidence about improved efficiency of logistics over time resulting from the better infrastructure.*
>
> Glenn Stevens – Governor, Reserve Bank of Australia. Brisbane. 10 June 2015

Consult Australia welcomes the opportunity to inform the design and implementation of the 2016-17 Commonwealth Budget. In providing our recommendations in this submission we are mindful of the Government's continued commitment to strong fiscal discipline in line with deficit reduction targets.

In this context Consult Australia's recommendations for the 2016-17 Budget focus on opportunities to plan and deliver the infrastructure for the future with a focus on maximising value for money outcomes and productivity benefits of the taxpayer.

Our recommendations highlight opportunities to capitalise on the Government's existing policy foundations with well placed reform and continued investment. Our focus in this submission is across six principal areas:

1. Better and fairer ways of paying for infrastructure.
2. Establishing an Infrastructure Innovation Fund to support an investment ready project pipeline
3. Preparing an Infrastructure and New Technologies Strategy
4. Building more for less through improved procurement
5. Incentivise Integrated Strategic Planning to support more productive, liveable and sustainable communities.
6. Developing a fully funded National Freight Strategy

Following the comprehensive analysis delivered by Infrastructure Australia through the Australian Infrastructure Audit, and alongside the imminent delivery of the Australian Infrastructure Plan, it is clear there is no time to waste in investing and planning Australia's future infrastructure pipeline.

Consult Australia is excited by the Government's ongoing commitment to infrastructure as a critical productivity lever alongside investment and planning for our cities and urban communities. As Australia continues the difficult transition following the shift from exploration and design to operation in the resources sector, the investment and planning established today will help ensure ongoing productivity growth and increase in living standards for all Australians in the decades to come.

SUMMARY OF RECOMMENDATIONS

1. Better and fairer ways of paying for infrastructure

Taxes are no longer enough to pay for the infrastructure we need to maintain our high standard of living. We need to consider new and improved funding mechanisms, such as cost-reflective road pricing, value capture, alongside ongoing asset recycling. We must separate decisions to invest in new productivity-boosting infrastructure from politicised arguments about debt and deficit.

2. Establish an Infrastructure Innovation Fund to support an investment ready project pipeline

Consult Australia recommends a dedicated innovation fund, separated from pre-determined infrastructure projects, to support the development of new investment-ready infrastructure through: feasibility studies, community engagement and public participation, business case development, cost-beneft analysis (including assessments of wider economic benefits) and environmental impact analysis.

3. Prepare an Infrastructure & New Technologies Strategy

It is critical that we plan early to maximise the benefits brought by changes in technology, and ensure that the infrastructure we are planning today is positioned to accommodate new models for passenger and freight movement, changes in consumer behaviour and new markets for services that have not existed previously.

4. Build more for less through improved procurement

At a time when public finances are stretched, better procurement offers government the chance to build more for less, while also developing a better relationship with its industry partners. Successive Consult Australia reports have come up with a range of recommendations to improve procurement that offer significant savings and better value for money outcomes for all governments if implemented.

5. Incentivise integrated strategic planning to support more productive, liveable and sustainable communities

It is essential that governments support longer-term planning goals in consultation with business and the community. All governments have a responsibility to support decision making and community consultation that provides for and delivers integrated planning, land-use and infrastructure. At a national level this can be supported with a national spatial policy and plan to provide an overarching framework.

6. Develop a fully funded National Freight Strategy

Much of our existing freight networks are victims of long-term underinvestment or a lack of integrated strategic planning. For example, governments have often proved reluctant to commit to funding rail freight infrastructure where the greatest benefits of what is a substantial investment will only be seen in the long-term beyond any relevant political cycle.

1. BETTER AND FAIRER WAYS OF PAYING FOR INFRASTRUCTURE

The Government's recognition of the vital role of infrastructure investment in boosting productivity must be continued. In the face of increasing global instability, the capacity for a strong pipeline of guaranteed infrastructure investment is particularly important to safeguard jobs and related industries.

Our infrastructure networks provides access to employment, facilitate social inclusion, and allow our cities to grow. Transport infrastructure alone moves 520 billion tonne kms of freight each year, supplying Australia's industry, enabling export revenues, and supporting our economy. An increasing infrastructure deficit demands ongoing investment, particularly in, near, and between our major cities.

Increased infrastructure investment that improves economic capacity and productivity must be the first policy response to the challenges arising from increasing congestion and declining quality of life in Australian cities, and will have the added benefit of easing pressure on migration policy and achieving a more sustainable future.

Recent public inquiries into the provision of infrastructure in Australia have highlighted the importance of this issue, and the demand from the Australian public for increased investment in infrastructure development and delivery. Their discussion and recommendations provide a roadmap for government to set about rectifying the infrastructure backlog.

Key opportunities for reform and proactive policy development are as follows:

Public Borrowing
Recent debate about "debt and deficit" has moved beyond evidence-based policy backed by expert opinion, and become politicised. While debt and deficit are problematic when used to fund recurrent spending over the long term, it is appropriate to use debt to finance capital expenditure – one off payments to build the nation and the economy.

There's never been a better time to borrow than now, with interest rates and bond yields at historic lows. A number of economists have publicly called for government to borrow more to spend on infrastructure. In doing so, they have pointed out that the economy would benefit from increased productivity arising from the new infrastructure, aside from any stimulus effect provided by the construction work.

New funds for infrastructure must urgently be released as an investment in future productivity.

Consult Australia is pleased to support the Fund Our Future[1] campaign launched by the National Growth Areas Alliance. Observing a $70 billion infrastructure deficit in our outer growth suburbs alone, the campaign calls for a new dedicated 15 year infrastructure fund to meet future population growth and boost productivity.

Fairer, cost-reflective road pricing
User charges already exist on Australian road users, through fuel taxes and tolls. However, these methods of user charging are inefficient and inequitable, and revenue is likely to decrease over time as the motor vehicle industry increases fuel efficiency and moves towards "zero fuel" cars.

Governments should start moving towards a better model of road pricing that is more efficient – raising a greater amount of funds more equitably. Any changes to road user charging need to be done in a way that is equitable, recognising that drivers in certain locations such as outer suburbs or rural areas, are required to drive further with fewer public transport options. The overseas experience has found that providing motorists with choice is essential to win public support and address concerns around inequality.

[1] www.fundourfuture.info

Consult Australia is proud to be a member of the Transport Reform Network (TRN)[2], a partnership of organisations that first came together in 2011 to discuss the state of transport funding and financing in Australia.

Consult Australia commends the Australian Governments support for the Harper Review recommendation supporting cost reflective road pricing for all vehicles.

Consult Australia recommends ongoing support for work of the Transport and Infrastructure Council, and in particular the joint Federal and South Australian Working Group to establish a heavy vehicle charging trial as a first step towards more widespread road user charging in the long-term.

Value Capture

Value Capture is the mechanism whereby a portion of the additional land value created by a piece of new infrastructure in the area is harnessed to pay for that infrastructure. Value capture allows landowners to realise an uplift in the value of their property though improved infrastructure, and captures a portion of the revenue arising from that uplift that otherwise wouldn't exist. These revenue streams could include property taxes, council rates, capital gains taxes or development contributions – and importantly, would be drawn from revenue that's being paid anyway.

Internationally, value capture is being used to great effect. London's new Crossrail project is being funded 27% by value capture, and more than 30% of Denver's Union Station is being funded this way. There's no reason why value capture cannot be used to similar affect in Australia to help fund major infrastructure projects.

Thus far in Australia, institutional resistance, including a failure to properly understand value capture, has meant we haven't used it to the extent we should have. Any government that uses this mechanism will be in a strong position to develop more and better infrastructure than otherwise would have been the case.

With our member firm, AECOM, Consult Australia was pleased to publish a comprehensive Value Capture Roadmap, outlining clear recommendations to support the wider use of value capture around Australia.

Consult Australia recommends the Australian Government continue its consideration of opportunities to incentivise value capture mechanisms as an element of infrastructure financing to deliver new infrastructure and urban regeneration.

Asset Recycling

Consult Australia has long argued for asset sales to release government funds for new infrastructure investment. The Australian Government's Asset Recycling Initiative, providing tax incentives supporting asset sales by state governments is a positive step.

At a state level, the creation of Restart NSW from funds hypothecated from the lease of Port Botany and Port Kembla is important model that can be replicated across jurisdictions.

While traditionally treasuries have not been in favour of hypothecation, it is clear that where public assets are concerned this is an important tool through which projects can be delivered with broad public support. The subsequent model for capital recycling through the delivery of the Westconnex continues this principal which should be encouraged as governments access some of the more than $100 billion sitting on their balance sheets (as identified by Infrastructure Australia in 2012).

Consult Australia urges the continued commitment to asset recycling through tax incentives and related policy by the Australian Government.

[2] www.transportreform.org

2. ESTABLISH AN INFRASTRUCTURE INNOVATION FUND TO SUPPORT AN INVESTMENT-READY PROJECT PIPELINE

One of the major challenges in infrastructure delivery is the shortage of investment-ready projects developed through robust integrated strategic planning, community engagement and participation, environmental impact analysis and business case development. Too often the early design of projects is rushed to market, developed reactively against pre-made decisions only when funds are made available for construction. Consequent compromises in design, or poor overall business case development lead to information asymmetries in decisions to proceed, and/or a failure to achieve social licence to operate, and in some cases project cancellation and a perception of increased sovereign risk with potential investors.

There is widespread agreement amongst all governments that infrastructure decisions should reflect long-term infrastructure planning. Consult Australia recommends the development of thirty-year infrastructure plans reviewed every five years.

To realise this vision however, dedicated funds must be made available to support feasibility studies, community engagement and public participation, business case development, cost-beneft analysis (including assessments of wider economic benefits) and environmental impact analysis.

Without this investment in the long-term infrastructure pipeline, at the earliest stages of project conception and development, the ability for governments to identify investment ready projects when funds become available is significantly diminished.

As we increasingly look to infrastructure investment as a counter-cyclical economic lever (e.g. Building the Education Revolution as a response to the Global Financial Crisis), it is critical that well-conceived projects can quickly move to construction to deliver best possible value for money outcomes and productivity benefits.

Consult Australia recommends a dedicated innovation fund, separated from pre-determined infrastructure projects, to support the development of new investment-ready infrastructure through: feasibility studies, community engagement and public participation, business case development, cost-beneft analysis (including assessments of wider economic benefits) and environmental impact analysis.

This fund should encourage innovative solutions to problems at the earliest stages of identification. Early engagement by experts, supported by such a fund can often deliver governments with more cost-effective solutions than those developed without appropriate analysis and evidence. Not every solution investigated through the fund should result in investment-ready projects, but sometimes the decision not to proceed will deliver greater benefits than an ill-informed decision to build.

A deep pipe-line of projects ready for investment and construction as soon as the funds are available will deliver a powerful economic tool in the event of a more significant economic downturn.

3. PREPARE AN INFRASTRUCTURE & NEW TECHNOLOGIES STRATEGY

Autonomous vehicles, now in production and subject to trials in Australia and internationally, hold the potential to radically transform the use of our transport infrastructure within shorter timeframes than those currently guiding the development of our future infrastructure networks.

The transformative benefits (increased safety, more efficient land and infrastructure use, improved mobility and social inclusion), alongside the risks and challenges are enormous, with many perhaps unforseen.

It is critical that we plan early to maximise the benefits brought by changes in technology, and ensure that the infrastructure we are planning today is positioned to accommodate new models for passenger and freight movement, changes in consumer behaviour and new markets for services that have not existed previously.

The consultation by the National Transport Commission considering how to develop the best laws and regulations for these emerging technologies is an important first step.

Further investment and strategic planning is required from a whole-of-government perspective to ensure we capture the full benefits of new technology for existing and future infrastructure networks as it happens.

The adoption of this technology, the creation of relevant regulation, standards and insurance products will inevitably slow the full realisation of the benefits.

By being ready for that change, we can ensure that the best possible transport infrastructure is planned to accommodate what may be the most dramatic shift in the way we move around since the invention of the motor car. By being ready for technological change, rather than reacting after it happens, we can develop the appropriate infrastructure more quickly and better manage the transition.

4. BUILD MORE FOR LESS THROUGH IMPROVED PROCUREMENT

At a time when public finances are stretched, better procurement offers government the chance to build more for less, achieving better project outcomes with fewer delays. It also makes government agencies a more desirable client for industry to do business with, which in turn will lead to more firms competing to provide their services to government.

The 2015 report, *The Economic Benefits of Better Procurement*, written by Deloitte Access Economics on behalf of Consult Australia, found a 5.4% saving could be achieved through better procurement, together with a 7% reduction in delays and a further 7% improvement in the quality of the project (where quantifiable). Together with the supplementary Consult Australia report, *Better Buying, Better Outcomes*, a number of issues in procurement are highlighted as being key opportunities for reform:

Project Briefs

Project briefs are frequently unclear or inadequately thought out. This creates risks for industry partners, who aren't sure what the client wants, and they respond by either pricing that risk into their bid or deciding not to bid for the project, thereby reducing competition.

Similarly, background information vital to a project is often unclear or unverified, and this was found to cost $41,800 per firm, per bid – a cost that is ultimately passed on to the client.

Risk Allocation

While at face value it might seem a prudent move by public sector agencies to offload project risk to their industry partners, this common practice can bring about a range of less desirable consequences.

The practice of offloading risk according to bargaining power rather than the appropriateness of individual parties to manage that risk automatically means that risks won't be properly managed. It also means that professional indemnity insurance may not respond to claims made.

While firms may respond to this practice by taking a commercial risk, many enter into contracts unaware of the insurance implications of doing so, while other firms respond either by pricing that risk into their bid, or deciding not to bid for work.

All of the private sector responses to this issue point to projects costing more, having delays, and less desirable project outcomes being realised.

Innovation

Many professional services firms reported that public sector clients weren't always open to innovative ideas when proposing solutions to projects, despite the possibility of that innovative idea saving money, or driving the existing funding to allow for a better project outcome.

While probity concerns are a major impediment to innovation, other factors inhibiting innovation include a lack of understanding around the budget impact, or risk transfer pushing designers to over-engineer their design. Better procurement has the ability to drive greater innovation, which in turn will save money and lead to better project outcomes.

Reducing Bid Costs

A number of reports, including those released by Consult Australia, have found that the cost of bidding for work can be prohibitive, and represents a major inefficiency in the development of infrastructure.
There are two major drivers behind unnecessarily high bid costs: Firstly, firms are often put in a situation of being shortlisted for a project when only one bidder has a realistic chance of success. Being "strung along" adds to the cost of bidding, when a quick "no" would be preferable. Secondly, in the course of bidding, firms

are required to demonstrate a wide range of competencies through compliance checks. When the final bid is submitted, these checks regularly comprise a substantial proportion of their bid documents, when compared to their proposal as to how they actually plan to go about the work.
Firms know that the cost of bidding is the cost of business, but ask that their partners respect this fact in designing their processes – and avoid unnecessarily asking them to incur extra costs, that ultimately will impact on the client.

Delivering More for Less:

Consult Australia proposes a number of recommendations to improve procurement, to the advantage of industry and government alike.

1. **Government commits to being a "model client," in line with its commitment to be a model litigant.**
2. **Government must invest in the skills of its procurement professionals. We have previously suggested the establishment of a Centre for Procurement Excellence to develop public sector procurement skills. A Commissioning Academy exists in the UK for exactly this purpose.**
3. **Early engagement and collaboration with industry, so that government can understand what's possible, and where risks lie. This includes developing better briefs and reallocating resources to the front end of a project.**
4. **Government agencies should be prepared to explain why they are following a particular procurement practice. This allows for service providers to better understand the needs of their client, and increases empathy. It also forces clients to examine whether a particular practice is really necessary, given that it may cost them more.**
5. **Agency heads accountable for the procurement performance of their agency, to provide cover for contract managers reluctant to try newer and better ways of doing things.**
6. **Streamline compliance processes, perhaps through a central register of competencies, to reduce bid costs.**
7. **Verify brief information by public sector clients.**
8. **Develop and apply limited liability guidelines to provide industry with certainty.**
9. **Ensure the right mix of skills exists on procurement teams.**
10. **Government should be aware of the implications of onerous risk allocation/ shifting – and remove those clauses that don't stack up.**

5. INCENTIVISE INTEGRATED STRATEGIC PLANNING TO SUPPORT MORE PRODUCTIVE, LIVEABLE AND SUSTAINABLE COMMUNITIES

There is an intimate relationship between planning and funding. Funding the vision, value capture and financing of infrastructure and development is as much a planning issue as it is a finance issue. Too often, strategic planning is undertaken without sufficient consideration of the overall economic implications and financing mechanisms. The concept of achieving best value for money should not be the only driver of strategic planning, but it should be a key consideration.

Consult Australia believes good planning provides the potential to achieve integrated, sustainable outcomes more efficiently and provides a robust framework to guide funding, project development and delivery over a long period.

We welcome the government's delivery this year of the Australian Infrastructure Plan. This plan, and the prioritisation of its delivery must cascade through all levels of government to ensure the benefits of integrated planning.

The spatial planning at state and local levels of government that follows higher level plans, provides a powerful means of understanding and resolving the effective integration of social, economic and environmental functions within our communities.

Strategic planning should be undertaken for a horizon appropriate to the rate of evolution of (and investment in) these communities i.e. in the order of 20 to 50 years, and subject to regular review.

Establishing a Nexus between Strategic Planning and the Community

The value, cost and role of strategic planning is often less well understood by the community. The main exception to this assertion is in the face of implementation, where communities might rally to oppose a project due to its impacts on them. There is an acute need for the community to better understand the need for infrastructure and how to plan for it, as well as engage in the process that results in the plan that affects their community. This nexus between people, their level of service expectations, the associated infrastructure requirements and its costs needs to be better communicated and addressed in order to instil a clear understanding of the planning process required to best achieve optimal land use and infrastructure outcomes.

Consult Australia believes good planning provides the potential to achieve integrated, sustainable outcomes more efficiently and provides a robust framework to guide funding, project development and delivery over a long period.

It is essential that governments support longer-term planning goals in consultation with business and the community. All governments have a responsibility to support decision making and community consultation that provides for and delivers integrated planning, land-use and infrastructure. At a national level this can be supported with a national spatial policy and plan to provide an overarching framework. A national spatial plan would provide the basis for planning and infrastructure delivery well into the future and support evaluations of supply chain links between cities and regions. Vulnerabilities and risks to our agricultural land from urban development could be assessed, alongside opportunities to diversify food supply chains and increase resilience.

Consult Australia is proud to be a member of the Australian Sustainable Built Environment Council, and supports their Investing in Cities platform calling for a 30 Year Infrastructure Plan supported by A National Spatial Masterplan.

6. DEVELOP A FULLY-FUNDED NATIONAL FREIGHT STRATEGY

Consult Australia has long been an advocate for nation building; advocating strongly for political, financing and planning reform to facilitate productivity enhancing infrastructure development and delivery.

The Australian Infrastructure Audit identified the significant increased demand for freight transport over the next fifteen years:

> *Container movements through Australia's ports are projected to grow by 165 per cent between by 2031, while non-containerised trade is projected to grow by 138 per cent over the same period. The road and rail freight task is projected to increase by 86 per cent from around 458 billion tonne km in 2011 to 852 billion tonne km in 2031.*[3]

Much of our existing freight networks are victims of long-term underinvestment or a lack of integrated strategic planning. For example, governments have proved often reluctant to commit to funding rail freight infrastructure where the greatest benefits of what is a substantial investment will only be seen in the long-term beyond any relevant political cycle.

Nonetheless, demand for national rail infrastructure is projected to grow, especially in Western Australia, Queensland and New South Wales. The Australian Infrastructure Audit projected that the value-add from rail freight services will grow to $9.5 billion in 2031, an increase of 75 per cent.

Consult Australia recommends a fully-funded national freight strategy. Funding the construction of Inland Rail, alongside the nation building like that delivered through the Western Sydney Airport, could catalyse rail-freight investment across the East coast, and deliver a multi-modal freight strategy with long term productivity benefits.

In a trade exposed economy, investment in freight networks presents an opportunity to turn the challenge of capacity constraints in bringing products to market to an opportunity to boost productivity. With the potential to reduce significant pressure on the maintenance budget for our roads, this in turn could ultimately free up funds to develop more passenger transport infrastructure.

[3] Infrastructure Australia. 2015. Australian Infrastructure Audit. Page 8