Pipeline or Pipe Dream?

SECURING AUSTRALIA’S INVESTMENT FUTURE

OVERVIEW
ABOUT THIS PUBLICATION

This is an overview of a study by the Business Council of Australia titled *Pipeline or Pipe Dream? Securing Australia’s Investment Future*. The full study is available at [www.bca.com.au](http://www.bca.com.au).

ABOUT THE BUSINESS COUNCIL OF AUSTRALIA

The Business Council of Australia (BCA) brings together the chief executives of 100 of Australia’s leading companies. For almost 30 years, the BCA has provided a unique forum for some of Australia’s most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole. Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.
CONTENTS

01 Executive summary ................................................. 2
02 What is Australia’s investment pipeline? ...................... 6
03 What is the importance of the pipeline? ...................... 8
04 Summary of findings on project performance ............... 10
05 The risks of investment underperformance ................. 13
06 The barriers to successful delivery ............................ 14
07 Recommendations and directions for change ............... 21
Australia’s neighbours – China, India and the countries that make up North-East and South-East Asia – will be the main source of world economic growth in coming decades. Our proximity and established relationships give us a tremendous opportunity to supply the resources, products and services required by those growing nations.

**Context**

The size and strength of the Australian economy into the future will be underpinned by three interrelated growth forces at work in our current economic transformation.

First is the pace and scope of economic development in our region.

Australia’s neighbours – China, India and the countries that make up North-East and South-East Asia – will be the main source of world economic growth in coming decades. Our proximity and established relationships give us a tremendous opportunity to supply the resources, products and services required by those growing nations.

Second, this development in our region is driving Australia’s economic growth via the current resource and infrastructure investment boom, resulting in an unprecedented level of capital investment and number of major capital projects either underway or planned. It has kept Australia resilient from the economic crisis enveloping other developed countries.

The third growth factor in the development of our economy is population growth. The scale of growth projected in the 2010 Intergenerational Report to around 30 million by 2030 and 36 million by 2050 provides a useful guide to what is likely to occur through both natural increase and a continued moderate immigration intake.

The starkest manifestation of the interplay between these three growth forces is an unprecedented $921 billion pipeline of existing and potential major capital projects.

Over the longer term, if Australia is able to deliver this capital investment we will transform our cities and regions for the better as we realise the dividends – economic and social infrastructure, job creation, world-class skills development and services that can only be afforded through a strong, growing economy.

They represent Australia’s opportunity to recognise and embrace growth, and in doing so ensure that it is managed and delivered for the benefit of all Australians.

**What this study is about**

The Business Council of Australia has undertaken this study to provide a picture of the investment pipeline, the opportunities it presents for Australia, and risks and barriers to their successful delivery.

The council represents the chief executives of 100 of Australia’s largest companies. Members come from all sectors of the economy, including resources, manufacturing, retail, financial services, professional services and construction. Collectively, they have become concerned that the scale, significance and security of the current investment pipeline are not well understood.
The study was overseen by the council’s Infrastructure and Sustainable Growth Committee. Representatives of member companies and other experts provided input and advice through a series of facilitated workshops and individual meetings.

The findings are informed by comprehensive research that captures the entirety of Australia’s portfolio of major investment projects, including in mining, oil and gas, roads, ports, water, communications and industrial complexes, as well as major social infrastructure such as schools and hospitals. In total, the study findings take account of more than 900 projects.

The research looks at how Australia performs in delivering major resources and industrial projects, drawing on 15 years of project performance data in Australia and internationally. On infrastructure, we drew on the best and most up-to-date research available in Australia and around the world.

For the first time, this study looks at risks and challenges to delivering Australia’s investment pipeline in its entirety rather than by sector or region.

It offers a holistic view on the challenge of delivering Australia’s ongoing pipeline of investment projects, unprecedented in scale and complexity, which is competing for limited pools of capital, labour, materials and equipment.

This fresh perspective on the pipeline evaluates its importance to the Australian economy, its contribution to GDP and the potential long-term benefits successful delivery should offer to the Australian community as a whole. It explores both the competitive opportunities the pipeline represents and areas of competitive disadvantage affecting the efficient delivery of some projects in this country relative to other comparable countries.

While the findings and recommendations identified in this study focus on policy levers that governments control, the Business Council of Australia recognises that companies have a vital role to play in lifting performance in major project planning, design and management. We recognise that a significant effort is needed on our part to lift project management skills across Australia.

In this context, the study points to broader work that must be undertaken by governments, industry and individual enterprises.

What we found

Scope and size of the pipeline

By 2013, expenditure on capital investment is likely to grow to 30 per cent of GDP and remain at that level for the rest of the decade.¹

That is, 30 per cent of all Australian economic activity will be dependent on the success of these capital projects. This compares to an average investment intensity of 20 per cent for OECD economies.²

The size of the largest of the major projects in the pipeline is unprecedented in Australia’s history: the largest single, completed project in Australia was Pluto stage 1, valued at $14 billion.³

In Australia today, there are nine projects underway or about to commence that are larger than that, ranging from $15 billion to $43 billion.

To put that into context, the cost of the Snowy River Scheme would have been only $8 billion in today’s dollars.

Major projects are numerous; there are 160 projects costing over $1 billion, with 72 already underway.⁴

Investment is occurring in regional and remote parts of Australia; 53 per cent of projects are north-west of the ‘Brisbane Line’ (i.e. the line between Brisbane and Adelaide), while only 20 per cent of Australia’s workforce resides in these areas.

These findings illustrate that, to a large extent, the successful delivery of the pipeline of capital projects will determine Australia’s economic success over the next decade and beyond.

What its success could mean for Australia and Australians

This investment pipeline is the main game in town for our economy – we must get it right.

If we get this phase of growth right, Australia will be in a strong position to invest the proceeds in the infrastructure, capabilities and services that will underpin a highly productive services-oriented economy of the future.

The investment now being put in place will be crucial to securing our future prosperity. Successful delivery will tangibly raise the living standards of future generations.

It will create better and higher paying employment opportunities, both directly and indirectly.
Many of the projects will support growth in regional communities and major centres, like Townsville, Cairns and Perth, including areas where opportunities can be created for Indigenous employment and economic development.

Broader economic benefits will also flow through to other parts of the economy.

Local supply chains will gain opportunities to provide goods and services direct to major developments.

The income generated by capital projects will also create higher demand for other goods and services throughout the economy.

The economic growth these projects underpin will boost government revenues, allowing for more investment in public economic and social infrastructure – better road and public transport networks, and health and education services.

Risks to project delivery

Research undertaken for this study indicates that successful delivery of the current and prospective project pipeline is far from assured.

Major issues of concern can be categorised under four broad areas.

Parts of the Australian community are concerned that neither economic or population growth and/or these large capital projects are benefiting individuals or communities. There is widespread concern that growth has not been supported by timely and appropriate infrastructure. The result is that parts of the community are rejecting the very growth that will underpin improved living standards, higher wages, and better services and infrastructure.

Recent polling shows that 52 per cent of Australians would prefer our population to stay at current levels or be lower (ANU poll) and 78 per cent of Queensland voters favour no mining on prime agricultural land.

The prospect of non-delivery or poor delivery of projects caused by a range of factors including capacity constraints, cost and efficiency in Australia. The research shows, for example, that resources projects are 40 per cent more expensive to deliver in Australia than in the United States Gulf Coast. Megaprojects worldwide are found to have a 60 per cent failure rate in terms of cost or time overruns. Projects are taking too long, there are major productivity problems and labour shortfalls. Other nations are well aware of the opportunities in our region. They will compete to supply the raw materials, products and services – whether it is American shale gas, Canadian resources or Korean engineering and construction services – Australia does not have this success in the bag.

A chronic lack of public infrastructure needed to boost both community confidence and Australia’s productive capacity. Sydney and Melbourne are each projected to grow to around seven million people by 2050, Brisbane to four million people but funding for public infrastructure has dried up, the Commonwealth’s Building Australia Fund is almost exhausted and the states are not commencing many new projects. The lack of infrastructure is having two major impacts – it causes understandable community pushback around economic and population growth, and undermines Australia’s export capacity by constraining efficiency, particularly in our ports and freight network. The issue is creating the pipeline of public infrastructure projects and the investment environment to unleash that capital.

Investor concerns about the competitiveness and predictability of Australia’s policy environment. Investors are saying they need a stable policy environment that maintains competitiveness over the long term. On the World Economic Forum’s scale of global competitiveness, Australia has dropped four spots to number 20.

Conclusion

Having considered the breadth of research underpinning this study, the four areas of concern outlined above have guided the Business Council of Australia in developing a recommended package of reform.

The essential message we are putting forward is that the growth Australia is experiencing now is a chance for Australians to benefit long term – not through transient, one-off bonuses for today, but through real, lasting diversification of the economy, and investment in infrastructure, skills and R&D that will enrich the lives of generations of Australians.

If the community is reassured that this is what growth is about, and they see it happening in their communities, there is nothing Australia cannot achieve. An alternative path for Australia to achieve its quality of life aspirations in a changing world is unclear.

We must ensure successful and cost-effective delivery on the existing project pipeline. We must work to provide the public infrastructure to support a growing economy and population. And we must also offer an investment environment that keeps the pipeline flowing into the future.
Six strategic priorities for Australia to secure its investment opportunities

The findings of this study highlighted six priority areas that need to be addressed:

1. **build higher levels of community understanding** of the importance of growing our economy and population, as well as of individual investment projects, by showing leadership and working with communities to explain the benefits.

2. **expand Australia’s capacity to deliver multiple capital projects** by growing and developing Australia’s workforce, and maintaining open and competitive markets for the supply of labour, materials and equipment.

3. **improve the efficiency of project delivery in Australia** by reforming government project approvals processes, building Australia’s capabilities for project design, innovation and management and by lifting workplace productivity.

4. **support investment and growth through the adequate provision of economic and social infrastructure** in our regions and cities by developing growth strategies, addressing deficiencies in the strategic planning and funding of public infrastructure, and by developing infrastructure markets coupled with greater private ownership of infrastructure.

5. **build the confidence of investors** to risk capital in large, long-lived and complex investment projects in Australia by maintaining a competitive and predictable policy environment, and promoting fiscal stability.

6. **ensure supportive government policies and programs** are facilitating efficient capital project delivery by businesses, by the Council of Australian Governments (COAG) agreeing and acting to secure Australia’s investment and growth opportunities, and configuring institutions and policies accordingly.

Next steps

This study makes detailed recommendations under each of these priorities; however, we don’t see either the findings or recommendations as comprehensive. Each of the six areas warrant further consideration by governments, business and the community.

As well as advocating these recommendations to governments and others, this study has highlighted specific areas of follow-up work for the Business Council of Australia.

We will continue to advocate that the Productivity Commission should undertake a comprehensive analysis of the high project costs including construction costs and delays that are adversely affecting Australia’s competitiveness, while furthering our own research into the elements of this cost differential.

We will also progress work on different funding and delivery models for the provision of major public infrastructure to unleash private investment so that the community and future generations can benefit from the growth we are experiencing as a nation.
Almost 80 per cent of the pipeline is new construction projects rather than maintenance of existing infrastructure. Private investment dominates the investment pipeline, making up 71 per cent ($656 billion) of the total, while 18 per cent are public projects ($169 billion), with the remainder public–private partnerships ($96 billion).

- Mining, oil and gas projects are the single largest category, comprising 45 per cent of projects by value.
- Transport makes up 31 per cent (including tentative high-speed rail plans).
- Education, health and community services represent 6 per cent.
- Utilities and electricity generation represent a further 6 per cent.

The change to an investment-intensive economy will be long term

These projects will provide the cornerstone of GDP and employment growth for some years to come. They will make us the most investment-intensive economy in the OECD.

The investment pipeline, if delivered, will drive long-term changes to Australia’s economy. Australia’s investment-to-GDP ratio has been climbing steadily through the past two decades and is expected to continue to grow to over 30 per cent of GDP as a string of projects is delivered or commenced, and remain there throughout the 2010s.

The pipeline will drive future exports, which in turn will provide a greater proportion of Australia’s GDP – up to 30 per cent by 2021–22 – and will be critical in growing the incomes of Australians (Figure 2).
The nature of investment projects is changing

Not only is the level of investment in the Australian economy changing, but so is the nature of the investment projects.

The size of the largest projects is unprecedented in Australia’s history: the largest completed single project in Australia was Pluto stage 1 ($14 billion). There are nine projects underway or about to commence that are larger than that project, ranging from $43 billion to $15 billion. The Snowy River Scheme would have been only $8 billion in today’s dollars.

Major projects are more numerous: there are 160 projects over $1 billion, with 72 of those already underway.

The average value of a resource and infrastructure project is up: from $294 million in 2001 to $1.5 billion in 2011.

Investment is occurring in regional and remote Australia: 53 per cent of projects are north-west of the ‘Brisbane Line’ (i.e. the line between Brisbane and Adelaide), but only 20 per cent of Australia’s workforce resides there.

Investment is concentrated in a few sectors: around 86 per cent of projects in the investment pipeline are in infrastructure and resources ($790 billion of the $921 billion). The largest 20 projects in size account for 56 per cent of the value of future resource and infrastructure investments, compared with 40 per cent five years ago and 36 per cent 10 years ago.

The changing nature of our economy towards more investment-oriented output, driven by numerous major capital projects, increases the complexity and risks if we fail to successfully deliver. It also increases the consequences to the Australian economy, our standards of living, and to our cities and regions if these projects fail or they are unnecessarily expensive, as we do not necessarily have a ready fallback option to pick up the economic slack.
Success or failure in delivering will determine economic growth

The scale and nature of the investment pipeline will to a large extent determine Australia’s future economic performance. It will determine:

• the size of our economy – investment will account for over 30 per cent of GDP by 2013, and likely to remain at that level for some time

• our employment opportunities – over the 10 years to the end of 2011 the booming mining industry saw its payrolls expand very strongly, ending the decade up about 184 per cent – the highest growth of any sector. Construction employment grew by around 56 per cent. This trend is likely to continue as projects in the investment pipeline are rolled out. Skills Australia forecasts that an additional 73,000 employees will be needed by 2014 to deliver Australia’s resources investments alone

• our national income – capital accumulation has accounted for the bulk of the growth in our national income over the last decade; future growth in national income will be driven by major capital projects as they become productive

• our ability to export Australian products and pay our way in the world economy – the investment pipeline will be the major driver of future exports, which is projected to rise by around 10 percentage points to almost 30 per cent of GDP by 2021–22. Australia’s exports of minerals and energy, for example, are expected to grow from $190 billion in 2011 to $225 billion by 2016–17 (in today’s dollars)

• the Commonwealth and state governments’ budgets – the Commonwealth’s strategy to return to surplus is counting on business investment to grow by 12.5 per cent and 8 per cent annually, which in turn relies on the successful delivery of the investment pipeline. Similarly, in South Australia, the proposed Olympic Dam project is expected to increase government revenues by around $6 billion. Delays to construction could see these revenues drop by a quarter, highlighting the importance of timely delivery of these projects on the ground.

Delivery will have far-reaching impacts on Australia’s businesses and communities

Economic activity generated by the investment pipeline will touch on all aspects of the Australian economy and its communities. It will impact on:

• our general level of knowledge of – and expertise in – managing and delivering investment projects through the skills transferred from foreign workers engaged in projects; the learning by Australian workers and businesses about successful project delivery; and the importation of new technologies, new machinery and equipment

• productivity and the quality of service provision for users of infrastructure as we build the nation’s stock of economic infrastructure (transport, energy, water and communications infrastructure)

• our ability to meet the needs of a growing and ageing population in our cities and regions and lift standards of living as we improve the provision of hospitals, schools and other important social infrastructure

The shift towards a higher investment share in national output is integral to the changes happening in the broader economy and is reflective of a transition underway as the centre of world economic activity shifts to Australia’s neighbourhood.
• how we efficiently and sustainably consume Australia’s scarce resources and reduce greenhouse gases. Investment projects in the energy sector can successfully, efficiently and sustainably enable a reduction in greenhouse gases over time. Major capital investment will be needed to transition to low-carbon energy and the successful delivery of billions of dollars of liquid natural gas projects will be key to reducing global greenhouse gas emissions.

**High investment is part of reshaping our economy**

The International Monetary Fund (IMF) has observed Australia’s GDP growth is strongly dependent on the realisation of investments.

We believe that Australia will be affected by these downgrades everywhere in the world only to a limited extent and the reason is that growth in Australia is importantly driven by major investment projects that are in the pipeline and these are funded by strong multinationals that do not have problems accessing funding so growth in Australia will be somewhat lower but not by a whole lot.

The shift towards a higher investment share in national output is integral to the changes happening in the broader economy and is reflective of a transition underway as the centre of world economic activity shifts to Australia’s neighbourhood.

For example, the investment pipeline is having flow-through effects across all sectors of the economy. Research indicates that in Queensland, resources sector business supply and employment effects are generating approximately $50.1 billion in Gross State Product — $22.1 billion directly and $28.1 billion in value added effects. The resources sector was found to be responsible for generating approximately 292,000 jobs – including 254,000 indirect jobs.

Our performance in delivering the investment pipeline is crucial to the future viability of a number of economic sectors outside of the resources and infrastructure sectors. Many of these sectors of the economy are growing (or surviving) by transitioning towards the delivery of major capital projects and capital-related employment.
Our performance in delivering projects, particularly major projects, on time while keeping cost as low as possible will be the key determinant of our competitiveness and our ability to take advantage of the growth in Asia.

As international studies demonstrate, major capital projects in all parts of the world are prone to cost and time overruns. The risk of overruns and project failure increases with the size and complexity of the project. Australian projects share these fundamental risks, but the evidence below points to Australian projects facing additional challenges to cost effective and productive project delivery. These factors are affecting our relative competitiveness as an investment destination.

Cost of projects: Australia is a high-cost investment location

Australia appears to be a high-cost destination for delivering capital projects relative to other comparable countries.

Research conducted by Independent Project Analysis (IPA) for the BCA shows that resources projects are 40 per cent more expensive to deliver in Australia than in the United States Gulf Coast.19 This figure draws on a database of around 12,000 completed projects, it includes 650 capital projects, 28 major iron ore and coal projects and 28 large processing projects. It is the largest and most comprehensive database of major projects of which the BCA is aware.

Table 1 summarises the average cost of certain types of projects in Australia compared to the cost of installing equivalent projects on the US Gulf Coast (without adjusting for Australian labour rates and construction productivities).

Matching premium price with premium performance. This is how Australian LNG will continue to thrive in a more competitive supply environment.

– Peter Coleman, Chief Executive Officer of Woodside Energy Limited, at the 2012 APPEA Conference.
Cost premiums are also evident for some infrastructure projects:20

- hospitals (62%)
- schools (26%)
- airports (90%)
- shopping centres (43%).

Our study identified a lack of statistical and benchmarking analysis of major economic infrastructure performance in Australia relative to overseas experience. This analysis would be highly useful for guiding better project delivery.

**What is known about the drivers of cost in Australia?**

While data limitations hinder a full understanding, there are some drivers of Australia’s relatively high delivery costs that can be identified.

**Input costs:** according to the ABS, the costs of infrastructure delivery rose steadily through the 2000s at almost twice the rate of the CPI then fell during the global financial crisis and have since begun to rise again. Over the past 10 years Macromonitor notes that the fastest rising cost components for construction projects have been labour and fuel.

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**Table 1: Summary of Australian project cost performance (without location adjustment)**

<table>
<thead>
<tr>
<th>Project type</th>
<th>Average cost compared to US Gulf Coast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustaining capital projects</td>
<td>40 per cent higher</td>
</tr>
<tr>
<td>Iron ore and coal developments</td>
<td>38 per cent higher</td>
</tr>
<tr>
<td>Large complex processing projects</td>
<td>50 per cent higher</td>
</tr>
<tr>
<td>Offshore oil and gas developments</td>
<td>200 per cent higher (offshore platform and pipeline components only)</td>
</tr>
</tbody>
</table>


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**Table 2: Historic and forecast average annual growth in construction input costs**

<table>
<thead>
<tr>
<th>Period</th>
<th>Materials</th>
<th>Labour</th>
<th>Plant hire</th>
<th>Fuel</th>
<th>Business services</th>
<th>Other inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001–2006</td>
<td>3.8</td>
<td>5.2</td>
<td>1.9</td>
<td>8.3</td>
<td>2.9</td>
<td>3.7</td>
</tr>
<tr>
<td>2006–2011</td>
<td>3.9</td>
<td>7.0</td>
<td>2.5</td>
<td>0.5</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>2011–2021 forecast</td>
<td>3.8</td>
<td>5.8</td>
<td>2.8</td>
<td>2.6</td>
<td>2.9</td>
<td>3.3</td>
</tr>
</tbody>
</table>


Over the next 10 years Macromonitor projects that labour costs will rise fastest, at 5.8 per cent per annum, followed by materials at 3.8 per cent per annum. This growth in labour costs is based on estimates of full-time average weekly earnings.
Labour costs and productivity performance:
IPA conservatively estimates that US$1 of construction labour in Australia would cost US$0.65 on the US Gulf Coast for Australian resources and industrial projects. This is a function of:

- the higher average cost of labour in Australia of $80 per hour versus $68 per hour in the United States
- Australian projects requiring 30 to 35 per cent more labour input to deliver the same project compared to the US Gulf Coast.

It is anticipated that for a number of large projects, particularly in regional areas where labour is scarce, this productivity differential will worsen dramatically and could more than double in some cases.

If Australia is to maintain wages growth, we will have to improve labour productivity. The BCA has said on numerous occasions that our shared goal for Australia is for it to be a high-wage, high-productivity nation.

Timeliness of delivery
The timeliness of delivery is critical to project viability. The Productivity Commission estimated that expediting the regulatory approval process for a major project by one year could increase the net present value of returns by 10 to 20 per cent, simply by bringing forward income streams.21

In terms of timeliness, Australia’s performance in this regard appears to be similar to the international experience. In an assessment of 23 recently completed transport and water infrastructure projects, Evans & Peck22 found average time overruns were between minus 10 per cent and plus 10 per cent for the projects.

Timeliness appears to be linked to the project delivery model and its complexity. For example, for public infrastructure projects the time taken for project completion against estimate at contract signing was 3.4 per cent lower for public–private partnerships (i.e. delivered ahead of time) and 23.5 per cent higher for traditional procurement (i.e. delivered behind time). And more complex projects are at greater risk of time and cost overruns.

Lack of data limits understanding of cost drivers
The drivers of Australia’s relatively high project costs are difficult to determine due to data limitations. There is little comprehensive data available on project performance in Australia that is comparable across project types and industry sectors.

If governments and businesses are to improve the quality of their program delivery in support of major investment projects, it will be important for them to have access to up-to-date and comprehensive information on all investments underway and in planning. The lack of a comprehensive and official projects list is a potential barrier to good policymaking. Additionally, governments must have up-to-date information on Australia’s performance in delivering major projects, and the drivers of this performance.

Low labour productivity has real impacts on Australia’s competitiveness. The challenge is to understand what is causing low labour productivity and to identify ways to improve it. This is essential to sustaining Australia’s wage growth and ultimately our standards of living.

COAG has taken some initial steps to develop this understanding by tasking Heads of Treasuries to urgently scope a proposal for the Productivity Commission to benchmark Australia’s major project development assessment processes against international best practice and also to analyse construction industry costs and productivity.23

The BCA continues to argue that it is vital that these studies go ahead. The Productivity Commission, in analysing construction industry costs and productivity, should take a comprehensive approach and examine all aspects relevant to delivering major projects. It should analyse the high project costs that are adversely affecting Australia’s competitiveness – including construction costs, delays and workplace productivity. In the absence of a comprehensive Productivity Commission study, the BCA will examine options to commission its own inquiry into these issues.

If we do not have quality data on the timing and nature of projects in the investment pipeline, or the drivers of costs and delivery time, governments and businesses will not be able to develop the right policy settings or take the right decisions in order for Australia to remain competitive.
The impact of these risks, should they be realised, are also significant. The changing nature of our economy towards more investment-oriented output increases the consequences to the Australian economy, our standards of living, and our cities and regions if these projects fail. This is because we do not necessarily have a ready fallback option to pick up the economic slack.

The cost risk
We are a high-cost destination for project delivery, and there is a risk that these costs will rise further, making Australia an uncompetitive place to invest and putting projects in the pipeline at risk. Lifting our performance to achieve a 10 per cent increase in project efficiency means $92 billion in cost avoided on that $921 billion pipeline. That would pay for high-speed rail or a large down payment on capital city metro systems in Australia’s major cities.

The non-delivery risk
There are $192 billion of projects under consideration (historically with an 80 per cent chance of commencing) and $280 billion of projects that are classed as possible (with a 50 per cent chance of commencing). In effect, close to $300 billion of this planned future investment is expected to proceed. There is a fragility to these investments occurring; if the likelihood of these projects proceeding is halved due to changed circumstances in Australia or the global economy, or due to increases in our already high cost premiums, only $150 billion would be likely to proceed.

As argued above, this will have flow-on effects well beyond those sectors directly impacted. If the economy grows at a trend over the next 10 years, at a rate of around 3 per cent annually, Australia’s GDP will grow from $1.3 trillion to $1.8 trillion (in today’s dollars), or by 34 per cent. We know that structural changes are occurring, with lower consumption, and investment and exports will likely be the main contributors of future growth. If we don’t succeed in executing this investment – and get the exports that come with it – there will be few other sources of growth.

The missed opportunity risk
Projects need to be completed in time and cost effectively to take advantage of high commodity prices. If delays mean that projects do not come online during the time of elevated commodity prices, future export revenue will be reduced and sunk costs may be foregone. Project investors face the risks of project underperformance in the first instance, but all of us in the community ultimately also bear these risks. Investors are currently risking very large amounts of capital in Australia’s major projects and are making decisions on whether they will invest in the projects in the pipeline that are still to be committed. Poor project performance puts the expected returns to capital, and in some cases the capital itself, at risk of not being recovered. At the firm level, failure to deliver will cost investors their returns and Australian workers potential jobs. Additionally, poor project performance will discourage governments and private investors from bringing forward many of the needed public infrastructure projects in the future, such as the second Sydney airport.
Five key barriers were identified to the effective delivery of high levels of capital investment in Australia characterised by an unprecedented number of large capital projects. To ensure these conditions are in place, governments need to take a coordinated approach across a number of key policy areas.

Table 3: Key barriers to the successful delivery of major projects

<table>
<thead>
<tr>
<th>Community concerns</th>
<th>Capacity constraints</th>
<th>Efficiency problems</th>
<th>Timely funding and delivery of public infrastructure</th>
<th>Investor confidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lack of economic and social development in communities</td>
<td>• Size of projects and sequencing</td>
<td>• Planning approvals (including conditions) red tape</td>
<td>• Shortage of infrastructure that underpins private investment (ports, etc.)</td>
<td>• Quality and predictability of the policy environment</td>
</tr>
<tr>
<td>• Lack of informed national discussion on Australia’s growth challenge</td>
<td>• Labour/skills shortage</td>
<td>• Project design and project management</td>
<td>• Shortage of infrastructure which is vital to increasing city productivity and supporting overall economic growth</td>
<td>• Effects on investor confidence</td>
</tr>
<tr>
<td>• Lack of political leadership</td>
<td>• Equipment and materials supply</td>
<td>• Workplace productivity</td>
<td>• Funding and financing barriers</td>
<td></td>
</tr>
</tbody>
</table>

Source: Business Council of Australia analysis.
Community concerns

Problem
While many communities embrace the economic and social development opportunities of the investment boom, there are instances where a lack of community support for major projects is working against the delivery of current and future projects.

The drivers of community rejection of major projects include:

• concerns about the local economic, environmental and social impacts of projects
• a lack of planning for regional communities to ensure they receive a social or economic dividend from major project developments
• a planning system that provides for insufficient community input at the early planning stage or when zoning decisions are made. This can lead to heightened community concerns (and legal challenges) when projects are imminent or underway
• a lack of clear public leadership to explain the growth imperative, our implicit population strategy, or the vital need to invest and plan for our future.

Evidence
The Government of Western Australia has established its Royalties for Regions program in part to ensure that communities associated with major resource development projects receive appropriate community and public infrastructure.

In a submission to the Fly-in Fly-out Inquiry, BCA member Fortescue Metals Group Limited pointed to a number of constraints to growing a residential workforce in Port Hedland, primarily due to poor planning around social and economic infrastructure.24

Community concerns about broader ‘macro’ issues such as structural change and population growth are borne out by recent polling – 52 per cent of Australians would prefer our population to stay at current levels or be lower (ANU poll), and 78 per cent of Queensland voters favour no mining on prime agricultural land.25

Possible solutions
The importance of the investment pipeline to living standards and growth should be explained to the community.

This needs to be supported by better strategic land use planning that includes effective processes to resolve community issues in a timely manner (recognising that the community might still be concerned after that).

The GST distribution should be reformed so that it takes account of the costs associated with rapid economic growth, including the public infrastructure necessary to fully exploit opportunities flowing from strong demand for commodities from resource states. It should also recognise the potential diseconomies of scale in delivering services in rapidly growing cities.

The Commonwealth needs to adopt strong leadership on population growth, and to provide a more certain framework for all levels of government (and businesses) to plan and invest to improve the health, amenity and convenience of our cities. We need vastly better economic development for regions that are at the centre of the investment boom.

Capacity constraints

Problem
Multiple projects, many of which are being delivered simultaneously, will cause a ‘competition for resources’; not all projects can employ the same limited group of employees, draw upon the same pool of capital funds or buy from the same market for intermediate goods. Where there are not enough resources available this could result in delays to the commencement or delivery of projects.

Evidence
The nine largest projects delivered in Australia’s history are either underway or about to commence.

There are 160 projects of over $1 billion in the pipeline, with 72 currently underway, all competing for personnel skilled in project design, management and delivery as well as materials and equipment.

Possible solutions
Governments need to prioritise efforts to expand the capacity of the economy to deliver projects.

Governments can better inform themselves of the future workforce capacity requirements to deliver investment to improve the design of labour mobility, labour skills training and labour migration policies and programs.

The Commonwealth should continue to pursue migration policies that address Australia’s skills shortages and build a larger, more skilled workforce for the future.

Maintaining an open investment and trading regime is key to making materials inputs and finance accessible for project investors.
Efficiency problems

Problem
The time and cost of individual projects are driven by many factors. The three key issues we identified were:
• the efficiency of government processes for planning and project approvals and conditions
• the quality of project design and management
• workplace productivity.

Planning and approvals: Australia’s businesses and community benefit from a regulatory system that safeguards environmental, safety and cultural standards. But Australia has multiple, inefficient processes across and between governments that are not set up to deal with multiple major projects. This can add significantly to project costs and delay commencement.

Project design and management: the size and nature of the investment pipeline means that Australia must train or attract high-quality project planners and managers to overcome major skills shortages.

Workplace productivity: research by the BCA shows that a combination of Fair Work Act arrangements for greenfield sites and the lack of agreement options for employers, coupled with labour shortages and the time-critical nature of projects, are forcing up labour cost for projects. This will become more acute as the projects in the investment pipeline are rolled out.

Evidence
Productivity on Australian projects is estimated to be 30 to 35 per cent lower than for comparable projects in the United States. There are concerns within industry that this will worsen significantly for some major projects experiencing major skills shortages. More research on project productivity performance and its drivers is warranted in Australia.

The experience of a BCA member company in seeking approval for a major resources project provides an illustrative example of the complexities of the government approvals process. The environmental assessment for the project was done under Australian Government and state legislation. The assessment took more than two years, involved more than 4,000 meetings, briefings and presentations across interest groups, and resulted in a 12,000-page report. The assessment was advertised widely across Australia for comment and resulted in about 40 submissions. When approved, more than 1,500 conditions – 1,200 from the state and 300 from the Commonwealth – were imposed. These conditions have a further 8,000 sub-conditions attached to them. In total, the company invested more than $25 million in the environmental impact assessment.

Possible solutions
All governments need to improve planning processes for major project development approvals and reduce duplication between levels of government. The BCA supports the April 2012 COAG commitment to streamline the environmental approvals process and to examine reforms that could be undertaken at the state and territory levels to improve the approval process for major projects.

The reform effort will see all jurisdictions work together to develop a structured approach to ensure environmental impact assessments for all eligible projects are assessed (where the proponent agrees) using bilateral agreements under the Environmental Protection and Biodiversity Conservation Act. The Commonwealth will accredit state environmental approvals to remove the Commonwealth’s concurrence powers so that state approvals count for Commonwealth approvals.

States should reform their processes to:
• undertake regional planning (as well as capital city planning) in collaboration with the Commonwealth and local governments to identify major land uses and associated infrastructure requirements
• use new planning instruments to allow all policy matters to be brought forward into rezoning decisions, which provides for subsequent developments to be deemed complying developments having been tested against a set of performance standards
• reserve areas for designated activity as part of strategic planning and where possible deem permissible activity as complying, for example, resources exploration.

All governments should work to ensure a better interface between state and Commonwealth processes for approving major projects.
As noted earlier, the BCA also supports COAG tasking Heads of Treasuries to urgently scope a proposal for the Productivity Commission to benchmark Australia’s major project development assessment processes against international best practice and also to analyse construction industry costs and productivity.

The BCA continues to argue that it is vital that these studies go ahead. The Productivity Commission, in analysing construction industry costs and productivity, should take a comprehensive approach and examine all aspects relevant to delivering major projects. It should analyse the high project costs that are adversely affecting Australia’s competitiveness – including construction costs, delays and workplace productivity.

Governments and businesses need to place a greater emphasis on proper project design and planning to ensure successful delivery. Australia needs to put in place a workplace relations system that allows firms to build a capable workforce, tailored to delivering individual projects.

Exhibit 1: Desirable characteristics of state processes for major approvals

Major project approval status where the minister is the consent authority must make explicit the types of projects to be dealt with by the state, rather than local government.

States developing a ‘critical infrastructure’ status that means major projects which fall into this category are deemed approved from the outset and not subject to third party approval.

A single agency must have responsibility for development assessment.

Major project assessment should require state authorities to issue upfront the standards, requirements and the technical studies that need to be incorporated as preconditions for consent to be granted.

These requirements should incorporate the Commonwealth’s Environmental Protection and Biodiversity Conservation Act requirements so that both levels of government have stipulated these standards for consent and the two levels of government are compelled to work together.

Timeframes for assessment should be made explicit. If a development which is complying (i.e. permissible within the zoning provisions and the local planning scheme) should be deemed approved once the timeframe has elapsed.

There should be no ‘stop the clock’ provisions for any agency other than the agency with consent powers.

The development consent should be able to be issued in the form of a concept approval, which would allow very complex developments to be staged in over long periods. This would mean a project, which is currently subject to new approvals at various stages, would only be subject to meeting certain conditions, or providing updated information, etc. The merit of the proposal should not be subject to assessment. This would give ‘bankable’ long-term approvals to major projects to facilitate financing.

Specialist major project assessment teams should be established in state planning agencies. These should have improved resources and specialist expertise. Developer fees could contribute to a ‘blind trust’ to support these units, who should have the power to command other agencies.

States should set up a major project coordinator (e.g. in South Australia) so there is one point of contact to ensure all approvals are timely.

States should bring all development, pollution and licensing approvals under a major project approval.

Source: Business Council of Australia.
Timely funding and delivery of public infrastructure

Problem
There is a real challenge to provide the freight, energy, water and communications infrastructure at the same pace as projects are being commissioned in fast-growing parts of regional and remote Australia. In our cities and major regional centres, there is community concern that infrastructure is not being adequately provided to service a growing population.

Failure to deliver public infrastructure and to plan for the growth of our cities and regions puts our productivity at risk and makes it harder to build community support for the economic growth required to deliver the investment pipeline. For example, if the community cannot see the benefits of the investment boom through better public infrastructure, skilled migration policies (which are essential to delivering major projects) are unlikely to gain critical public support.

It is essential that governments fund and deliver public infrastructure so that businesses and communities are able to maximise the benefits of the investment pipeline. This means:

• investing in public infrastructure – freight, energy, water and communications – to make it easier to source key inputs for major project development and for distributing product
• investing in our cities to improve their liveability and productivity. Australia’s cities are key gateways for goods and sources of professional services required for major projects
• ensuring public and private funding is available to secure the opportunities in the investment pipeline.

Evidence
Sydney and Melbourne are each projected to grow to approximately seven million people by 2050, and Brisbane to four million people, leading to a growing need for investment in the infrastructure of our cities.

With governments consolidating their budgets and unwilling to take on debt, funding has dried up. The Commonwealth’s Building Australia Fund is almost exhausted and the states are not commencing many new projects.

Possible solutions
Australia’s governments should step up their efforts to plan and prioritise infrastructure for population and economic growth in capital cities and in regions.

Infrastructure Australia should play a greater role in identifying Australia’s future strategic infrastructure needs not already identified by the states.

As part of its annual federal budget process, the Commonwealth should publish a schedule of federal funding contributions towards infrastructure projects of national significance.

Any cost–benefit analysis of urban infrastructure proposals should factor in assumptions for population and economic growth in line with Australia’s growth projections.

Policy frameworks should continue to support the private provision of economic infrastructure through the adoption of infrastructure pricing models that allow for the full recovery of the efficient costs of investment.

Governments should unlock funds for infrastructure by adopting a sound approach to privatising existing public assets.
Exhibit 2: Who should own infrastructure?

Three criteria should determine whether an asset is owned privately or by governments:

1. Governments should sell infrastructure assets where the private sector already owns other like assets and provides other like services (this effectively demonstrates adequate policies are already in place to protect consumers).

2. Private ownership should be preferred where an appropriate and transparent price can be established for the infrastructure service in any of these three ways:
   - there is a market price set by an effective and contestable market for the infrastructure service
   - there is a regulated price that allows an adequate return on an efficient investment while also protecting the interests of consumers
   - there is a contract price implicit in the availability payments that a government makes to the owner of the infrastructure on behalf of public users (includes community service obligations).

3. Government ownership should only be preferred where a public benefit test demonstrates that government ownership is necessary for achieving the social objectives of infrastructure provision.

Within this framework, private ownership of infrastructure is generally preferred to government ownership for two key reasons:

- Government ownership of infrastructure locks up limited capital that could be used to fund other worthwhile infrastructure projects.
- The private sector is better at innovating and running businesses and more likely to deliver better and more efficient infrastructure investments than government businesses.

It is important, however, that private ownership is consistent with achieving policy objectives for efficient investment in infrastructure and protecting the interests of consumers. The public sector’s role should be to set policy and regulation that achieves these aims.

Source: Business Council of Australia.

Failure to deliver public infrastructure and to plan for the growth of our cities and regions ... makes it harder to build community support for the economic growth required to deliver the investment pipeline
Investor confidence

Problem
A lack of investor confidence can reduce the likelihood of a particular project going ahead, as investors build uncertainty into the cost of doing a project, which ultimately impacts on project feasibility.

In Australia, investor confidence has been reduced by:

• the unpredictability of the policy environment, which is particularly relevant given the long time frame over which many projects in the investment pipeline will be delivered. All governments must commit to consulting with businesses and avoid making ad hoc changes to regulatory or taxation arrangements that will impact on the rates of return for existing capital investments. The lack of consultation around the Resource Super Profits Tax is an example of a poor consultation process that heightened uncertainty

• declining competitiveness: partly as a result of the policy environment relative to the rest of the world. Some investment projects are location specific and not able to be developed elsewhere due to a natural resource development or because the project is an infrastructure project in a city or region. Even so, investors can make choices about whether they invest in resources or infrastructure projects in Australia or in other countries. The greater the confidence to invest in Australia, the greater will be the availability of finance and the lower the cost of finance.

Evidence
An April 2012 Institute of Public Administration Australia paper concludes that public policy making in Australia is adrift. The paper assessed the Commonwealth Government’s process for developing 18 important public policies (such as the National Broadband Network and the Minerals Resource Rent Tax). It found that 10 of these policies failed widely accepted best practice policy development processes, while the remaining eight policies met more than seven of 10 criteria for best practice policy development.

On the World Economic Forum’s scale of global competitiveness Australia has dropped four spots to number 20.

Australia’s company tax rate of 30 per cent is the equal sixth highest out of 34 countries. The 10 lowest-taxing countries in the OECD have a company tax rate of 20 per cent or lower.

Possible solutions
Governments need to ensure changes in taxation and regulation affecting investment are conducive to long-term investment in Australia. New taxes or regulations should not materially lower investment returns for investments that were commenced under different arrangements.

Australia’s governments should continually aim to set internationally competitive regulatory and tax regimes and to raise the importance of growing Australia’s competitiveness when setting policy.

Australia should pursue tax reform that switches the tax mix away from taxing the returns to capital and more on the taxation of consumption, as has occurred in New Zealand and the United Kingdom.
**Six strategic priorities for Australia to secure its investment opportunities**

1. **build higher levels of community understanding** of the importance of growing our economy and population, as well as of individual investment projects, by showing leadership and working with communities to explain the benefits

2. **expand Australia’s capacity to deliver multiple capital projects** by growing and developing Australia’s workforce and maintaining open and competitive markets for the supply of labour, materials and equipment

3. **improve the efficiency of project delivery in Australia** by reforming government project approvals processes, building Australia’s capabilities for project design, innovation and management and by lifting workplace productivity

4. **support investment and growth through the adequate provision of economic and social infrastructure** in our regions and cities by developing growth strategies, addressing deficiencies in the strategic planning and funding of public infrastructure, and developing infrastructure markets coupled with greater private ownership of infrastructure

5. **build the confidence of investors** to risk capital in large, long-lived and complex investment projects in Australia by maintaining a competitive and predictable policy environment, and promoting fiscal stability

6. **ensure supportive government policies and programs** are facilitating efficient capital project delivery by businesses, by the Council of Australian Governments agreeing and acting to secure Australia’s investment and growth opportunities and configuring institutions and policies accordingly.
1. Governments to commit to publishing clear population growth strategies and projections to facilitate planning for growth.

1.2 Governments to publish long-term plans for infrastructure proposals which make clear the community benefits of those projects and which give the community time to assess and accept projects.

1.3 States to fast-track regional economic development strategies to identify and prioritise social and economic infrastructure requirements in areas impacted by substantial economic and population growth.

1.4 The GST distribution should be reformed to account for the costs associated with rapid economic growth. It should also recognise the potential diseconomies of scale in delivering services in rapidly growing cities.

1.5 Strategic land use planning processes should be implemented which include effective ways to consider community issues in a timely manner.

1.6 Government and business to develop best practice guidelines for community engagement around major projects that have significant impacts on communities, including:

- engagement early (including during feasibility phase)
- community liaison groups
- provision of information including on project impacts and how the community will be involved in the project
- identification of the lasting positive legacy for communities.

Build higher levels of community understanding of the importance of growing our economy and population, as well as of individual investment projects, by showing leadership and working with communities to explain the benefits.
2.1 The Commonwealth to request Skills Australia to undertake regular analysis of the skilled workforce needs of the portfolio of all major capital investments in Australia.

2.2 All governments and relevant agencies to use future workforce estimates to better target training and migration programs to alleviate skills shortages.

2.3 COAG to meet its commitment to complete the occupational licensing reforms to recognise licences across state and territory jurisdictions by 2013.

2.4 State governments to establish special development authorities for regional growth areas to expedite land approvals and the development of social and economic infrastructure.

2.5 Governments to work with industry to overcome funding and regulatory barriers to the effective development of training systems to build workforce-ready capabilities.

2.6 The Commonwealth to:
   • set policies to support a growing Australian population and workforce over time by committing to a long-term strategy in accordance with the projections in the 2010 Intergenerational Report
   • maintain the annual permanent migration program at least at its current levels (currently at a minimum of 190,000 total; 129,500 of those are skilled migration)
   • ensure flexibility in uncapped temporary migration schemes such as 457 visas and the efficient implementation of the Enterprise Migration Agreement program and do not make the requirements to comply with the EMA program any more onerous for eligible projects
   • remove all barriers to the recruiting of engineers and project managers with the appropriate levels of experience to oversee very large projects in Australia.

2.7 The Commonwealth to continue to maintain an open investment and trading regime that makes materials inputs and finance accessible for investors in Australian capital projects, and to not mandate local content in projects.

2.8 Governments can play a role to assist Australian companies to overcome information asymmetries in the new emerging global supply chains supporting major capital projects.
3. Improve the efficiency of project delivery in Australia by reforming government project approvals processes, building Australia’s capabilities for project design, innovation and management and by lifting workplace productivity.

**Project approvals**

3.1 All jurisdictions to adopt a risk-based approach to regulation to ensure that regulatory effort is directed to the areas of development approvals where it will have most impact.

3.2 COAG to streamline the environmental approvals process and to examine reforms that could be undertaken at the state and territory levels to improve the approval process for major projects:
- all jurisdictions to work together to develop a structured approach to ensure environmental impact assessments for all eligible projects are assessed (where the proponent agrees) using bilateral agreements under the Environmental Protection and Biodiversity Conservation Act
- the Commonwealth to commit to a six-month time frame to accredit state environmental approvals to remove the Commonwealth’s concurrence powers (so that state approvals count for Commonwealth approvals).

3.3 The Productivity Commission to benchmark Australia’s major development assessment processes against international best practice in terms of timelines for approvals, cost of administration and compliance and the additional costs arising from conditions imposed on projects.

3.4 State governments to adopt improved best practice arrangements for assessments of major economic and resource projects. This includes a single agency to deal with major project approvals and removing the concurrence powers of other state government agencies (further details are in Exhibit 1 of this publication).

3.5 State governments to:
- undertake regional planning (as well as capital city planning) in collaboration with the Commonwealth and local governments to identify major land uses and associated infrastructure requirements
- use new planning instruments to allow all policy matters to be brought forward into rezoning decisions, which provides for subsequent developments to be deemed complying development and then tested against a set of performance standards
- reserve areas for designated activity as part of strategic planning and where possible deem permissible activity as complying, for example, resources exploration.

**Workplace legislation**

3.6 The Fair Work Act needs to be amended to:
- allow more agreement options for employers in setting or agreeing terms and conditions prior to projects starting, or access to impasse-breaking processes
- allow employer-own agreements, the terms of which match the duration of the relevant project
- remove ambiguity arising from previous decisions by outlawing clauses that are intended or have the effect of inhibiting use of contractors and/or labour hire.

3.7 The Commonwealth to reinstate the Australian Building and Construction Commission, with its original powers.

**Productivity Commission review of major project costs**

3.8 The Productivity Commission to analyse all factors impacting on major project costs and delivery performance in Australia including construction industry costs, delays in project delivery and productivity. There should be no limits to the scope of this review. For example, workforce issues and industrial relations should be within the scope of the terms of reference.
Efficient markets

4.1 Australia’s governments should put in place policy frameworks for efficient infrastructure provision and use by:

- formulating clear long-term strategies for sustainable population growth, land use and the development of Australia’s energy and water resources that provide important long-term signals to private investors

- producing integrated long-term strategic plans that:
  - identify urban and regional growth corridors and future infrastructure needs
  - list priority projects with the highest economic and social benefits according to rigorous and transparent cost–benefit assessments that factor in future growth

- developing markets for water, energy, communications and transport that apply full cost-efficient pricing regimes and attract private investment:
  - states to remove all price caps on electricity at the retail level
  - move to implement the COAG Road Reform Plan
  - apply competitive neutrality principles in full to the pricing of services provided by Government Business Enterprises and report on compliance

- task Infrastructure Australia to conduct its own regular strategic assessments to identify prospective infrastructure projects of national significance not identified by the states

- the forthcoming Productivity Commission review of the national access regime (currently scheduled for late 2012) should ensure Australia’s infrastructure access regimes are clear, transparent, consistent and efficient.

4.2 Governments should improve their strategic city planning systems to take into account the specific findings for each city in the report of the COAG Reform Council.28

Free up public funds

4.3 Reform Australia’s infrastructure funding models to allocate funding for public infrastructure projects on a consistent, prioritised basis:

- to build infrastructure funding capacity by freeing up capital in public assets, all governments should use the following criteria to determine whether an asset is owned privately or by government:
  - governments should sell infrastructure assets where the private sector already owns other like assets and provides other like services (this effectively demonstrates adequate policies are already in place to protect consumers)
  - private ownership should be preferred where an appropriate and transparent price can be established for the infrastructure service in any of these three ways:
    - there is a market price set by an effective and contestable market for the infrastructure service
    - there is a regulated price that allows an adequate return on an efficient investment while also protecting the interests of consumers
    - there is a contract price implicit in the availability payments that a government makes to the owner of the infrastructure on behalf of public users (includes community service obligations)
  - government ownership should only be preferred where a public benefit test demonstrates that government ownership is necessary for achieving the social objectives of infrastructure provision
Free up public funds

4.3 (continued)

• governments to agree principles for funding new infrastructure projects that prioritise the greater application of user charges and which set out a process for quickly determining and agreeing any state and federal funding allocations for each project
• as part of the annual federal budget process, publish a schedule of federal funding contributions towards infrastructure projects of national significance.

Understanding the economic benefits

4.4 Charge the Productivity Commission with undertaking a biannual assessment of the economic impact of Australia’s infrastructure policies and to identify opportunities for improving national infrastructure policy frameworks to support investment and growth.

Improve procurement

4.5 All governments to improve project procurement and tendering processes:
• ensure state governments recruit skilled personnel who can identify and manage the procurement model that best suits each project (e.g. public–private partnership, alliances, design and construct)
• reduce tender risks and costs for bidders, by preventing cancellations occurring after the tender process has commenced and through simpler bidding and contracting processes, reducing documentation requirements, standardising tendering processes across state governments where possible, and reducing excessive time for decision making.

5. Build the confidence of investors to risk capital in large, long-lived and complex investment projects in Australia by maintaining a competitive and predictable policy environment, and promoting fiscal stability.

5.1 Australia’s governments should continually aim to set internationally competitive tax regimes and a best practice regulatory environment to ensure Australia’s competitiveness.
5.2 Governments need to ensure changes in taxation and regulation do not harm the long-term investment environment in Australia.
5.3 Any additions or alterations to Australia’s taxes or regulations should pass a net benefit test and should not materially lower investment returns for investments that were commenced under previously established taxation arrangements. Major changes to Australia’s business tax system should only apply prospectively.
5.4 Australia should aim to move progressively to a tax system less reliant on company tax and personal tax (taxes on mobile factors) and be more reliant on more efficient, indirect taxes such as consumption tax and land tax.
5.5 Governments should prioritise macroeconomic stability through fiscal discipline and credible policy making that reduces uncertainty for investors and creates an environment conducive to investment and innovation.
5.6 The Commonwealth to make greater use of the Productivity Commission to analyse economic policy initiatives for the effects on productivity and competitiveness and provide advice to governments on the best policies for growing investment.
Governments at COAG should recognise the high importance of major project delivery to economic growth and agree a common objective to secure Australia’s substantial set of investment opportunities. Governments at COAG should develop a national investment strategy that improves coordination of policy in the areas of:

- policies to unblock the delivery of the public infrastructure pipeline
- inefficient and duplicative major project approval processes and excessive conditions
- workforce development to address labour shortages on major investment projects
- lifting productivity on major development sites.

Governments and COAG should organise their analytic work around this priority and assess all other economic and regulatory policy through this lens:

- all governments should have a single agency and minister responsible for major projects
- the Commonwealth should appoint a minister responsible for:
  - encouraging and facilitating the delivery of major capital investments
  - measuring and monitoring Australia’s major capital project pipeline and its delivery
  - trouble-shooting to help to resolve policy-related problems that emerge
  - assisting in building higher levels of community understanding
- the federal government to review its current departmental structure to ensure it is streamlined and aligned to supporting effective delivery of Australia’s major investment opportunities.

Treasury should rigorously test its projections about business investment growth against the expected realised investments in Australia’s investment pipeline list and publish sensitivity analysis in the budget papers.

Governments should collect data on the cost and time of public infrastructure project delivery in Australia and benchmark performance across Australia and against global experience to highlight areas for improvement.
NOTES

2. OECD *Economic Outlook* projections, December 2011.
7. This figure is larger than the Commonwealth Government’s current estimate of $504 billion (Bureau of Resources and Energy Economics, *Mining Industry Major Projects April 2012*), which accounts for investment in the resource sector only. The $921 billion investment pipeline includes all current and possible future capital investment on resources projects, and economic and public infrastructure – many of which are speculative. Refer Note 3 for source.
10. North West Shelf was over $25 billion, but this was a series of projects over many years. Refer Note 3 for data sources.
17. J. Decressin, Deputy Director of the IMF’s research department and lead author of the IMF’s latest *World Economic Outlook* report, in an interview on the ABC Radio National Breakfast program on 25 January 2012.
20. BCA calculation based on the Turner & Townsend *International Construction Costs Survey 2012*.