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Department of Treasury and Finance  
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**MASTERS OF OUR INDUSTRY**

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Dear Secretary

### **Future direction for Victorian public private partnerships**

Thank you for the opportunity to provide input into the *Future direction for Victorian public private partnerships* (PPPs) discussion paper.

The Master Builders Association of Victoria is the peak body representing employers in Victoria's building and construction industry. Our membership consists of more than 9500 builders, subcontractors, manufacturers/suppliers and students.

Infrastructure is a critical component to delivery long term economic prosperity and productivity improvements. In an era where government revenues are increasingly constrained, the use of PPPs will play a vital role in the supply and ongoing management of new services. From public transport to roads, courts and prisons through to schools, hospital, social housing and scientific facilities, PPPs will be an essential component of providing community infrastructure that Victorians deserve and that the construction industry is ready to deliver.

It is essential that government maintains an ongoing ambition to look across the world to identify leading practices in the development and delivery of sound PPP models that can be applied to the infrastructure projects and services that for our community that will generate jobs and ongoing economic growth.

Innovation is the key to balancing the needs of government wanting the delivery of new infrastructure projects and the private sector's requirement to deliver these projects without financial detriment. It is absolutely necessary to ensure government does not take a one size fits all approach to developing PPP projects and models and that risks arising through such projects are appropriately allocated to the party best able to mitigate such risks.

Flawed PPP models can lead to disastrous impacts, as seen with projects such as Sydney's Cross City Tunnel. The use of innovative and forward thinking PPP models can, however, provide significant benefits, as seen with projects such as Peninsula Link, procurement of which took place in the aftermath of the global financial crisis. The use of availability charging, rather than tolls, ensured a low risk PPP model was sent to market that attracted interest internationally. It is a project that has generated significant construction activity, supported jobs and, once opened, will provide a new 27 kilometre freeway that will open up new economic opportunities for the Frankston and Mornington Peninsula communities.

### Economic conditions

Victoria saw growth of 1 per cent in non-residential building works in 2011-12, up to a value of \$7.9 billion due to the new Victorian Comprehensive Cancer Centre. However, Master Builders forecasts that this will decline by 2 per cent in 2012-13 to \$7.7 billion.

In the wake of the mining boom, Victoria's engineering construction activity continued to be significantly behind New South Wales and resource-rich states such as Queensland and Western Australia. In 2011-12, this sector saw a 2.2 per cent improvement in terms of the value of work across the state. Master Builders projects the value of Victoria's engineering construction works to decline 5.4 per cent to \$18 billion this financial year.

Simplifying PPP processes will help ensure the industry remains strong during this challenging economic period.

### Changing the value for money assessment

PPP projects should always be designed to deliver value for money. As highlighted in the discussion paper, government should better utilise the skills within the building and construction industry in the development of a project's Public Sector Comparator (PSC). This could help prevent problems such as scope creep, whereby technical project design changes are required during or after a tender process. It could also better assist government in providing bidders a clear understanding of its objectives associated with any PPP project. Further, it would allow government to be an informed purchaser of infrastructure to ensure that risks, benefits and costs are better recognised.

PSCs should also allow comparison to additional infrastructure offered by the private sector for a proposed project. Again, the discussion paper highlights EastLink as a key example as the PPP offered significant infrastructure above that considered by government at the time, including additional lanes, train station upgrades and two toll free bypasses.

### Adopting modified finance structures

For large PPP projects, the use of progress payments during construction could be better utilised, particularly at a time when accessing finance continues to be a challenge in the market. It can also deliver long term financial benefits to government.

As PPP projects have been assessed by government to provide significant benefits to the community, it is appropriate that strong project delivery performance be recognised through appropriate partial payments during the construction phase in cases where partial government funding is warranted.

### Streamlining procurement process and bid costs

For bidding companies, PPP project proposals and tenders take up significant staff, time and financial resources. While government has the right to stimulate competition by seeking the most attractive bids, it does need to recognise that losing bidders invest substantial costs into bids for no reward. The costs of bidding seem to be escalating and does need to be managed as projects and bid processes become more complicated.

As noted in the discussion paper, Infrastructure Australia and KPMG have identified that Australian PPP project procurement is more costly than Canada and that design represents a substantial cost associated with preparing bids.

Efforts should be made to ensure industry fully understands the government's goals while pursuing a particular PPP project while minimising compliance and encouraging innovation to reduce the costs associated with bidding.

Master Builders supports the proposal to trial partial bid cost contributions, which would help protect those bidders who are ultimately unsuccessful in obtaining the rights to deliver and/or maintain a nominated PPP project. This could provide a valuable tool considering two stated project priorities for the Victorian Government are the East West road tunnel and Melbourne Metro rail tunnel – both of which are the largest projects of their kind undertaken in the state's history. Bidding costs for such complex, large scale projects will be enormous and the provision of bid contributions could ensure the government receives as many high quality, competitive bids as possible.

#### Other issues

To ensure industry is best placed to deliver PPP and other infrastructure projects, the Victorian Government should be prepared to publicly release a pipeline of proposed works. In an industry operating beyond borders like no time before, this would allow industry to appropriately allocate resources to ensure they are available and ready to be deployed towards preparing bids and, if successful, delivering projects.

Providing a detailed, long term timeline of project bidding and delivery schedules could have the capacity to drive competition and reduce costs by ensuring industry is best placed to help government meet its infrastructure objectives.

Managing workplace relations is also a critical requirement for the successful management and delivery of PPP projects. Excessive union control over construction projects often leads to delivery taking place beyond budget and schedule. These costs are then borne by taxpayers. Master Builders supports efforts the Victorian Government has taken to address disproportionate union power in the construction industry, both through the establishment of the Construction Code Compliance Unit as well as calling for a national review into construction costs.

If have any questions regarding this matter, please contact Tim Salathiel, Policy and Communications Manager, on (03) 9411 4515.

Yours sincerely



Brian Welch  
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