



**NSW Nation Building and Jobs Plan Taskforce**  
**Infrastructure Coordinator General's**  
**Address to NSW Infrastructure Summit**  
**- 13 September 2010**

Good afternoon ladies and gentlemen.

I would like to begin by thanking you for inviting me to this event.

As we confront a difficult and uncertain political landscape, I believe a discussion about the future of infrastructure development in Australia is necessary.

The dynamics of parliament have changed the future terms of policy decision, which could mark a potentially damaging period for construction sector growth in Australia.

Progressing smart investment and broad reforms in an era of fiscal prudence has already proved a difficult task, and remains an even more unlikely outcome with the formation of a minority government.

How we progress and shape the infrastructure debate in the coming months will be demonstrably important to political action or inaction on infrastructure policy.

A dialogue about the success of programs like the economic stimulus and the invaluable contribution it has made, not only to the prosperity of the state but to the benefit of thousands of students and residents, must therefore remain at the forefront of discussion.

The latest figures confirm the enormous contribution that the Stimulus Program has made to the health of the NSW economy. We have certainly 'dodged a bullet'.

Recent figures from Treasury and ABS confirms NSW has had six consecutive quarters of growth.

Final Demand for NSW grew by 5.7 per cent through the 2009-10 financial year. This figure is above the national average of 5.3 per cent growth.

Building approval data showing total dwelling approvals in NSW increased by 9.7 per cent in July, significantly above the national average increase of just 2.3 per cent;

More than 93,000 jobs created in the NSW economy since March year, and 23,679 jobs were created in NSW in the last month alone accounting for 77 per cent of all new jobs created in Australia.

### Overall scale of the Stimulus program

There has hardly ever been another other capital works program in NSW which reaches the scale of what has been achieved by the construction industry.

- \$7 billion in stimulus building funding
- Over 6,000 homes and capital works in over 1,800 schools across the State.
- 23,000 jobs supported each year
- 10% of jobs made up of trainee and apprentice positions

When compared to what we delivered for the Olympics – it has been a much more complex and, in many ways, significant task.

Currently;

- 99.7% of construction projects for the social housing program have now commenced – over 6,000 new homes.
- 1600 homes have already been completed
- Approximately 1,000 homes a month will be handed over to the community housing sector over the next three months.
- More than 99% of NSW Government education projects have commenced with most being completed by March 2011.
- Approximately 75 new school facilities are starting to be used by school communities each week.

We have proven two things in the implementation of the economic stimulus plan in NSW.

Firstly, we know that we have an extraordinarily capable construction sector right across the State. And secondly, we know how to create jobs for the future.

Despite this obvious success, there has been an unhealthy focus on waste and a marginal recognition of the achievements of the stimulus program – which was specifically designed to create jobs and build confidence, thereby offsetting the local impacts of the Global Financial Crisis.

In a recent report by Lateral Economics, an assessment of waste to outcomes ratio confirms that a degree of waste was a logical product of the speed with which the project was rolled out.

According to the Lateral Economics report,

“It was necessary for the projects to be rolled out rapidly to deliver on the macroeconomic intent of the policy – which was to stimulate the economy to minimize the downturn in employment in response to the financial crisis. There was thus a trade-off between speed and quality. Erring on the side of the former minimized the macroeconomic waste of unemployment at the cost of the microeconomic waste of additional costs for individual projects.”

Noble Prize laureate, Joseph Stiglitz went further,

“If you hadn't spent the money, there would have been waste. . . . You would have had high unemployment, you would have had capital assets not fully utilised - that's waste. So your choice was one form of waste verses another form of waste. And so it's a judgment of what is the way to minimise the waste. And what your government did was exactly right. So, Australia had the shortest and shallowest of the downturns of the advanced industrial countries.”

With last month's release of the Orgill Report we have seen the waste debate intensify. However, the report and mainstream media fail to contextualise the Report and its weaknesses. They are making the same mistake as the Report itself does – using data selectively and out of context.

Mr Orgill has heavily qualified the findings of his interim report when he says that *“Results will vary as our sample size increases over the next three months and becomes statistically valid”*.

The Report actually confirms that NSW has consistently led the way in the delivery of this vast and historic program.

I am quoting from the Report itself – the NSW Government has had the most challenging “BER P21” implementation task. Our program accounts for \$3 billion or 22% of the entire BER P21 program - 36% larger than the Victorian Government, the next largest education authority, and three times bigger than the NSW Catholic system.

Additionally, relative to the other large government education authorities, the Report notes that NSW has delivered impressively against the required implementation timeframes (95% of projects completed or construction commenced, versus 64% and 60% for the Victorian and Queensland Governments respectively).

And the most recent economic data for NSW proves the point. For example, the increase in education construction work alone has added 24 percentage points to the 5.5 per cent growth in total non-residential work in the NSW economy. Without that increase, non-residential activity would have fallen by over 20 per cent in that time frame.

As mentioned earlier, the treasurer has just announced that we have now had six consecutive quarters of growth in NSW and the fastest falling unemployment figures – when 18 months ago they were the fastest rising.

A whole raft of long term legacies have emerged from this successful delivery of the Stimulus Program in NSW.

#### In Social Housing:

- All 6,000 properties are designed to high environmental standards, with all dwellings complying with BASIX and the majority of dwellings achieving a six star Nationwide House Energy Rating.

- Designs feature rainwater harvesting with tanks connected to WCs and laundries, energy efficient lighting, gas or electric boosted solar hot water systems and cross-flow ventilation.
- These are homes that are smaller, well-located and easily adaptable to address the needs of an ageing population and assist those with mobility issues.
- Sites have been particularly selected to be close to transport and easy walking distance to shops, medical and community facilities.

In the schools program:

- These new assets are of high quality and feature robust finishes that are designed to withstand daily use for decades.
- New libraries, halls, classrooms, canteens, COLAs, toilet facilities, libraries, electrical upgrades, science and language centres, school site drainage improvements, heavy duty carpets, thicker gauge roofing material, impact resistant wall linings, conduits for future IT services and specialist fittings and finishes are just some of the wide-ranging improvements and assets.
- Projects are being built to the Schools Facility Standards (SFS) which was developed not only to reflect the needs of teachers and students, but also to meet the long term asset management requirements of maintainability, long life and minimum life cost and to ensure that any works undertaken would be able to stand the test of time.
- Most schools now have up-to-date documentation, drawings and plans that show where all site services and facility upgrades are located and the extent of the works. These are the maps for future improvements – things like plans for spare conduits for the installation of next generation IT upgrades and infrastructure improvements.

One of the main issues the construction sector has faced in recent decades is the de-skilling of the industry and the very real threat of a long-term skills shortage.

- Through the stimulus roll-out in NSW we have mandated that 10 percent of workers are apprentices including Aboriginal apprentices.
- This is about creating the next generation of skilled workers and up-skilling the industry.  
Through the BER, the Department of Education is actively tracking apprentice numbers, trades under which they are employed and where they are working.

In delivering the Stimulus Program in NSW we have:

- Brought private sector rigor to public sector expenditure programs
- Learnt how to stimulate the economy
- Made a lot of tenants, families, children, principals and communities very happy.
- Created enough infrastructure for a town 10,000 people
- New ways of bus/successfully

We have done this using all procurement methodologies across the whole program.

We started in February 2009 in the midst of the worst economic downturn in two generations, with a blank sheet of paper, no systems in place, no defined scope. Remember, our Procurement Models had to ensure that the funding reached the community as quickly and as broadly as possible.

The models we have used include:

- project managers in Housing that let traditional building contracts;
- Managing Contractors in the Primary Schools for the 21st Century (P21) program;
- a combination of Managing Contractors and design and construction packages let to builders for the Science and Language Centre (SLC) program; and
- National School Pride (NSP) projects were self-managed by principals or the Department of Education and Training's Asset Management Units.

This mix of procurement models has proven to be the most successful in Australia for managing projects of this scale by minimising risk, fast-tracking delivery and enabling greater government oversight.

For example, the much maligned Managing Contractor model gave us certainty to proceed with our projects knowing that the best of the construction industry had a major stake in delivering this massive program.

We knew they would not only deliver on time and within budget, but warrant quality and safety performance outcomes. This timely

performance is evidenced by the fact that more than 99 percent of the P21 program has already been tendered by the Managing Contractors - mostly to small and medium enterprises that have already started works on site.

Achievement of this rapid rollout has been a key factor in the economic growth of the State over the last 12 months, despite the constant public attention on small local problems which are inevitable in any program of this scale.

The Orgill Report itself recognised that the Managing Contractor model has allowed the NSW Government school system to achieve the most rapid roll out of the education economic stimulus when compared to its large government education authority peers.

The report also confirms that a system wide school level management would not have achieved the timeframe objectives in the larger states.

What this shows us therefore, is that NSW has taken the right approach in tailoring a delivery model that achieves the principal objectives of the stimulus.

### Towards 2011

As we reach the final stages of the program we must focus on the future of infrastructure development.

Despite the recent positive figures from Treasury and the ABS there remains wide spread caution about the future of economic growth in Australia.

According to the MBA June Quarter Survey,

“The solid pick up in sentiment experienced in recent times appears to have stalled, with builders becoming increasingly concerned about the sustainability of recovery as government stimulus programs begin to wind down.”

JBWere went further,

”Practically every region is expected to show slowing GDP growth in the second half of this calendar year, followed by a flat to mild pickup

into 2011. The fiscal stimulus from 2009 and inventory building has run its course with real demand momentum yet to follow through. In regions such as China and even Australia, constraint has been brought about through rising interest rates as inflationary pressure picks up.

“The test is whether private sector momentum can recover, especially investment. In the path of this outcome are multiple hurdles: business confidence, uncertain demand growth, access to bank credit etc ...”

It is therefore important that the private sector pick up from government stimulus and drive growth across the sector.

Currently we are facing an interesting crossroads in NSW. After 18 months of government stimulus and a historic round of infrastructure development, we are beginning to transition from a period of recovery to what appears real long term growth.

As the Stimulus spending reaches its final stages we must take what lessons we have learnt from the rollout of the NBJP and focus on strategies that will deliver continued growth to the sector.

Politicising the delivery of the Stimulus program is stopping the real conversation about where NSW is headed post stimulus.

The Master Builders Association for example, has said:

“With builders becoming increasingly concerned about the sustainability of recovery as government stimulus programs begin to wind down it is important to ensure that growth does not significantly slump in construction sector and more broadly across Australia. Financial constraints remain an issue for builders.”

How we sustain this growth is dependent upon private sector investment and progressive infrastructure policy. These are challenging tasks.

Encouraging private investment is itself dependent upon building confidence in a defined, long term infrastructure delivery plan for the State which transcends electoral cycles.

PPP and other infrastructure developments should not be experiencing set backs from a lack of project certainty.

PPP's like the cross city tunnel and to some extent the BER component of the NBESP have been stymied by political process and a lack of stakeholder understanding of project objectives.

We need to find a way therefore to depoliticize the roll out of infrastructure in the state and to simplify the delivery process.

The future of private investment is dependent upon a shift away from complex procurement.

Currently PPP's are the best method available to Australia's government to deliver large complex and expensive projects, achieving significant savings in both time and cost.

A new national plan to overhaul the information demands included in the bidding process of PPP's will significantly reduce tender costs of major projects.

High cost bids are a major deterrent to private sector investment and an unnecessary cost burden. Reviewing current bidding costs and traditional procurement practice is a potential avenue to securing better outcomes for the state. Furthermore, it represents a significant step in streamlining the implementation of major PPP projects in NSW.

Additionally, we have a potential opportunity to bring about lasting and far-reaching reform to our planning laws through the current review by Dr Neil Shepherd of the Nation Building and Jobs Plan Act, under which I have been operating for the last 18 months.

I believe this review will be integral in the coming years to the formation of a clear and defined vision for state infrastructure.

**Thank you**