



## **PREMIER OF VICTORIA TED BAILLIEU MLA**

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Friday, 7 September 2012

**TRANSCRIPT: TED BAILLIEU MLA  
SPEECH  
INFRASTRUCTURE PARTNERSHIP AUSTRALIA**

E&OE

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### **TED BAILLIEU:**

Thanks very much, Mark. I'm very pleased to be here. It's good to be at a infrastructure conference where we'll be talking about future.

I acknowledge Mark in his role as Chair of Infrastructure Partnerships Australia, and Sir Rod Eddington, as chairman of Infrastructure Australia, and his colleagues at IPA for their leadership role in this critical area. Acknowledge Tony Shepherd, President of the Business Council of Australia, and I acknowledge Louise Asher, Minister for Innovation, Services, Small Business, Tourism and Major Events, and acknowledge Shadow Minister Tim Pallas. Acknowledge all of those, past and present, including our indigenous communities, whose legacy we enjoy and whose legacy we seek to add to. It is an important legacy Victoria has inherited. Generations of Victorians have inherited a remarkable legacy in this State. Fuelled by gold at one stage, fuelled by agriculture and driven by ambition and aspiration, innovation and ingenuity.

That infrastructure is important to us all, because our forefathers built wisely. They built for the future and we have been the beneficiaries. They laid down the critical infrastructure that is so essential to our economy these days. We think of the Russell Hoddle Grid, our irrigation schemes, our railways, our utilities, our ports, our power generation, our civic infrastructure, remarkable city buildings, churches, town halls, bridges, roads, and more recently CityLink, EastLink, Southbank, Fed Square. We do have a remarkable legacy and that has contributed to Victoria being a leading state over many generations.

A state with only three per cent of the land mass, but producing 25 per cent of the GDP. A state with the fastest growing city in Australia. Australia's largest manufacturing centre. The busiest container port. The largest curfew-free major international airport. Abundant energy supplies, great quality water, the largest exporter of food and fibre, the most important transport networks that export produce to key overseas markets. That's the picture of a competitive state and the strengths of the Victorian economy. They are all underpinned here by a thriving, multicultural base and Victoria is a gateway to the world. What we have represents not only a great legacy but a great opportunity, and that's what we seek to nurture and promote.

We've got advantages that other jurisdictions would simply love to have. That is - as you all know too well - why infrastructure and particularly productivity enhancing infrastructure is so important to economic growth. We know that there is a shift of industrial activity away from inner and central Melbourne, and to the north and outer west and south east., We know that for industries that constitute the bulk of Victoria's economy, such as the freight and logistics industry, there's an urgent need to build infrastructure that improves those connections. That's what we seek to do, and we're now in an effort to build the next major city-shaping project for current and future generations.

I'm sure you're all aware the Productivity Commission has estimated that improving productivity in infrastructure, transport and energy sectors could increase GDP by at least two per cent. As IPA have been constantly reminding us, Australia's facing an infrastructure shortfall of nearly \$800 billion. It is a fact that a failure in a time of prosperity to balance spending in favour of infrastructure has left us with a major infrastructure deficit. That has occurred at the very time where construction costs have escalated and are pricing us out of infrastructure. Now there is less money to spend across Australia. We should be trying to get ahead, or at least keep up. But we're finding we have to spend to catch up and there are now significant costs and consequences, economically, if we don't address this shortfall.

A 'do nothing' approach, the Australian Bureau of Transport and Regional Economics estimates would cost \$20 billion by 2020, with \$6 billion of those costs in Melbourne alone. Working hours lost, delays, inefficiencies and congestion. I'll give you an example: during this morning's Melbourne peak the boom gates at Springvale Road were down for 50 minutes, which is usually around 40 per cent of the time. That occurs every day, as it does at Mitcham Road, where the boom gates are down for 45 per cent of the time around peak. On one of Melbourne's busiest rail lines, such as this one, we're seeing up to 250 trains passing through each of those crossings every day.

We promised action on those and we're delivering. Those crossings at Springvale and Mitcham, which have been crippling bottlenecks for years, will be gone as a result of decisions in this term. The travel times there will be reduced very significantly. Part of our plan to increase the efficiency of the road networks via a \$350 million commitment over three years has focussed on those road separations. That's just one small part of what we're seeking to do in infrastructure.

Before we get into the details, I just want to touch on some of the challenges for the Victorian economy. We're obviously facing significant challenges. There are international challenges. There are national challenges associated with significant policy uncertainty, leadership uncertainty and financial uncertainty, and particularly through the distribution of the GST. There is significant financial uncertainty for the states. We face our own challenges from unsustainable budget positions that we have inherited. We're seeking to deal with all of those. We inherited major cost blowouts on many projects and some of those we're still facing. We faced a write down of more than \$6 billion in GST just a few months before our budget. We have had a very significant reduction in our share of GST compared to other states. We also faced stamp duty and land transfer write downs. That's our budget position and our revenue shortfall, and Mark referred to that a moment ago. To give you an idea of that, this has been a bigger hit to Victoria's revenue than what occurred during the global financial crisis in 2008. Only this time, there's no bucket of money from the Commonwealth to make up.

Faced with those challenges, we have taken a very clear path with four key streams. We are going to rebuild budget capacity and we are going to run a responsible budget in this state,

that is first and foremost. Secondly, we're going to focus on productivity. Thirdly, we're going to try and do whatever we can to grow our markets internationally and locally. Fourthly, we're going to assist industry that is in transition.

When it comes to a responsible budget, that means containing expenses, it means getting debt under control, it means a responsible wages policy and we're sticking to it. It means maintaining a triple-A rating. Critically, at this point, it's about building budget capacity. That's what's of interest to you, and Mark referred to this as well. Building the capacity over time, to have the funds available to provide services and get the balance of infrastructure right over time.

We're not alone in that challenge. To illustrate that we did an exercise, we looked at the net operating balance of the states and indeed, we threw New Zealand and the Commonwealth in there. We looked at the net operating balance over our term, the four years of our term. Yes, if you're wondering about the federal figures, they're adjusted to be on the same accrual basis as the states. That shows quite clearly, in '11-'12, only two states showing a surplus. If you aggregate the net operating balance over four years, only two states, only two jurisdictions are showing an aggregate operating surplus and a modest one at that, Victoria and Western Australia. Considering a couple of million dollars of operating average surplus in Victoria, it wouldn't have bought us the Frankston bypass. It is a sobering reminder. Western Australia and Victoria are the only two states. That puts us in a relatively stronger position for the future. It means that we have to maintain a key focus on budget capacity and you'll see that these are all post-budget positions. Queensland's budget is on Tuesday and they have a real challenge in front of them.

So, we simply have to live within our means if we are to maintain Victoria as a leading state. The days of plunging states into debt and being bailed out by the Commonwealth are simply over. We're going to spend money wisely, but while as a state we can play our part, as you know, we're heavily dependent on the Commonwealth financial support for particular infrastructure projects.

The Commonwealth raises more than 80 per cent of revenue in Australia, but the states are responsible for 40 per cent of the expenditure. That's a fundamental imbalance. To put it another way, the Commonwealth's revenue is seven times that of Victoria and that is obviously significant and gives them greater capacity.

In Victoria, there is an absolute clarity about what needs to be done in terms of infrastructure. I don't think there is a project that we haven't looked at. I think we know what we need to do. The challenge is to find the way of financing those projects and funding them and we've seen some of the problems with that recently.

We've laid that out in a detailed submission to Infrastructure Australia. Our priority projects are identified under four themes; major city-shaping projects, secondly, getting the most out of the infrastructure that we do have, thirdly, planning for longer term infrastructure and fourth, priorities for national land transport issues.

The key issue is how projects are funded and how they are delivered. From our point of view, we believe we deserve a fairer deal in Victoria. We've got to get a better deal than the one we're currently receiving from the Commonwealth. In our 2011 submission to Infrastructure Australia, we sought \$640 million to advance the east west project, the Melbourne Metro tunnel, and other major city-shaping projects. As you know only too well, that doesn't buy you the projects. It was about buying some planning, buying some development funding and

buying some capacity for acquisitions. The next slide shows what we requested. That's what we requested in our last application. Not only did we receive only \$15 million to manage motorways, the Commonwealth gave Victoria less infrastructure funding than any other state, and obviously we're disappointed in that.

We've since made another comprehensive submission to Infrastructure Australia – and there are copies available today, that identifies six major city-shaping projects and 32 other important projects that we believe deserve funding. The six major city-shaping projects are East West Link, the M80 upgrade, the Melbourne metro, the Rail Capacity Program on the Dandenong rail, the Port of Hastings and the Interstate Freight Terminal. We believe it's time the Commonwealth got behind these major productivity-enhancing projects. It's time the Commonwealth listened to their own body, Infrastructure Australia, and business groups such as the BCA, and gave the states the funding to get nationally significant projects to the market as soon as possible. I'll say again, we are seeking that initial contribution that helps with planning and getting the projects ready to go.

Unlike the states, the Commonwealth has the borrowing capacity at its disposal that would not compromise a triple-A credit rating. So, today I'm inviting the Commonwealth to provide greater certainty to the community, the private sector and the states about infrastructure funding, and that could involve re-vitalising the Building Australia Fund. The Fund is there, but it is fundamentally empty. It could involve the Commonwealth committing to make a longer-term stream of payments to fund availability-based PPPs. It is clear that the Commonwealth needs to act to allow the states to progress vital transport projects.

While it's disappointing that we haven't seen that investment from the Commonwealth, we're determined to push ahead and we've done so. We've committed \$5.8 billion this financial year – the biggest ever funding, excluding fiscal stimulus payments – to infrastructure investment in this state. That includes important new projects valued at over two and a half billion. That amounts to \$18 billion-plus spent over the next four years. That's a pretty big commitment given the tough financial environment. The projects include the revised Regional Rail Link, the Bendigo Hospital, the Ararat and Ravenshall prisons and the \$1 billion Regional Growth Fund. This year alone there will be more than \$40 billion of projects and public sector capital projects, including PPPs underway in Victoria.

There are a number of significant projects that have been announced or underway.

Earlier this year, the Minister for Ports, Denis Napthine, and I announced the \$1.6 billion Port Capacity Project at the Port of Melbourne, incorporating expansion of capacity at Swanson Dock, the development of a third container facility at Webb Dock East and the consolidation of the car trade at Webb Dock West. The Port Capacity Project will create some 3,000 jobs and will secure the Port of Melbourne's reputation as Australia's leading container port, by providing capacity for an additional 1,000,000 containers per year and at least 600,000 cars annually. The project will undoubtedly cement Victoria's reputation as the freight and logistics capital of Australia. This is a generational project; the biggest land-side expansion of the port since the early 70s. The robust trade through the port means the project will be self-funded by the corporation and private investment by terminal operators. We are already seeing that competitive influence down at the port. Effectively, the users of the port will fund the project. The Port Corporation will build the substructure, the wharf structure and the roads and the tenderers, the successful ones, will build on that with container and automotive terminals. Today, I am pleased to announce the declaration of the Port Capacity Project under the *Project Development and Construction Management Act*. That declaration gives the Port

of Melbourne Corporation the power to enter into contracts in connection with the project and to acquire and dispose of interests in land. In the next few weeks, the Government anticipates launching the expression of interest process for the private investment side of this project. That will be for a container terminal operator, automotive terminal operator and the establishment of a significant automotive pre-delivery inspection precinct. We expect that there will be a very significant domestic and international interest. This is a major project for Victoria, a major project for Australia, and we're very much looking forward to the private sector's engagement.

We've also advanced plans for the development of the Port of Hastings to handle containers. Hastings is a natural deep water port and land has been reserved for the development for more than 30 years. The port will provide significant benefits to the state, including manufacturers and distributors in the south east and regional Victoria. It will address substantial interest in container throughput, relieve bottlenecks and congestion while growing jobs.

We're also taking the next step to deliver major transformation of projects, such as the Metro Rail Tunnel and the East West Link. In terms of Melbourne Metro, we're moving to expand the metropolitan passenger rail network and increase services to Melbourne's growth areas in the north west and south east. We have to find an added capacity at the centre of the network and we're doing this by planning for the Melbourne Metro. It is a revised plan: a rail tunnel between South Kensington and South Yarra, with five new underground stations. Today, I'm very pleased to announce that the Government has declared the Melbourne Metro under the Major Transport Project Facilitation Act. That allows for the preparation of a comprehensive impact statement as a precursor to construction. Assessing the impact of the Metro will obviously involve community consultation, that's to be expected. This declaration shows that we're serious about the Metro project and will be in a position to begin the construction when the funding becomes available.

A second east west crossing is also vital to Melbourne's prosperity. Anybody who's been through that morning peak, particularly people from the west, understand that very well. The East West Link will provide critical additional freight capacity, reduce the reliance on the West Gate and the M1 as well as connecting the port. It too is a project that will transform how people move around this city in a way not seen since City Link. I'm pleased to report that preparations for the development of the East West Link are also proceeding well. We're preparing a robust business case for the project as a matter of urgency and we aim to have it completed by early next year. Once it's completed, we anticipate that detailed environmental assessments will begin and in the near future, we will announce that direct declaration of East West Link under the Major Transport Project Facilitation Act. While we are using our power to move this project forward, we simply quietly urge, quietly urge the Commonwealth once again and indeed, their counterparts here in Victoria, to get behind this vital productivity-enhancing project. To date, that hasn't happened. This project will be vital to Victoria, it's important for jobs, it would be a huge boost to economic development in this state. We certainly welcome the initial commitment from the Federal Opposition for one and a half billion dollars towards the construction of the project. In addition to seeking Commonwealth funding assistance, we are also actively engaging with the private sector in this project. The Minister for Roads recently held a market sounding to assess the level of interest in the project and we look forward to that investment.

We're extending our efforts to key markets such as China, Victoria's number one trading partner. Next week, with a number of ministers, I'll be leading a super trade mission to China. It will be the largest ever trade mission to leave this country – more than 400 Victorian

businesses, 650 people, representing 15 sectors of our economy, including many from the financial, construction and professional services sector. As part of that mission, I'll be delivering a high-level investment presentation, which will showcase Melbourne and Victoria's strength across a range of sectors to leading Chinese financiers and businesses at the investment round table initiated by the Victorian Government. This investment document will provide information about some of the transport and urban renewal projects that have the potential for private investment. This trade mission is more than double the size of the trade mission we took to India earlier this year, which was very, very successful and was previously the largest ever leaving Australia's shores. This is a major exercise, growing our markets and attracting investment and selling our state.

As for Foreign Direct Investment, including from China, which has been in the news lately, let me make it very clear, Victoria welcomes foreign investment. We support investment and we want to attract a greater share of investment from Victoria's number one trading partner. This state has had foreign investment behind its infrastructure for many, many, many decades and we welcome that. It's good for jobs, it's good for growing our economy, enhances our liveability and builds on the states competitive advantage. Foreign investment has served Australia and this state well in the past and our economy is underpinned by strong international investment from global organisations. Businesses that trade and invest together will undoubtedly grow their economies together. The transfer of innovation and technology will occur where there's Foreign Direct Investment and in China's case, Victoria is looking to strengthen its already-excellent relationship in the months and years ahead.

In addition to these city-shaping projects that we've identified, the Government is also taking action to optimise the efficiency of the existing transport network, such as the delivery of the managed roadways technology, which has been rolled out on the M1 corridor and the roll-out of high-capacity signalling across the metro rail network as well, or the removal of level crossings, those high-priority projects which we've mentioned earlier. Now, they don't attract the sort of headline publicity as many other projects, but they're extremely important in improving the efficiency of our existing transport system. Planning work continues on the Avalon Airport rail link and we continue to assess opportunities to work with the private sector to consolidate port-related freight distribution through the Melbourne motor system.

We're also putting in place the necessary framework for Victoria to achieve best practice for planning, procurement and delivery of these infrastructure projects. We have established a High Value, High Risk unit, dedicated to ensuring that major projects over \$100 million are subject to rigorous scrutiny and avoid the cost blowouts that have been associated with projects in recent years. We are also developing long-term strategies to help guide Melbourne and Victoria's growth through the Metropolitan Planning Strategy and the Victoria Freight Logistics Plan.

Now, as the risk of talking about something I've been talking about for years, and which I am passionate about, I want to talk about construction costs. It's all very well to have a pipeline of projects, but that won't mean anything in terms of addressing our infrastructure backlog if they're too expensive to build. Tackling the issue of construction costs is essential if Victoria and Australia is going to have the infrastructure it needs. These issues go to the heart of productivity in the sector and that is so important to the economy. As I have been saying for some time, the escalating cost of construction is pricing us out of critical infrastructure of the future. Our estimate is that the prices of output in the building and road and bridge construction sectors have increased by 50 per cent and 55 per cent respectively across Australia since 2001. This increase exceeds the growth in what's called the producer-price

index average across all industries in Australia, which has increased by around 30 per cent during that time. That's got to be of concern to everybody in the sector, to think that Australian construction costs are internationally uncompetitive across a wide range of cost components, including road construction, highway departments and raw material costs. We cannot have a situation where a single grade separation in metropolitan Melbourne on a rail on a major road costs between \$250 and \$300 million. We simply can't afford to be priced out of infrastructure and the jobs that go with that. It's taken three COAG meetings and a year of passionate promotion by Victoria for federal Labor and the Commonwealth to agree to an inquiry of any sort into the escalating cost of construction. We sought a Productivity Commission inquiry and the Prime Minister resisted. We sought the support of the BCA. We sought the support of the industry. We had that. We pushed the case. We now have the Commonwealth prepared at last to have an inquiry. Unfortunately it will not be a Productivity Commission inquiry, it is to be conducted by a three person panel and the composition of that panel will be critical to the success, or otherwise, of this project. The states made it very clear that that has to be an independent panel and that it has to be a panel that's resourced independently from the Commonwealth. So far, we've had resistance from the Commonwealth and indeed, the South Australian and Tasmanian governments said there was no problem. The South Australian government said there was no problem, we didn't need to have a construction industry inquiry. We have seen the consequences of that failure in recent times. The Olympic Dam decision was very much focussed on the problem of development costs. The notion that there isn't a problem with construction costs is completely false. Might I ask for a show of hands to the simple question: are construction costs an issue in this country, a show of hands? It is a major issue and an issue for infrastructure and development. In the meantime we await the announcement of that panel. We will continue to press the case for fundamental reform.

You'll be surprised, perhaps, that in the COAG discussions around the construction cost inquiry – there were some who suggested we should not include any reference to industrial relations. This is the leadership of the country saying we shouldn't mention industrial relations in this inquiry. We know that a productive industrial environment rewards efficiency and provides value for money. That's why we introduced a new Victorian Code of Practice for the building and construction industry. That is set to deliver much better value for money for the state's infrastructure projects. We've established a Construction Code Compliance Unit to implement, monitor and uphold the new guidelines. We demanded the ABCC be reconstituted and the *Fair Work Act* be amended. We call again on federal Labor and the Commonwealth to show some leadership and immediately introduce legislation to address what most people, most fair minded people, in the business and the wider community realise is an unacceptable situation.

We've seen that unacceptable situation at work in the last three weeks. The CFMEU's unlawful and illegal blockade of Grocon has cost not only the company, but it's cost the industry, it's cost the state, it's cost reputation, it's cost taxpayers. We've been appalled, and I think most fair-minded Australians have been appalled to see the behaviour of the CFMEU leadership. Thuggish behaviour, unruly behaviour, unlawful behaviour and blockading a legitimate building site where all the employees who work on site simply want to go to work is unacceptable. It took our Prime Minister, sadly, three weeks to declare that this was grossly unacceptable. The Supreme Court had declared on two occasions that this was unlawful behaviour. It took three weeks for the Prime Minister to say, 'this is unacceptable', but having said that it was unacceptable, she was not prepared to do anything about it. Now overnight, we are told that the CFMEU have decided to unconditionally withdraw their blockade and yet on the site this morning, the CFMEU leadership is saying, 'we're only suspending the

blockade.’ And again, the blockade – representatives of the CFMEU were on site this morning. So we wait and see, but I say this to the CFMEU leadership: you had in place an unlawful blockade for three weeks. You’ve done enormous damage to the industry, to taxpayers, to the reputation of the industry and to the company. You’ve trashed the furniture and now it’s time to pay the bill. We will continue to pursue the legal action that we had joined in the courts. That blockade is unlawful. Those blockading the site should have withdrawn immediately. It was so declared. They should have respected the orders of the Supreme Court. To others who seem to regard an unlawful and violent union practice as just part of the so-called industrial game - they have to start showing respect for the law as well. Because this goes to the heart of the cost of construction. There is no use having a pipeline of projects, projects that we simply can’t afford. Having innocent parties being forced to negotiate their way out of illegal and thuggish and threatening behaviour is a form of extortion. People are entitled to insist on the protection our laws provide. Things have to change in Victoria and we are determined to make that change and make Victoria’s workplaces as productive as possible. Militancy, particularly from the CFMEU, is to the detriment of all of us and that culture is contributing to escalating costs of construction and contributing to pricing us out of infrastructure in the future. There is an international eye on this issue and we will be foolish to ignore it.

In conclusion, Victoria’s always been a leader when it comes to infrastructure, whether its innovative financing arrangements such as PPPs that were commenced under the Coalition government and adopted by subsequent governments, Victoria’s been at the front of infrastructure development. That does not mean always getting it right and we’ve seen examples where things have gone wrong, even recently. That’s why our ‘high risk, high value’ unit will be in place, to make sure that we do get this right. Despite the challenging economic situation, we’ve got record infrastructure spending, a pipeline of projects, the framework to deliver on those projects and the responsible economic management framework. We’re keen to see the Commonwealth get on board. We’re keen to see that we’re all improving our competitive positions across this country and certainly in Victoria. We’re keen to get a handle on construction costs, getting to the bottom of that. I do thank you for the opportunity, As I said before, the 50,000 people, who were living here in Melbourne in the early 1850s, laid down the heritage that we inherited. They laid down a legacy 150-200 years ago when there were barely 50,000. If they can do that, we can do likewise. We have to understand what we need to do and get on with it.

It’s not time just to catch up, we want to get ahead and I look forward to joining you in making that happen.

Thanks very much.

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