INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

28 July 2021

Mr John Alexander OAM MP
Chair
Standing Committee on Infrastructure, Transport and Cities
PO Box 6021
Parliament House
Canberra ACT 2600
Australia

Dear Chair,

RE: INQUIRY INTO PROCUREMENT PRACTICES FOR GOVERNMENT-FUNDED INFRASTRUCTURE

Infrastructure Partnerships Australia is pleased to provide this submission in response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities' Inquiry into procurement practices for government-funded infrastructure.

Infrastructure Partnerships Australia is an independent think tank providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest. As the national voice for infrastructure in Australia, our membership reflects a diverse range of public and private sector entities, including infrastructure owners, operators, financiers, advisers, technology providers and policy makers.

Infrastructure Partnerships Australia welcomes the opportunity to provide the following advice to the Committee on the challenges and complexities associated with Australia's substantial infrastructure program and the appropriate role the Federal Government can play in supporting state-led procurement reform.

Record levels of public investment in infrastructure are much needed, but bring new challenges

Australia's infrastructure pipeline has expanded considerably in scale and complexity over recent years in response to long-term population pressures and to address historic underinvestment in infrastructure over previous decades.

Prior to the onset of COVID-19, Australian governments allocated around $185 billion over four years in general government spending on infrastructure in the 2019-20 Budget season. In line with Infrastructure Partnerships Australia's advice at the onset of the pandemic, infrastructure investment has formed a central pillar of the fiscal response to COVID-19.[1] Australia's federal and state and territory governments have significantly expanded public investment in infrastructure and accelerated planning and delivery of projects of all scales.

Federal, state and territory governments' 2020-21 Budgets, announced in late 2020, allocated a record total of $225 billion in general government expenditure to infrastructure over the four years to FY2023-24. This high

[1] Available at: *www.infrastructure.org.au/wp-content/uploads/2020/04/Letter-to-all-Australian-governments-Infrastructure-response-to-COVID-19-1.pdf*

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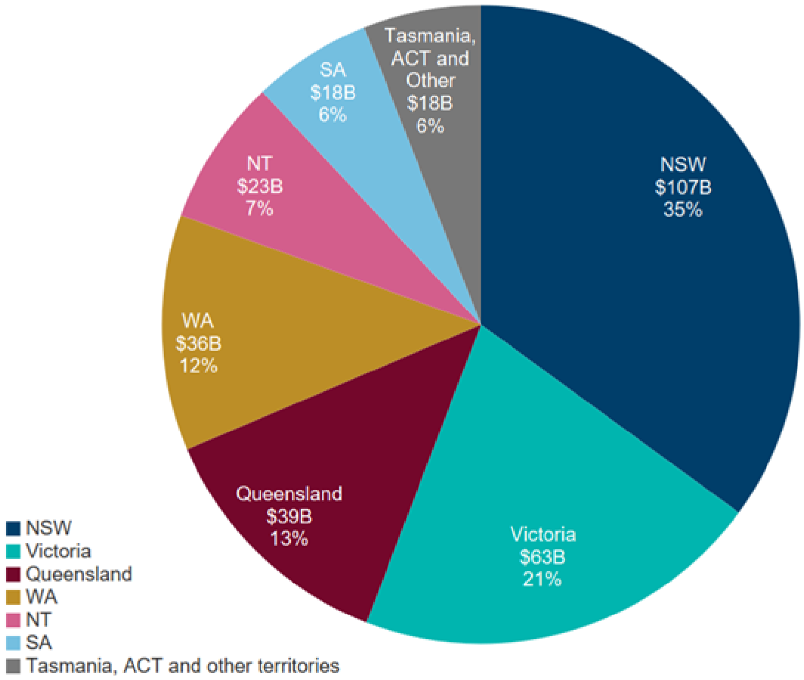
watermark has been raised again through the current 2021-22 Budget season, with the NSW and Victorian Governments alone committing a combined $176 billion in general government expenditure to infrastructure over the next four years – setting new individual records for each state.

This concentration of infrastructure investment in Australia's south-east corner is a long-running theme. The Australia and New Zealand Infrastructure Pipeline (ANZIP), produced by Infrastructure Partnerships Australia, lists 236 major projects, contracts and transactions – with a total value of approximately $320 billion – in detailed planning and procurement across Australia's infrastructure pipeline (Figure 1). More than half of this investment is located in NSW and Victoria, with those states undergoing major transformations of their transport and energy networks.

Figure 1: Australian infrastructure pipeline by project location



Source: ANZIP

As Figure 2 illustrates, not all of this spending is to be funded directly by taxpayers, or procured by governments. Energy is the largest form of infrastructure by estimated value in the planning and procurement phases, with the vast majority of generation and transmission projects to be privately financed, and funded through user charges. However, the next four biggest categories by value – road, rail, social, and other transport – will need to be almost entirely funded by taxpayers, and procured by state and territory governments. Irrespective of how these projects are funded – the aggregate investment level is set to drive competition for resources and expertise to new levels.

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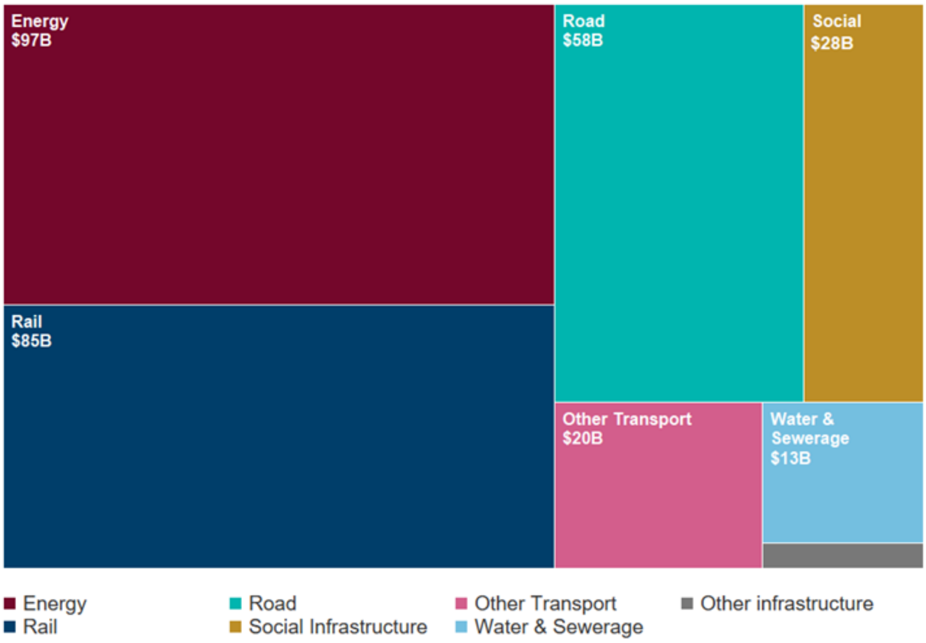
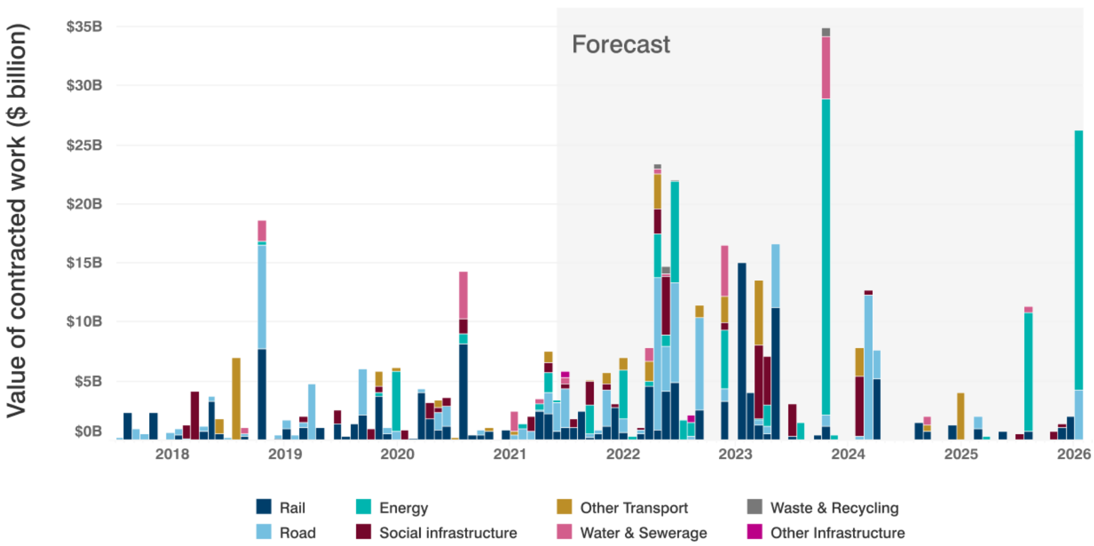
Figure 2: Australian infrastructure pipeline by type and value



Source: ANZIP

The record increase in government expenditure on infrastructure comes at a time when several transformational projects are already underway across Australia's largest capitals. Data drawn from ANZIP shows that more than $90 billion in contracts are forecast to be awarded in 2022 alone, with 2023 and 2024 set to maintain a far higher level of contract awards by value than the Australian market has seen previously (Figure 3). As procurement timelines are confirmed across other early-stage projects, the volume of contract awards in 2025 and 2026 are also likely to be higher than in the past.

Figure 3: Historical and forecast value of contract awards



Source: ANZIP

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State and territory governments know the problems that need to be solved

There is broad agreement across government and industry that the increasing volume and complexity of projects in the pipeline is exacerbating existing capacity and capability issues in the market, and constraining the sector's ability to efficiently procure and deliver infrastructure.

While the level of planned spending on infrastructure is unprecedented, the issues this raises are well-understood and documented by the governments charged with delivering the public infrastructure pipeline. In recent years, there have been numerous reviews, inquiries, reports, and practice notes developed at the state and territory level providing guidance on the procurement of major infrastructure projects. These include:

- NSW Government's *Action Plan: A ten-point commitment to the construction sector* (June 2018)
- Victorian Government's *New Public Construction Framework* (September 2018)
- South Australian Productivity Commission's *Government Procurement Inquiry Stage One - Final Report* (May 2019)
- Infrastructure Australia's *Australian Infrastructure Audit* (August 2019)
- NSW Government's *Progress Report: A ten-point commitment to the construction sector* (June 2020)
- NSW Government's *Procurement Policy Framework* (February 2021)
- Queensland Government's *Procurement Policy 2021* (April 2021)
- NSW Government's *Framework for Establishing Effective Project Procurement for the NSW Infrastructure Program* (June 2021)
- NSW Premier's Memorandum *M2021-10 Procurement for Large, Complex Infrastructure* (June 2021)
- Victorian Government's *Construction Toolkit* (Updated - July 2021)
- Victorian Department of Treasury and Finance and the Major Transport Infrastructure Authority's *Review of procurement and delivery models for mega transport infrastructure projects* (Current)
- Victorian Department of Treasury and Finance and NSW Treasury's *Joint procurement reform review* (Current), and
- Construction Industry Leadership Forum *Practice Notes* (Current).

The single most impactful role the House of Representatives Standing Committee on Infrastructure, Transport and Cities' can play through this Inquiry is as an aggregator, adjudicator, and disseminator of the common findings of these reviews.

There are several dominant themes across these and other processes, with key challenges and opportunities including:

- **The primary lens for government, at all stages of the project lifecycle, should be the long-term interests of taxpayers and users:** while other factors will influence government considerations, the primary objective in decision making should continue to be long-term value for users and taxpayers.
- **Project initiation and development:** ensure there is sufficient time for formal interaction between government and industry before tenders enter the market to improve procurement and packaging of major infrastructure projects.

- **Price and value are not captured in one number:** whole-of-life costs of infrastructure are typically multiples of the turn-key cost, meaning a simple distillation of value to the lowest construction cost will rarely be the best overall outcome. Comparisons of different approaches or delivery options (pre- and post-procurement) must fairly compare whole-of-life costs, not just upfront cost, certainty, and risk transfer.
- **Procurement models and packaging strategies:** these should be based on a best-for project assessment, with all appropriate options transparently considered. Assessments should consider current market conditions and always have the primary lens of long-term taxpayer interests. Irrespective of procurement model selection or packaging strategy, rigorous commercial frameworks should apply and be underpinned by an enduring commitment to competition for supply. Procurement models are ultimately just incentive frameworks – procurers must look past the marketing name of a particular model and ensure the incentives and behaviours it generates will serve the long-term interests of taxpayers on each project on which it is deployed.
- **Bid cost minimisation:** governments have taken commendable action to ensure internally consistent approaches to bid cost reimbursement. However, governments should continually pursue efficient bidding by minimising tender requirements to only those elements which are required to determine the best bid. Reducing the cost of bidding minimises the barrier to entry/barrier to bid, which over time can help to retain a competitive field of bidders – in turn improving value-for-money for taxpayers.
- **Risk identification and allocation:** ensure a sophisticated and transparent approach to risk identification, allocation and mitigation is adopted to reduce costs, improve timelines, and willingness of market participants to bid on tenders.
- **Construction sector financial sustainability:** project participants should be able to generate a fair and appropriate return based on a fair and appropriate transfer of risk. The long-term interests of the taxpayer are best served by a financially sustainable and competitive infrastructure and construction sector.
- **Knowledge sharing across government and industry:** improve knowledge sharing across government and industry to encourage a culture of partnership and ensure lessons can be applied to future project developments.

While these opportunities and challenges are not unique to the Australian market, they will continue to impact the infrastructure sector's ability to build workforce capability, drive innovation, increase productivity, and deliver the best value for taxpayers unless addressed.

The private sector can support government efforts through stimulus and beyond

Australia's state and territory governments – most particularly Victoria and NSW – are among the world's most sophisticated in the procurement and delivery of major infrastructure. NSW Treasury and the Victorian Department of Treasury and Finance have pioneered new forms of contracting over recent decades, including through Public Private Partnerships (PPPs), that are now used across the world.

As the infrastructure pipeline has grown and developed over recent years, so too has the involvement of the private sector – not just in the construction phase, but through the full project lifecycle from planning and design, through construction, to operation and maintenance of assets. The industry has built its capability to deliver large, complex infrastructure, and to scale-up its resources to meet elevated levels of investment. While not every project will be suitable for private investment, there is abundant private capital and expertise available for the right projects.

In addition, elevated public investment will be essential over the short to medium term, but continually expanding public expenditure on infrastructure is ultimately unsustainable. Private investment can play a greater role in supporting aggregate demand throughout the period of economic recovery, and ensure that risks related to infrastructure delivery – and the outcomes that follow through operation – are appropriately shared between the public and private sectors.

Involving private capital through structured contracts can provide governments with additional control over project outcomes while reducing the need for direct project management. Given the potential scale of infrastructure investments likely to be initiated by governments over the coming years, this control over outcomes is essential to safeguarding public value and ensuring the infrastructure that is delivered will best support communities.

More broadly, governments should seek to engage with the private sector outside of project discussions and work collaboratively to establish approaches to investment and contracting that will deliver best value-for-money and service quality outcomes, and so work in the best interests of users and taxpayers.

The Federal Government can provide national leadership to support state-led reform

The Federal Government's role in infrastructure investment has typically been relatively limited. State and territory government funding has historically outweighed Federal investment in infrastructure. As indicated above, state and territory governments also undertake the vast majority of project procurement, delivery and operation. However, the Federal Government can use its influence, and role as an overarching jurisdiction, to drive national infrastructure objectives and consistency across the country.

The AusLink program, which created a National Land Transport Network, and the Nation Building program which followed, are examples of where the Federal Government has used its role to create value for all Australians. Given the scale of planned public investment in infrastructure over the coming decade, and the challenges facing the sector, the Federal Government has an opportunity to again show direct leadership.

Although procurement of major infrastructure largely and appropriately rests in jurisdictional hands, the Federal Government can play a valuable role in engendering greater coordination between the states and territories on procurement reform through forums such as the Infrastructure and Transport Reform Committee of National Cabinet.

Encouraging greater coordination should not be an exercise in duplicating state and territory responsibility. Instead, the Federal Government should work to aggregate state-led initiatives and ensure a level of national consistency is applied in the identification of best practice approaches to procurement of major projects. This will help to improve market competition, provide greater certainty for industry and, ultimately, generate better value for taxpayers.

The Federal Government can help drive continuous improvement

The Federal Government can also recommit to the principles of conditionality in its funding agreements with state and territory governments. By assigning firm and enforceable conditions to its infrastructure funding allocations, the Federal Government could institute a powerful mechanism for ensuring leading practice is adopted in all jurisdictions. While such provisions have existed in National Partnerships Agreements for some time, they are opaque and rarely verifiably enforced.

The Federal Government could make some or all (or additional) project funding allocations contingent on achieving discrete project objectives and broader national interest outcomes – particularly those objectives which contribute to solving the common challenges identified above.

The Federal Government can help bridge the infrastructure skills gap

A national infrastructure market also requires a national plan for increasing our domestic skills base and the ensuring our visa system is calibrated to attract the best talent from overseas. As such, the Federal Government can play an important role in bridging the skills gaps that have emerged in the sector over recent years through its skilled migration program.

The Federal Government's recent decision to include a range of engineering roles to the Priority Migration Skilled Occupation List in June this year is welcome and will help to support the delivery of Australia's significant infrastructure pipeline. However, in advance of Australia's international border reopening, the Federal Government should also consider a specific visa sub-class for infrastructure, matched to project timeframes and targeted at acutely in-demand skills, to provide longer-term certainty to industry and state and territory governments.

In addition, the Federal Government should continue to regularly engage with industry and its state and territory counterparts to ensure the Skilled Migration Occupation List remains aligned to the sector's evolving needs and helps facilitate early identification of emerging skills gaps in the market.

Should you require further information or evidence in support of this submission, please contact Director of Communications and Engagement, Michael Player via michael.player@infrastructure.org.au.

Yours Sincerely

Adrian Dwyer

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