

Australian Industry Group

Submission to

Infrastructure South Australia  
20-Year State Infrastructure  
Strategy Discussion Paper

AUGUST 2019



## **About Australian Industry Group**

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than one million people. Ai Group members operate small, medium and large businesses across a range of industries. Ai Group is closely affiliated with more than 50 other employer groups in Australia alone and directly manages a number of those organisations.

## **Australian Industry Group contact for this submission**

Stephen Myatt, Head - South Australia

Ph: [DELETED]

Email: [DELETED]

# **SOUTH AUSTRALIA 20-YEAR STATE INFRASTRUCTURE STRATEGY**

## **1. Introduction**

- Infrastructure SA has requested submissions to help formulate a 20-Year State Infrastructure Strategy that “engenders positive generational impacts by addressing big issues via wide-ranging and far-reaching initiatives”.
- Infrastructure construction is a key activity in the Australian economy and businesses engaged in infrastructure construction and its complex and strongly interrelated business supply chain form a major part of the membership of Ai Group. As a national body with a strong presence in South Australia, Ai Group is well placed to draw on best practice around the country and provide insights gained across jurisdictions.
- Well planned and efficient infrastructure is essential for enhancing the competitiveness of the South Australian economy, lifting productivity, and improving the quality of life of the community.
- The South Australian Government plays a critical role in the planning and facilitation of the State’s infrastructure network. Ai Group welcomes Infrastructure SA’s initiative to develop a long-term infrastructure strategy that will identify key areas of focus for the State’s infrastructure program and how to prioritise and most effectively address both metropolitan and regional needs.
- A long-term planning approach will also enable the private sector and its supply chain to better harness the skills and resources needed to deliver more cost and operationally effective outcomes for the State.
- The 20-Year State Infrastructure Strategy underlines that South Australia needs to be strongly focused on increasing the capacity and efficiency of its economic, utility and social and community infrastructure over the long term. This will require the State to sustain solid on-going expenditure on infrastructure with investment geared to meeting economic and community objectives.
- Infrastructure funding within a sound fiscal framework represents a major challenge for the South Australian Government. It will require an overhaul of the way projects are prioritised, funded and delivered. This includes a focus on the development of innovative, yet sustainable, models for financing projects into the future, and to adjust policy and commercial approaches that may have been relevant to the past but not the future.
- Infrastructure SA and the South Australian Department of Treasury and Finance also have an important role in driving best practice by undertaking a thorough analysis of projects post-delivery. Infrastructure SA also has a role to play in forging increased cooperation across Federal, State and Territory governments with a view to developing a new national infrastructure strategy

that ensures that projects are delivered as part of a consistent national pipeline of construction activity and which: reinforces a rational and transparent process to identifying the highest-value infrastructure options; directs adequate and appropriate investment towards those options; and ensures timely delivery and efficient use of the resulting assets.

- A consistent pipeline of projects which smooths investment cycles is also a means of avoiding a surplus of projects entering the market at any given time. This helps to minimise infrastructure or capacity constraints and enables major projects to be funded and developed in a timely manner. It also enables business to efficiently deploy both capital and resources with confidence as to the Government's expectations and within a regime of rational commercial terms and risk profiles that attach to each project. A more even spread of projects can also assist in maximizing the benefits of increased investment and employment generation during periods when it is most needed.
- It will also be important for Infrastructure SA to take a lead role in pro-actively seeking Federal funding to ensure that critical infrastructure is progressed in a timely manner. This will require interacting with the Federal Government and putting forward detailed project appraisals as part of a whole of government strategy.
- Infrastructure SA should work with the South Australian Department of Treasury and Finance to develop and implement a methodology for the analysis of project outcomes against original business case assumptions with aim of achieving continuous improvement in project selection, procurement, prioritisation and delivery.
- We also recommend that Infrastructure SA implement appropriate elements of the infrastructure/procurement system from other Australian state and overseas jurisdictions and be proactive in continually identifying gaps in the state's system and taking the necessary action to fill those gaps (see **annexure A**, provided to us by the Australian Constructors Association, to forward to Infrastructure SA on their behalf).

## **2. Ai Group's position on South Australian infrastructure investment**

- South Australia's long-term economic performance is highly dependent on the provision of efficient infrastructure and addressing future challenges driven by population changes. Added to this are the more immediate challenges that involve developing the state's productive capacity and modernising key infrastructure assets. This includes the need for increases in digital infrastructure to advance connectivity, new rail systems to increase line capacity, road upgrades on major supply corridors to avoid supply chain constraints emerging and improving transport routes and freight facilities across regions to enhance export capability and enable South Australia to take

advantage of future growth opportunities in the resources, agricultural and food processing industries.

- To be effective the long-term strategy and the prioritisation of projects will need to transcend the short-term political agenda with the Government playing a key role in facilitating the engagement of industry and the community in shaping the future direction of investment. This will enable the early identification of opportunities, risks and issues on individual projects with proposals reflecting the needs of businesses and the people of South Australia.
- The selection and timing of projects will require a transparent cost-benefit analysis and robust project prioritisation framework. This will ensure the government gets the best possible use of taxpayer funds. A clear and transparent process also helps to foster public support for infrastructure projects and avoid costly delays in construction. It also creates confidence among investors ensuring that lower-cost financing and a deep pool of investment funds exists for future projects.
- Regular updates and early alerts on the level of priority attached to major infrastructure projects will be critical. Anticipated funding arrangements will be required to provide greater certainty and direction for project proponents (to make informed decisions about their investments) and greater clarity for businesses and residents impacted by proposed developments.
- The methodology used as part of the prioritisation framework should give consideration of economic, community and environmental objectives so that Infrastructure SA prioritises projects that have the potential to deliver the most desirable or best possible outcomes. There will also be a need to establish and formalise a community and business consultation process, where robust debates on the prioritisation of South Australian infrastructure projects can be conducted.
- There should also be a focus on smoothing investment cycles as a means of avoiding a surplus of projects entering the market at any given time. This helps to minimise infrastructure or capacity constraints and enables major projects to be funded and developed in a timely manner. A more even spread of projects can also assist in maximizing the benefits of increased investment and employment generation during periods when it is most needed.
- In the governance of the South Australian infrastructure program, Infrastructure SA should ensure that government agencies work in partnership with the private sector in developing and implementing best practice principles within their delivery structures. This is an obligation that will be central to private sector commitment to, and investment in, South Australian infrastructure projects for the longer term.
- Infrastructure SA should also take a leading role in identifying new funding options for infrastructure projects to be considered for planning and delivery by the Government. These options should include:

- The further development of structured public-private partnership policies that can lower the risks faced by private investors thus attracting more private sector investments while reducing upfront costs to the public.
  - encouraging greater private sector involvement in the provision of traditional government services and programs. This needs to be undertaken in a way that ensures value for money and consistency and reliability of service while, at the same time, enabling the Government to maintain an operational oversight of service delivery standards and asset protection on behalf of the people of South Australia. Outsourcing of services also enables the Government to focus on its core activities.
  - selling and leasing public sector assets to streamline service delivery and allow for the recycling of capital to fund vital road, rail, health, utility and other social infrastructure projects, underpinned by appropriate regulation to ensure consumers are protected. Governments elsewhere in Australia, particularly NSW and Victoria, have been able to boost their investment in productivity enhancing infrastructure by the reform and lease of state-owned assets.
  - recovering the cost of public infrastructure investment by capturing some or all gains in land value that result from infrastructure investment through adoption of the land value capture financing approach.
  - The identification of opportunities for Budget reform and whole of government savings measures to address fiscal pressures and provide greater project funding capacity.
- Infrastructure SA will need the support of the State Government in adopting a fully integrated approach across all levels of government in the identification of new growth areas; prioritisation and delivery of new infrastructure; the use and release of land and; decisions regarding the provision of supporting infrastructure. This will help to ensure that the right projects are prioritised and progressed. Importantly, it must be underpinned by timely and uniform implementation of the legislation and planning policies on a whole of government basis so as to ensure progress on critical projects. Adopting a consistent approach in the development and management of infrastructure proposals across the government sector to enable business to efficiently deploy both capital and resources with confidence and within a regime of rational commercial terms and risk profiles that attach to each project.
  - Physical infrastructure should also be geared towards promoting innovation such as innovation precincts and improving SME's access to Government research facilities. Whilst there is a need to continually explore options and identify opportunities for improved policies for specialist development clustering within a zone, we note that the Tonsley innovation precinct is particularly geared to encouraging/supporting the aims of innovation districts. This is exemplified

by its mix of land uses across residential, high value industry/commercial, educational and retail and its location on a major north-south transport corridor. These are key factors in promoting connectivity, collaboration and a creating a pool of skilled people to work at the precincts.

### **3. Regional Infrastructure**

- Stronger regional development plans need to be addressed with projects identified and progressed at appropriate rates. Regional infrastructure, telecommunications, education and training, and business innovation systems need to be actively targeted to stimulate economic activity in the regions and support regional communities.
- A common theme shared by regions is that better regional industry consultation will greatly improve the prioritization and delivery of infrastructure and ensure Government funds are directed to those projects which will deliver the greatest benefit.
- Infrastructure SA needs to concentrate efforts on sensible project prioritization for all regions in South Australia based around the objectives of cost benefit analysis and opportunity cost evaluation. Sensible investment in both new and existing infrastructure has a range of benefits including improving the region's liveability and the region's and state's future economic capacity.
- Regional infrastructure should also be identified and prioritized in a transparent way and be accompanied by detailed plans. This is central to private sector commitment to, and investment in South Australian regional infrastructure.
- Ai Group welcomes the Adelaide City Deal and recommends that this approach - bringing together the three levels of government and the community to help align infrastructure planning strategies over the long term - should be considered for further assessment of its applicability to revitalise regional communities and economies as needed. It provides the opportunity to move beyond the political cycle to deliver jobs, economic growth and the creation of productive and liveable regional centres.

### **4. Infrastructure procurement**

- Infrastructure SA has an important role in driving best practice in government procurement, and the ownership and operation of capital projects in South Australia. Although the Treasury and procuring agencies have responsibility for recommending procurement and financing options, Infrastructure SA could make recommendations on opportunities for improvements and/or the adoption of innovations in procurement practices.

- Infrastructure SA should also ensure that the State Government is utilising the most efficient procurement measures and uses its purchasing power to the best advantage of South Australian and Australian industrial development but within a framework that is consistent with the principles of probity and the efficient use of Government funds. In achieving this objective, the emphasis on local capacity, capability, skills and supply chains must be maintained and strengthened. This should include an emphasis on using public infrastructure to build competitive capacity and capabilities in regional areas wherever possible and within a framework which includes consistency in relation to conformity with Australian standards.
- A major distortion that frustrates and impedes the full and fair participation of Australian suppliers is an undue emphasis on price at the front-end of procurement processes at the exclusion of “whole-of-life” considerations. In exercising public accountability, there is good reason to not always proceed with the lowest cost tender, given it may not represent the best value for money once ongoing costs are considered. Procurement decisions should take account of factors such as maintenance and through-life support which are key advantages that local suppliers are able to offer. This encompasses supply risks, quality risks and reliability that may affect production delivery times and/or these future costs. In many cases a holistic assessment of these costs will show that for local businesses these total costs could be lower than for overseas-based businesses because services could be rendered more quickly, more reliably and replacement parts delivered more promptly.
- There is a need from a budgetary perspective, to be careful to avoid short-term fiscal savings that might increase its long-term costs or reduce its long-term revenue sources. Savings measures that simply postpone expenditure from one year to another (for example, by making a saving on an initial purchase price at the expense of higher future replacement, or maintenance costs) are largely illusory. In many cases, discounted current spending simply means higher costs at a later date and an adverse long-term budgetary impact.
- We also recommend that better mechanisms are put in place for small business to access “clustering” that might allow them to be a genuine player in accessing government work. The size of government contracts often requires a large corporation or a consortium of corporations to handle the scale of work. The sheer scale and complexity of some government contracts can preclude small businesses having the resources and capacity to tender for work. The process needs to be simple and coaching and support needs to be made available for small businesses to help them navigate the paperwork.
- Similarly, there needs to be thorough and well documented feedback at every stage of the procurement process so unsuccessful businesses can keep building their knowledge and capability to be “government ready”. On some contracts there may be capacity for an interim tender process that allows small businesses to establish their credentials. Once they are considered a genuine



contender for the work, they could be supported with coaching or grants to give these businesses the capacity to do a full tender for the work.

- Industry groups could be better used to help communicate the availability of government work and inform members of any opportunity to form clusters to tender for larger work programs. This needs to be done with sufficient notice for businesses to do the necessary research.

## **5. Lifting the skills of procurement teams**

- To promote private sector confidence in the tender and operational processes, Infrastructure SA and the South Australian Government should ensure that procurement teams are comprised of experienced and appropriately skilled project development and delivery personnel. This includes taking steps to increase core skills and competence in project delivery.
- The selection and retention by Government of experienced and appropriately skilled project development and procurement personnel will promote private sector confidence in the tender and operational processes.
- Commonly cited areas of industry dissatisfaction with government procurement practices include:
  - Poor specifications, lack of detail, incorrect information
  - Poorly prepared plans and variations to plans
  - Increased risk to businesses
  - Disputes as to the extent of work being carried out
  - Time delays
  - Poor quality contractual terms
  - Inadequacies in managing complex contracts
- It is incumbent on the Government to take greater responsibility for addressing this erosion of the skills base by raising the core skills and competencies of public sector personnel responsible for procurement. This includes the skills necessary for front-end procurement documentation through to tendering and selecting the most appropriate procurement mechanisms, particularly for larger and more complex procurement contracts.

## **Strategic land use and land protection**

- For the long-term infrastructure strategy to be effective, Infrastructure SA should consider land use and the protection of strategic lands and transport corridors (for future use) when formulating its long-term strategy. This will be needed to accommodate future public and freight transport requirements and lands needed in growth areas for health, education other community infrastructure and utilities infrastructure. Associated with this will be the need

for a thorough analysis of population trends across the state and likely demand for supporting infrastructure.

- Clear and consistent application of land use and development policies with industry regularly informed on the status of its policies and strategies will also help in providing industry with the certainty necessary to support its investment decisions, improve the progress of project delivery and give credibility to long-term plans.
- Also, of importance will be the need for:
  - an appropriate balance between industrial and residential interests, and planning policies which are sufficiently flexible to provide protection and predictability for existing land users that require planning protection. This is particularly important in areas where housing is within proximity to industry and can potentially pose a threat to the continued viability of industry.
  - Introducing more flexible land use zones to accommodate new industrial land uses in non-residential zones such as green industries and renewable energies, knowledge intensive industries, retail and commercial and community spaces, rather than focus on strict land use definitions.
  - A fully integrated approach in the identification of new growth areas; delivery of new transport infrastructure; the use and release of land and; decisions regarding the provision of supporting infrastructure and;
  - Facilitate the development of affordable housing in and close to employment lands to enable workers to live close to where they work.
  - An across the board stocktake of underutilized residential land that offers opportunities for housing in close proximity to employment lands.
- We recommend that consideration be given to the establishment of a dedicated office for assisting industry through the planning process, focusing on the environmental and other planning conditions, as well as assisting in effectively meeting any community and stakeholder consultation requirements.

## **Skills development**

- We strongly recommend that the Infrastructure SA strategy include a focus on skills development with State Government departments and authorities encouraged to employ apprentices and trainees to support local employment.

- Consideration should be given to targets for employing apprentices and trainees on all construction contracts with policy initiatives in place to ensure that apprenticeships are made available to those in areas of high unemployment, young women and indigenous youth.
- Infrastructure SA should take the lead in drawing on appropriate initiatives in other States and overseas jurisdictions. For instance, there would be considerable merit in boosting the number of skilled construction workers and creating fresh pathways to employment across the state through adoption of measures under the NSW Government's Infrastructure Skills Legacy Program (ISLP).
- This initiative which is currently in pace across five key infrastructure projects sets important employment and training targets, including:
  - that 20% of the total labour force of a project to be made up of 'learning workers' (defined as trainees and workers who need to update their qualifications to meet the needs of the infrastructure project);
  - 20% of all trades positions on a project be comprised of apprentices;
  - double the number of women in trade related work (up from the NSW average of 1% to 2%);
  - 1.5% of the total contract value of a project to support Aboriginal and Torres Strait Islander participation; and
  - 8% of the total project workforce aged less than 25 years.

## **SOUTH AUSTRALIAN PRODUCTIVITY COMMISSION INQUIRY INTO GOVERNMENT PROCUREMENT - CAPITAL PROJECTS AND PRESCRIBED PUBLIC AUTHORITIES**

The Commission should consider action that has been taken in other Australian jurisdictions, and internationally in countries with similar legal and procurement processes, to enable it to provide a comparative analysis of what proposals for reform may be useful for adoption in South Australia.

Two relevant examples are:

- UK Infrastructure and Projects Authority
- Construction Industry Leadership Forum (NSW and VIC)

### **UK INFRASTRUCTURE AND PROJECTS AUTHORITY**

#### **Background**

The UK Infrastructure and Projects Authority (IPA) is the Government's centre of expertise for infrastructure and major projects. It sits at the heart of Government, reporting to the Cabinet Office and HM Treasury.

The IPA works across Government to support the successful delivery of all types of major projects, ranging from railways, schools, hospitals and housing to defence, IT and major transformation programmes. Its purpose is to continuously improve the way Government delivers projects and programmes and to provide confidence that they will achieve their aims, improve public services and people's lives.

As part of this, the IPA drives the development of the project delivery profession, and aspires to build the best project delivery system in the world. In supporting and assuring the delivery of these high priority projects, the IPA promotes four key principles:

- Performance – holding ourselves to account through transparent performance measurement;
- Capability – having the right people managing the right projects;
- Prioritisation – proper prioritisation and portfolio management, enabling government to better match projects with resources, and avoid over-programming; and
- Initiation – bringing policy creation and delivery closer together so government can set realistic objectives, costs and schedules up front.

The 2018/2019 Annual Report of the IPA states:

***“Our purpose is to continuously improve the way Government delivers projects and programmes and to provide confidence that they will achieve their expectations, improve public services and people's lives.”***

#### **Infrastructure Procurement Routemap**

In 2013, the UK Government released an Infrastructure Procurement Routemap following an Infrastructure Cost Review in 2010.

The Government's Infrastructure Cost Review identified the opportunity to improve delivery and make efficiency savings of at least 15 per cent by 2015 across the published public and private sector infrastructure pipelines.

As part of the 3 year Implementation Plan (published in 2011) the Government worked with industry to enable and implement the behavioural changes that are the key to unlocking improvement in the delivery of economic infrastructure.

Changing procurement behaviours, removing inefficiency and improving strategic collaboration with the supply chain are central themes of the Implementation Plan. The Government took steps to cut significant waste and inefficiency in its own procurement processes. The Government also took radical steps to improve procurement practice and improve the sustainability and competitiveness of the UK's supply chains.

The Government recognised that, while there is "no one size fits all" solution to the delivery of complex infrastructure projects, the common characteristics for effective delivery set out in the Routemap document must be applied more consistently.

The aim of the Routemap is to support public and private sector infrastructure providers optimise the delivery environment for the project. It does this by providing a structured approach to assessing and improving sponsor, client and supply chain capability and integration, in order to match these to the needs of the project. Initial pilot applications of the Routemap have demonstrated its value as a framework for project sponsors and clients to take a forensic look at their capability and identify areas for improvement.

Since the release of the Routemap documentation the UK Government has continued to refine its processes and has produced many guidance documents for infrastructure project delivery. These are accessible through the IPA website and are capable of application to Australian jurisdictions

## **CONSTRUCTION INDUSTRY LEADERSHIP FORUM**

The Construction Industry Leadership Forum (CILF) is a joint forum of leaders from the Australian Constructors Association (ACA) and the Victorian and NSW public sectors that aims to drive improved collaboration and action around procurement and delivery of major government infrastructure projects, including through addressing capability and capacity constraints.

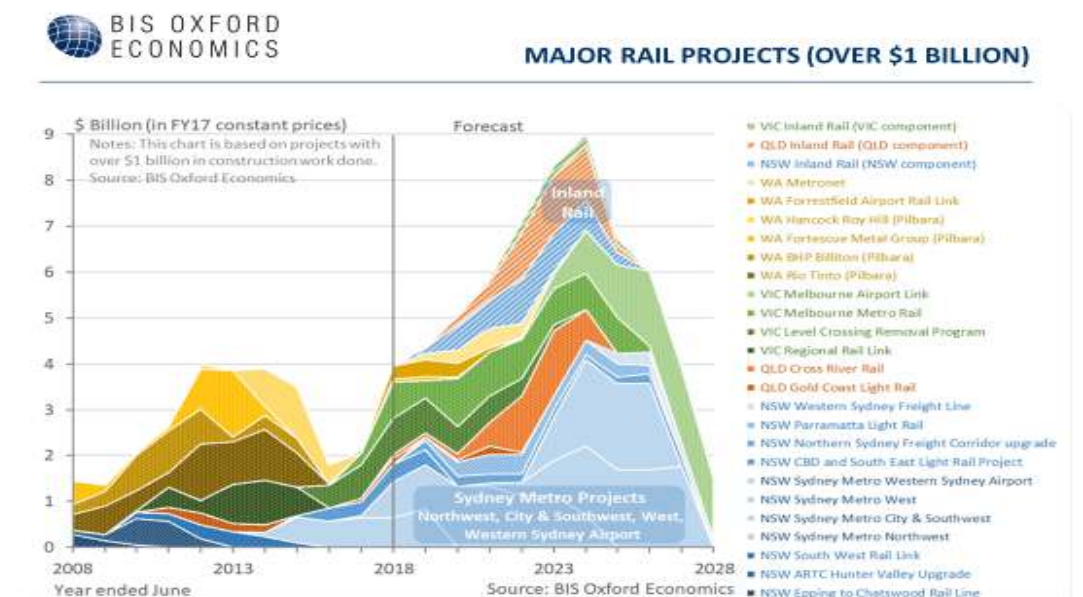
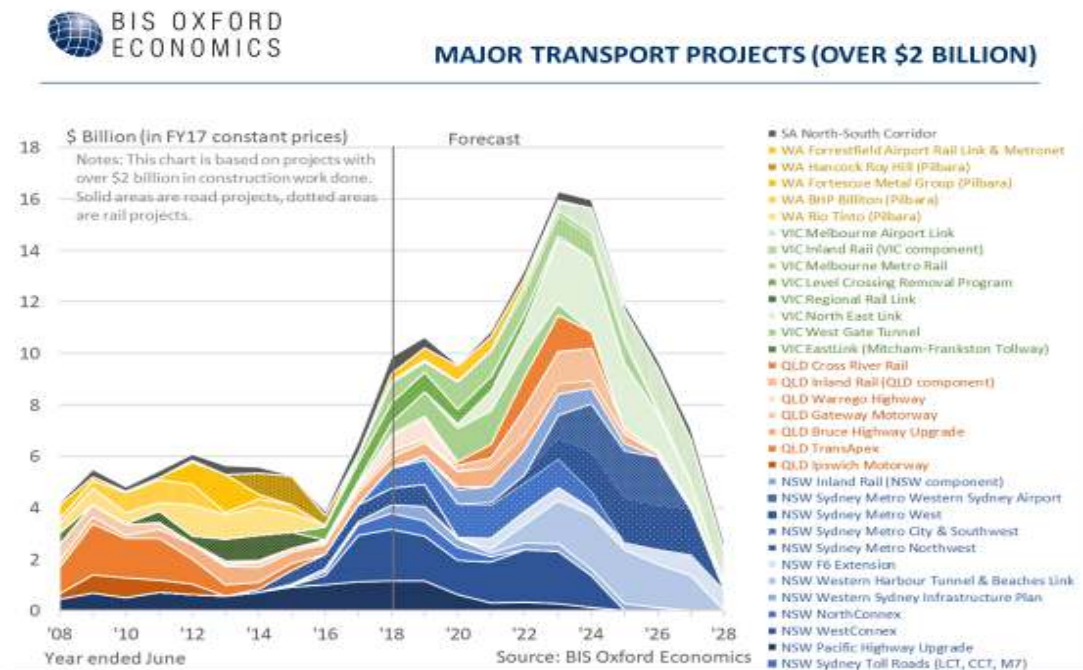
### **Purpose and Objectives**

The CILF was established due to commercial and capability and capacity pressures caused by the significant pipeline of current and future government infrastructure projects in NSW, Victoria and other states. This pressure highlighted a need for new approaches to procurement and project execution to ensure the industry remains sustainable and able to effectively and efficiently respond to the community's infrastructure needs.

The overall purpose of the CILF is to improve the effectiveness and value (to governments and industry) of the procurement and delivery of governments' infrastructure programs.

The CILF is action orientated with a focus on setting a common agenda for change, knowledge transfer across private and public sectors and a programme of activities to implement agreed change.

Charts 1 and 2 (below) provided by BIS Oxford Economics (2019) *Engineering Construction in Australia* highlight the extent of the looming pipeline and provide visibility over the commercial and capability and capacity challenges that the public and private sector will face over the next decade.



A communique regarding the establishment of the CILF, its purpose and targeted outcomes was released in August 2017 and is attached (**ANNEXURE A.1**).

The key focus areas of the CILF are captured in the Communique as:

- Building common understanding of capability and capacity gaps
- Coordinated approach to addressing skill gaps in the sector (short, medium and long term)
- Promoting the attractiveness of the sector and industry-wide skills development and retention
- Promoting improved culture, diversity and inclusiveness, and in particular gender balance, in the construction sector
- Breaking down barriers to skills transferability and mobility into the sector
- Reducing time and cost of tendering
- Optimising risk allocation between government and industry
- Identifying innovative procurement models and forms of contracting to achieve best value and greatest long run benefit for government projects
- Harmonisation of critical contractual and commercial terms and definitions.

Agreed actions will be implemented collaboratively by the public and private sectors with a view to:

- Developing capability and skills to ensure projects are delivered effectively
- More streamlined and efficient bid processes to ensure that money is not wasted, and resources are focused on the most important issues
- Ensuring projects are delivered on time and on budget.

The CILF has broad support from the most senior levels within the key delivery agencies in the NSW and Victorian Governments responsible for the delivery of the pipelines for each state. It has representation at CEO level from the largest infrastructure contractors operating in Australia.

## CONSTRUCTION INDUSTRY LEADERSHIP FORUM

A joint forum of leaders from industry and the Victorian and NSW public sectors that convenes at least every six months to drive improved collaboration and action around procurement and delivery of major government infrastructure projects, including through addressing capability and capacity constraints.

### ISSUE

A significant pipeline of current and future government infrastructure projects in NSW, Victoria and other States is driving the need for new approaches in procurement and project execution in order to ensure the industry remains sustainable and able to effectively and efficiently respond to the community's infrastructure needs.

Over the next 10 years an unprecedented level of public investment across transport and social infrastructure will place pressure on government and industry to respond without driving up costs and stretching out delivery timeframes.

Through government and industry working together to define the major challenges in procurement and project delivery as early as possible, a joint response can be planned and risks to governments' infrastructure investments avoided.

### PURPOSE

The overall purpose of the Forum is to improve the effectiveness and value (to governments and industry) of the procurement and delivery of governments' infrastructure programs.

The Forum is action orientated with a focus on setting a common agenda for change; knowledge transfer across private and public sectors; and a programme of activities to implement agreed change.

Key focus areas include:

- Building common understanding of capability and capacity gaps
- Coordinated approach to addressing skill gaps in the sector (short, medium and long term)
- Promoting the attractiveness of the sector and industry-wide skills development and retention
- Promoting improved culture, diversity and inclusiveness, and in particular gender balance, in the construction sector
- Breaking down barriers to skills transferability and mobility into the sector
- Reducing time and cost of tendering
- Optimising risk allocation between government and industry
- Identifying innovative procurement models and forms of contracting to achieve best value and greatest long run benefit for government projects
- Harmonisation of critical contractual and commercial terms and definitions.

### OUTCOMES

Agreed actions will be implemented collaboratively by the public and private sectors with a view to:

- Developing capability and skills to ensure projects are delivered effectively
- More streamlined and efficient bid processes to ensure that money is not wasted and resources are focused on the most important issues
- Ensuring projects are delivered on time and on budget.

August 2017

Proudly supported by:

