

14 July 2021

The House of Representatives
Standing Committee on
Infrastructure, Transport and Cities
PO Box 6021
Parliament House
CANBERRA
ACT 2600

Dear Committee Members

Re: Inquiry into and report on procurement practices for government-funded infrastructure

As you will be aware, Infrastructure Australia is the Australian Government's independent infrastructure advisor. We are pleased to have this opportunity to provide a submission to this inquiry.

The Australian infrastructure sector contributes approximately 20% of Australia's gross domestic product (GDP) and provides a significant investment multiple of \$4 over the life of the asset for the average \$1 invested.

The *2019 Australian Infrastructure Audit* (the 2019 Audit) identified the Australian infrastructure sector as world-class. However, the sector does not consistently demonstrate best-practice. The practices between jurisdictions, and projects within jurisdictions, are varied.

The conditions within the industry are also increasingly dynamic. As the *2019 Audit* observed, the expectations of the sector are growing as Australia's population grows and ages, consumer preferences shift, resilience challenges emerge, alongside a series of compounding trends. The impacts of the COVID-19 pandemic and slowing national productivity growth has also increased the expectations on the sector to support stimulus investment and a return to trend economic growth.

Investment in infrastructure is currently at all-time record levels, and is expected to continue to grow, at a minimum, to 2023. So too, infrastructure projects are increasing in complexity and ambition, bringing with them new risks. Infrastructure Australia is currently progressing a substantial research project on the size and demands of the infrastructure pipeline.



This research *Infrastructure Market Capacity*, has identified the rate of growth in expenditure is set to outstrip the capacity of the sector to support growth over coming years. Relative to other sectors, productivity in the construction industry is also falling, and in conjunction with increasing demand, presents a key risk factor for market capacity. Opportunities exist to boost industry productivity, and better plan, manage and deliver projects in order to optimise available resources, and reduce costs.

The size of the investment pipeline will require the full engagement of the infrastructure industry. This includes organisations of all sizes and across the project lifecycle – for instance, the various tiers of the contractor market, consultants and advisors – and will require access to global capital, skills and expertise, as well as Australian capability.

The size of the investment pipeline presents an opportunity to provide long-term certainty to Australian businesses allowing them to develop capability and capacity in order to participate more competitively.

It will additionally be critical to develop the public and private sector workforces in order to deliver the expanded pipeline. Infrastructure Australia has identified a growing shortfall of professions, skilled and semi-skilled people to meet the investment challenge. Long-term persistent global skills shortages, such as in rail, persist. So too, emerging local skill constraints are likely to impact project performance. Better coordination of the timing of projects entering delivery will be essential to manage cost and time pressures.

The public sector is an often-overlooked component of a healthy infrastructure sector. As the publicly funded infrastructure pipeline grows, it is critical the capacity and capability of the relevant public service, and its governance maturity, grows accordingly.

The challenges emphasized by *Infrastructure Market Capacity*, were also identified in the *2019 Audit Industry's Efficiency, Capacity and Capability* chapter. In particular, the *2019 Audit* identified:

- **Planning and decision-making** falls short of consistent best practice. This includes community engagement, governance practices and regulation.
- Best practice in **funding and financing** is also not consistently applied, with many community service obligations poorly directed and opaque. The diversity of tools that are available to engage the private sector are often not understood or employed.
- **Market depth and skills** present significant challenges to the delivery of the record investment pipeline. The ability of the sector to participate is limited by the size, nature and risk profile of the projects that are brought to market.
- Australia is a global leader in innovative **procurement and contracting** practices, however it is critical the sector continues to evolve. Particularly critical will be a shift to contracting models that identify the opportunities for more collaboration, as well as whole-of-life considerations and supply chain development.
- Risk and resilience challenges are growing. The nature of the long-term, fixed nature of infrastructure assets highlights the exposure to **security, resilience and sustainability** challenges. Existing frameworks are not adequate to fully consider potential future resilience challenges, alongside the growing expectations of the sector to manage shocks and stresses, including climate change transition.



The challenges facing the sector are considerable and have been recognised in our recent engagement within the development of the forthcoming *2021 Australian Infrastructure Plan* (the *2021 Plan*). The *2021 Plan* has identified four key areas of reform that respond to the challenges identified in the *2019 Audit*, as well as the compounding challenges of COVID-19 explored in *Infrastructure Beyond COVID-19*. These reform areas include:

- Increasing the coordination and active management of the national infrastructure project **pipeline** through active **portfolio** management across agencies and jurisdictions. Critical to improved performance is great collaboration between governments.
- Improved **project delivery performance** and innovation enabled through enhanced front-end engineering and design (FEED) practices as well as great transparency and openness to engagement and partnership with industry. Critical to improved performance of the sector is greater collaboration between industry and government, and ownership of outcomes by public clients.
- No longer accepting digital by exception, but requiring **digital by default** including valuing data, a federated approach to digital processes and systems alongside upfront incorporation of the enabling capacity for smart deployment.
- Increasing the maturity of public clients to support the delivery of **next generation infrastructure**, including the incorporation of a long-term project delivery capability within the Commonwealth Government. This will facilitate high value engagement between the Australian Government and its partners.

Infrastructure Australia is currently finalising the two aforementioned projects that have the potential to significantly contribute to the Committee's understanding of these issues. The *2021 Australian Infrastructure Plan* and the *Infrastructure Market Capacity*, a report for the First Secretaries Group of National Cabinet. We would welcome the opportunity to expand on the findings of the *2021 Plan* and the supporting research for *Infrastructure Market Capacity* following their release, expected over the coming month.

The Australian Infrastructure Audit is available a www.infrastructureaustralia.gov.au/publications/australian-infrastructure-audit-2019

Should you wish to discuss this submission of the forthcoming work of infrastructure Australia, please contact our Chief of Policy and Research, Mr Peter Colacino, or Manager of Government Relations and Infrastructure Assessment, Mr Matt Blayden, on (02) 8114 1900.

Regards

Ms Romilly Madew AO FTSE
CEO