



Submission
April 2014



Inquiry into Infrastructure Planning and Development

Australian Government House of Representatives –
Standing Committee on Infrastructure and Communications

About CME

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia funded by its member companies, which generate 95 percent of the value of all mineral and energy production and employ 80 percent of the resources sector workforce in the state.

The Western Australian resources sector is diverse and complex covering exploration, processing, downstream value adding and refining of over 50 different types of mineral and energy resources.

In 2012-13, the value of Western Australia's mineral and petroleum production was \$102 billion, accounting for 89 percent of the state's total merchandise exports and thus representing the majority of Western Australia's 47 percent contribution to Australian merchandise exports. Furthermore, royalty payments to the state government totalled \$5.3 billion in 2012-13.

Recommendations

Initiatives operating at local and state government levels that might lower the cost of planning approvals and reduce timeframes for delivery of projects

- Federal, state and local governments and industry must work collaboratively to address inefficiencies, duplication and delays in project approvals processes.
- Clearly defined government agency roles and responsibilities and a single decision making government agency for approvals processes would assist infrastructure project proponents by improving certainty and avoiding duplication and delays.

Governments' consideration of the infrastructure challenges and long term plans to deal with challenges

- A coordinated interface for planning and funding of infrastructure between all levels of government, and across agencies within the same level of government, should be developed.
- A state infrastructure plan should be collaboratively developed by the government and private sector, and include prioritisation of the state's economic and infrastructure needs.
- A state arm's length body should be established to advise on infrastructure strategies and improve the level of coordination between the government and private sector for longer term infrastructure planning.
- A state economic infrastructure unit should be established with responsibility for the structuring of financing and risk sharing models for complex economic infrastructure.
- The role of the Office of Strategic Projects, within the state Department of Treasury, should be extended to the delivery of economic or resources sector infrastructure.
- The state government's strategic asset review is supported by CME; however, this should be undertaken in consultation with industry.
- Capital recycling should be used as a means of developing the state's infrastructure requirements.

Steps to protect the land and corridors that are needed to deliver infrastructure projects in the future

- Federal government support for strengthening the protection of corridors and industrial buffers is welcome; however, given variation in state and territory approaches to protection, a national approach may be problematic.

- State government planning reform should consider how corridors and buffers can be defined and protected to obviate independent local government decisions that result in the lack of, or loss of, strategically important access routes.

Industry requirements to reduce the regulatory and other costs it faces in competing for infrastructure projects

- The *Australia Jobs Act 2013* should be repealed due to the cost and time constraints it adds to projects, particularly in the tender process.
- The Productivity Commission's review of the *Fair Work Act 2009* should take full account of the broad economic and social context in which workplace regulation operates, as well as the need for businesses to be able to adapt in a rapidly changing global economy.
- The development of a national apprenticeship program for public infrastructure development, based on the program established for resources sector infrastructure construction, could assist in ensuring the appropriate skills are available for project development.

Increasing and deepening the competitive market for infrastructure provision and funding in Australia

- Where a project has broader economic benefits, but is unlikely to be financially viable for private investors, hybrid and alternative funding models should be considered to support the project's development.
- An unsolicited proposal process should be developed to encourage the private sector to identify and develop innovative solutions to fund infrastructure.

Context

Initiatives operating at local and state government levels that might lower the cost of planning approvals and reduce timeframes for delivery of projects

Project planning, development and operating costs in Western Australia are high, driven by factors such as inefficient approvals processes, changes to the taxation and royalties regimes, and logistics for remote project locations. **Federal, state and local governments and industry must work collaboratively to current address inefficiencies, duplication and delays in project approvals processes.**

Regulatory approvals processes required for infrastructure developments, such as land release, access rights and environmental approvals, are typically administered by several government agencies. **Clearly defined government agency roles and responsibilities and a single decision making government agency for approvals processes would assist infrastructure project proponents by improving certainty and avoiding duplication and delays.**

For example, CME supports the state government working with the federal government towards the Council of Australian Governments' initiative to implement a one-stop shop environmental approvals process. This bilateral agreement will enable the state government to undertake environmental assessments under the *Environmental Protection and Biodiversity Conservation Act 1999* (Cth) in parallel with state approvals processes. The one-stop shop will include the same high level of environmental protection, whilst minimising process duplication and delays.

CME is working at the state level with the Department of Mines and Petroleum on the Reforming Environmental Regulation program. The Mining Legislation Amendment Bill, which recently passed state parliament, aims to streamline environmental regulation processes and improving transparency and efficiency in approvals and compliance.

Supporting initiatives to streamline processes, such as online portals, could also assist in reducing approval times and costs. Any such initiatives must be supported by appropriate skills and resourcing within, and coordination across, government agencies. Regulatory processes should also be proportionate to risk, allowing departmental resources to be allocated to critical service requirements.

Governments' consideration of the infrastructure challenges and long term plans to deal with those challenges

Good practice governance principles and reforms to institutional arrangements would assist in promoting efficiencies in long term planning, provision, financing and funding of infrastructure. To improve long term planning and to deal with infrastructure challenges in the state, CME's Investment in Resources Sector Infrastructure report¹ recommended:

- infrastructure plans and a project pipeline be developed;
- an economic infrastructure unit be established;
- blended project delivery teams be used;
- the state government's asset review be undertaken in consultation with industry; and
- capital recycling be facilitated.

¹ CME & PwC, 2014. *Investment in Resources Sector Infrastructure*. Perth.
<http://www.cmewa.com/UserDir/CMEPublications/140116-INF-FINAL%20designer%20report-v0602.pdf>.

Independent infrastructure planning

Long term, coordinated infrastructure planning frameworks are important for addressing the nation's infrastructure requirements. There is a range of infrastructure planning delivery models within the states and territories, as well as at the national level through Infrastructure Australia. Without coordinated planning and identification of jurisdictional infrastructure needs, ad hoc approaches to infrastructure development and delivery will continue.

A coordinated interface for planning and funding of infrastructure between all levels of government, and across agencies within the same level of government, should be developed.

Long term, coordinated planning around infrastructure requirements can help avoid duplication and delays, ensuring state infrastructure needs are met at an efficient cost. In Western Australia there are recent advances in the state's infrastructure related planning, evidenced by the draft State Planning Strategy, the Regional Freight Network Transport Plan and draft State Aviation Strategy. However, there still remains a shortage of detailed planning across asset classes.

Coordination of planning across all levels of government and amongst agencies needs to be improved. For example, in Western Australia there are several regional planning and infrastructure documents such as regional blueprints, planning and infrastructure frameworks, and strategic plans, currently being developed by the Department of Planning, the state's Regional Development Commissions and Regional Development Australia. There is a lack of clarity on the uses of, and linkages between, these documents. The documents appear to duplicate effort, potentially resulting in conflicting views amongst agencies as to the intent of the plans, and therefore failing to deliver outcomes over the longer term.

A state infrastructure plan should be collaboratively developed by the government and private sector, and include prioritisation of the state's economic and infrastructure needs.

Infrastructure providers have indicated several benefits that could result from the development and maintenance of a pipeline of priority projects, including:

- assisting construction companies and investors to prepare for priority infrastructure projects, thereby ensuring both strong delivery capability and strong competition;
- assisting resources sector companies to include access to shared infrastructure in their planning;
- aligning private sector and local government planning with the state government's priority projects; and
- better positioning the state for federal government support.

A state arm's length body should be established to advise on infrastructure strategies and improve the level of coordination between the government and private sector for longer term infrastructure planning.

The arm's length body would fill the gap in Western Australia's current planning and budget processes. Whereas projects within the four year government forward estimates period (the state government's budget outlook) receive significant attention from the Department of Treasury, projects proposed in five to ten years are typically not subject to detailed central scrutiny and coordination.

The benefits of establishing an independent body, responsible for long term infrastructure planning and coordination, include:

- improved collaboration between the government and the private sector to deliver strategic infrastructure planning;
- better decision making through a structured, evidence-based assessment of needs and priorities;
- greater sophistication in the way infrastructure is procured, financed and maintained; and
- the attraction of private investment through a clearly defined pipeline of projects.

Economic infrastructure unit

Structuring economic infrastructure projects is complex; particularly when seeking to provide access to multiple users and keeping the project off the government's balance sheet. In Western Australia there is no single team that structures complex economic infrastructure projects, particularly where the private sector takes on the demand risk. Rather, commercial structures are developed by the individual government agency managing the project.

Whilst it is important to have strong involvement from the relevant government agency, which will better understand the industry's strategic and technical issues, a dedicated and centralised economic infrastructure unit should be established to support these agencies given the complexities of these significant projects.

A state economic infrastructure unit should be established with responsibility for the structuring of financing and risk sharing models for complex economic infrastructure. The unit should be equipped with experienced personnel who can administer different financial and commercial structures for economic and resources sector infrastructure and can provide an advisory and oversight role to the project team. The unit should also evaluate and consider a project's financial viability from the perspective of the private sector. This will enable the unit to identify how projects should be packaged and structured to attract interest from infrastructure investors.

Blended project delivery teams

At present, most government agencies either operate or regulate the state's infrastructure rather than structuring the financial model of new investments. When the government is both the proponent and project manager, which is often the case where the government is developing proposals to build, own and operate economic infrastructure, the lead agency should have the relevant skills and experience to deliver the project as well as drawing on the skills and expertise of other agencies.

In Western Australia, project specific delivery teams, which bring together key expertise from relevant agencies, are typically established for social infrastructure. This approach should also be extended to economic infrastructure projects where lead agency is responsible for delivering a project.

The Office of Strategic Projects, within the state Department of Treasury, works in collaboration with agencies, using blended project teams to deliver a range of major social infrastructure projects such as Fiona Stanley Hospital (with the Department of Health), Perth Stadium (with the Department of Sport and Recreation) and Eastern Goldfields regional prison (with the Department of Corrective Services).

The role of the Office of Strategic Projects, within the state Department of Treasury, should be extended to the delivery of economic or resources sector infrastructure.

A stronger, cross agency project delivery team, beyond existing governance steering committees, would assist to ensure economic infrastructure meets the needs of the end users, who typically fund a project through user fees.

State asset review in consultation with industry

The state government's strategic asset review is supported by CME; however, this should be undertaken in consultation with industry.

As part of the review, consideration of future long term leasing or privatisation of assets should be accompanied by suitable contractual or legislative frameworks to prevent abuse of any monopolistic position. Timely access for all users at reasonable commercial rates must be enshrined in any lease or privatisation arrangement.

Capital recycling to develop infrastructure

Capital recycling should be used as a means of developing the state's infrastructure requirements.

Capital recycling can attract competition from a larger pool of capital by offering projects already established and operating. As some infrastructure investors, such as superannuation funds, do not accept construction risk, the pool for new projects can be narrowed. Focusing instead on proven projects with an established demand profile can alleviate this narrowing of the pool.

CME supports the federal Treasurer's announcement, on 28 March 2014, of an asset recycling initiative, which could see the federal government offer financial incentives to states that sell assets and recycle the proceeds of these sales into new, productive infrastructure. This will see a federal incentive of 15 percent of the assessed value of the proposed asset being sold for capital recycling being provided to the state government. It is encouraging that the state government is considering this offer as part of its asset review.

For Western Australia, the benefit of a capital recycling strategy is potentially greater than for other states given investment in new resources sector infrastructure is likely to stimulate additional royalty revenue through the development or expansion of resources sector projects. This will also create national benefits through increases in taxation and employment opportunities.

Steps to protect the land and corridors that are needed to deliver infrastructure projects in the future

Federal government support for strengthening the protection of corridors and industrial buffers is welcome; however, given variation in state and territory approaches to protection, a national approach may be problematic.

The state's Department of Planning is reviewing approaches to the protection of corridors and industrial buffers. Of high importance to the resources sector is the clear definition, establishment and future protection of transport corridors and their respective buffers that provide priority access to export facilities, as well as industrial estates that provide services to the sector.

State government planning reform should consider how corridors and buffers can be defined and protected to obviate independent local government decisions that result in the lack of, or loss of, strategically important access routes. The protection of strategic corridors and buffers will further contribute to the state and national economies through the efficient and cost effective project development and transportation of commodities to export locations.

Attributing the appropriate level of priority to the strategic and economic importance of these corridors and buffers within the planning process will ensure future land use and development is planned and protected in the longer term. This includes defining buffer zones and protecting areas from future encroachment and fragmentation. Recognising these economic priorities in the planning process will enable the state government to better manage its social, environmental and economic outcomes, as well as providing certainty for resources sector development.

Industry requirements to reduce the regulatory and other costs it faces in competing for infrastructure projects

Maximising productivity, particularly workforce productivity, is essential to ensuring Australia's competitiveness. The impact of duplicative local industry participation requirements and challenges accessing appropriately skilled staff for project development and operations have both challenged the resources industry's capacity to be productive.

Local industry participation

CME considers the existing local content planning and reporting arrangements in Western Australia to be functioning effectively. However, the recently legislated *Australian Jobs Act 2013* (Cth) has not been well received. The Act places an unnecessary administrative burden on projects proponents, duplicating some requirements in state arrangements without clear benefits.

In Western Australia, many project proponents currently have individually agreed local content plans in their State Agreement Acts. These plans detail how project proponents will engage local suppliers and how often it will be reviewed. For example, one channel through which project proponents advertise contracting and supply opportunities is the Industry Capability Network portal.

These existing processes have been highly effective, evidenced by the Department of Commerce's November 2013 Local Content Report², which shows approximately \$57 billion in value has been awarded to local suppliers since July 2011 (the date of the introduction of the state government's Local Industry Participation Framework). The requirement to have Industry Participation Plans in Western Australia as part of a State Agreement Act, and their voluntary use in the absence of a State Agreement Act, is efficient and is achieving the intended outcome of encouraging the use of local suppliers and contractors.

The requirement for Australian Industry Participation Plans under the *Australian Jobs Act 2013* is therefore duplicative, administratively onerous and will not meet its aim of creating greater local content levels. The Act contradicts certain state government requirements, leading to excessive administration, record keeping and compliance requirements.

The *Australia Jobs Act 2013* should be repealed due to the cost and time imposts on projects, particularly in the tender process.

Industrial relation reforms

CME supports reforms in the industrial relations regime to address cost pressures on resources sector companies. Australia's workplace relations system has been re-regulated in a way that bolsters the power of trade unions at the expense of employers and employees. The *Fair Work Act 2009* (Cth) has reduced flexibility and choice in workplace arrangements and created a more adversarial bargaining system.

The Productivity Commission's review of the *Fair Work Act 2009* should take full account of the broad economic and social context in which workplace regulation operates, as well as the need for businesses to be able to adapt in a rapidly changing global economy.

Workforce training and skills development

The National Apprenticeship Program was a recommendation in the 2010 National Resources Sector Employment Taskforce. In a resources sector context, a range of companies across Australia have utilised the program as a mechanism to up-skill experienced workers for occupations during the construction phase. CME considers the program would also be applicable for public infrastructure development, given the similar operating environment and skills required. Engagement from industry throughout the development process would be required to ensure recognition of prior learning and gap learning processes are aligned with identified occupational requirements.

A further recommendation of the Taskforce's report was annual labour supply and demand projections produced by Skills Australia, now the Australian Workforce and Productivity Agency (AWPA). AWPA's work provides a robust evidence base for policy makers to ensure skills development resource allocation is appropriate. Industry consultation is crucial throughout the development of these projections, and when allocating training resources, with due consideration of the potential administrative burden for employers.

The development of a national apprenticeship program for public infrastructure development, based on the program established for resources sector infrastructure construction, could assist in ensuring the appropriate skills are available for project development.

² Department of Commerce, 2013. *Local Content Report: November 2013*. Perth.
<http://www.commerce.wa.gov.au/scienceinnovation/PDF/Publications/LocalContentNov2013.pdf>.

Increasing and deepening the competitive market for infrastructure provision and funding in Australia

Where a project has broader economic benefits, but is unlikely to be financially viable for private investors, hybrid and alternative funding models should be considered to support the project's development.

As considered in CME's *Investment in Resources Sector Infrastructure* report, hybrid models can assist to make a project financially viable, secure private finance and reduce the financial impact on governments. There are also alternative solutions where government packages existing revenues, or delays the transfer of demand risk, which can assist in developing projects without a long term impact on net debt.

There are four approaches enabling governments to support resources sector infrastructure that could be structured in a manner that avoids governments being exposed to the full debt impact over the life of a project. These approaches are:

- viability gap funding;
- minimum guarantees;
- existing revenue streams as a funding source;
- delaying demand risk transfer.

An unsolicited proposal process should be established to encourage the private sector to approach government with innovative solutions to fund infrastructure.

The assessment of unsolicited proposals should be conducted in line with probity principles designed to maintain impartiality, accountability, transparency and confidentiality. The probity principles also relate to managing conflicts of interest and obtaining a value for money outcome.

Conclusion

CME welcomes the House Standing Committee's inquiry into infrastructure planning and procurement and looks forward to ongoing engagement throughout the inquiry process.

If you have any further queries regarding the above matters, please do not hesitate to contact