



15 July 2021

Mr John Alexander OAM, MP
Chair
House of Representatives Standing Committee on Infrastructure,
Transport and Cities
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Dear Mr Alexander,

The NSW Government welcomes the opportunity to make a submission to the Parliament of Australia's House of Representatives Standing Committee on Infrastructure, Transport and Cities inquiry into procurement practices for government-funded infrastructure. This is an issue of great importance to NSW. The scale and complexity of the infrastructure program, both in NSW and nationally, is unprecedented and that growth has challenged the capacity of contractors and government. This is predominantly an issue for large and complex civil engineering construction projects.

Introduction

The NSW Government infrastructure pipeline is at record levels, with a \$108.5 billion pipeline of infrastructure investment planned across the four years to 2024-25. This includes over \$71.5 billion for transport and roads, \$10.8 billion for health infrastructure and \$8.5 billion for education and skills infrastructure.

This investment is happening at a time when other Commonwealth major projects are being delivered in NSW, including the first airport in decades and a major hydro-electric project, and when other States have also committed very large pipelines and projects. Achievement of the NSW Government's infrastructure objectives will demand rigorous cooperation between Government and industry.

A stable and sustainable infrastructure sector is in the public interest. When projects experience stress, it can undermine public confidence in infrastructure investment and reduce enthusiasm amongst contractors, subcontractors, and professionals to pursue further work. This requires consideration early in the development phase to support optimal packaging, contracting and procurement approaches that deliver intended outcomes in operations.

The NSW Government engages regularly with industry to achieve its objectives and maintain a sustainable pipeline and in June 2021 made further commitments by setting out procurement practices the NSW Government expect to be routinely applied on large, complex infrastructure projects in the ***Framework for Establishing Effective Project Procurement***¹ which was released as a Premier's Memorandum ***M2021-10 Procurement for Large, Complex Infrastructure***

¹ http://www.infrastructure.nsw.gov.au/media/2944/procurement-framework_3-june-21_final.pdf

Projects². These practices are the default approach to large complex infrastructure projects procurement. There may be occasions where specific practices are not suited to the circumstances of a project, but these should be the exception. The Framework and Premier's Memorandum include practices to de-risk pre-construction activities, improve procurement practices, reduce costs and improve timeframes. With reference to the Committee's terms of reference, the Premier's Memorandum addresses packaging of large, complex projects to allow participation by Tier 2 contractors. It also sets out how to consider the capability and contribution by international contractors.

Other NSW Government Actions

The release of the Premier's Memorandum supports several other initiatives to improve industry capability and capacity, including:

- Launched the **NSW Government Action Plan: a ten point commitment to the construction sector** in 2018 (the ten point commitment), to guide government and industry to work more effectively together on shared objectives and goals. It is an action plan for the government to be a 'best in class' client for the construction industry. In return, it expects industry to meet the highest standards of integrity, quality, innovation, diversity and inclusiveness.
- Infrastructure NSW maintains a whole-of-NSW Government Major Projects Pipeline Portal. This brings together all the NSW Government infrastructure projects, expected to come to market with a minimum capital value of over \$50 million. It provides industry with information to enable planning and resourcing for the next three to five years.
- Implementing the Infrastructure Skills Legacy Program (ISLP) targets mandated by NSW Procurement Board for projects over \$10 million. The targets will:
 - allow existing workers to learn new skills on the job
 - increase the number of apprenticeship opportunities available on NSW Government infrastructure projects
 - increase the representation of young people, Aboriginal people and women in the industry
 - ensure workers from surrounding areas are targeted for training and employment to address existing skills shortages across NSW.
- Implementing the NSW Government Skilling for Recovery strategy which set aside \$91 million for 41,900 places in construction targeting job seekers and young people. The training will be industry led in design of training to meet the needs of construction sector.
- The NSW Government is also a founding member of the Construction Industry Leaders Forum (CILF), a joint forum of leaders from industry and the Victorian and NSW public sectors, that work together to drive improved collaboration and action around the procurement and delivery of major government infrastructure projects.
- Through CILF, a Construction Industry Culture Taskforce (CICT) has been established to develop a 'culture standard' for the Construction sector to lift productivity and performance. It addresses recognised cultural problems that prevent construction from being an employer of choice, by aiming to moderate work hours, encourage healthier lives and wellbeing and diversify the workforce with more female participation.
- Infrastructure NSW released guidance for providing reliable project information to the public in 2020: **Timely Information on Infrastructure Projects³**. The guide sets out the rationale and method to ensure that information about infrastructure costs and delivery timetables provided to the public reflects the relevant stage of an infrastructure project.

² <https://arp.nsw.gov.au/m2021-10-procurement-for-large-complex-infrastructure-projects/>

³ <https://arp.nsw.gov.au/c2020-22-timely-information-on-infrastructure-projects-and-transactions-with-the-non-government-sector/>

This approach ensures that project teams are not seeking to deliver against prematurely announced budgets and timelines, and improves public confidence in the reliability of information. The Guide has been adopted as a Circulate of the Department of Premier and Cabinet in NSW.

The Role of Infrastructure

New South Wales is taking steps to ensure that a very large investment program can be efficiently delivered with value for money for taxpayers and citizens. In doing so, we seek to foster and capture benefits of long-term industry capability. At the same time, infrastructure construction is not an end in itself. NSW maintains its attention to the role of infrastructure assets in supporting incomes, employment and service delivery in the wider community. The greatest and most enduring economic and employment benefits from infrastructure investment derive from the industries and businesses it serves. The greatest impacts of workforce participation and skills growth come long after construction is complete and assets are in service in the community.

Scale of the Task and Diversity of Participants

The investment program currently underway requires active participation by all parts of the construction sector. In the engineering construction sector, there is a spectrum of firms, each with different levels of experience, specialist skills, risk appetite and balance sheet. In many cases, the projects being undertaken have few recent precedents in Australia. Many of our well-established players draw on the investors, staff and experience from overseas. The participation of individuals and firms with international experience and expertise is welcomed. Our primary requirement is that they bring those skills, people and financial resources to bear on our projects. The infrastructure investment program could not be delivered without them.

Similarly, firms with thoroughly domestic roots have the potential to grow in stages to a point where they can take on larger and more complex contract packages without threatening the financial sustainability of their businesses. This is particularly facilitated through joint ventures with more experienced participants, which is becoming increasingly common and encouraged. NSW is considering further steps to support such joint ventures.

In many cases, contract packages will be of a scale and nature that “Tier 2” firms can participate in their own right, incrementally building their skills, balance sheet and reputation. We also take steps to support this by breaking down works into packages and, in some cases, offering contracts on a construct-only or open book basis, which reduces risks for contractors.

Working together to advance local and national objectives

Given the importance of supporting a stable and sustainable construction sector, key areas for potential collaboration between the Commonwealth and State Governments include:

- Ensuring joint funding agreements between the Commonwealth and State Governments support efficient infrastructure delivery models that reflect early risk identification, pre-construction derisking, removing requirements to undertake competitive processes in the delivery phase regardless of the size of the procurement and incentivised risk sharing for elements that cannot be quantified prior to construction. State Government procurement policies and competition limits have demonstrated value for money through direct dealings with industry.
- Identifying and mitigating capability and capacity gaps through skilled migration programs and appropriate working visa arrangements.
- Tailoring project announcements to reflect the stage of the project and mitigate early anchoring of cost and schedule.

Conclusion

The NSW Government has taken a long-term and strategic approach to infrastructure procurement in partnership with the construction sector and peak industry bodies. Policies of the Australian Government, however, have significant direct and indirect impacts on the procurement of major projects, particularly those on the Infrastructure Priority List. To the extent that those policies can be aligned with contemporary developments in project procurement it can only assist in the delivery of joint Commonwealth and State priorities. The NSW Government again thanks the House of Representatives Standing Committee on Infrastructure, Transport and Cities for the opportunity to provide a submission to this important inquiry.

Yours sincerely,

Simon Draper
Chief Executive