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House of Representatives Standing Committee on Infrastructure, Transport and Cities

Inquiry into Procurement Practices For Government-funded Infrastructure

Thank you for the opportunity to make a submission to this inquiry. As one of Australia's largest independent investors in public infrastructure, we appreciate the Committee's interest in procurement practices for government funded infrastructure, and believe that this inquiry is a timely opportunity to consider improvements to infrastructure procurement which help to deliver better value for money, better project and assist in Australia's economic recovery from the COVID-19 pandemic.

Plenary Group background

Plenary is a specialist independent long-term investor, developer and manager of public infrastructure. We have a portfolio of 71 assets under management worth more than \$44 billion across Australia, Canada and the US.

Our hands-on philosophy means we take responsibility for each stage of a project from design to construction, delivery, and long-term management. We adopt a holistic approach to our projects embracing finance, design and construction, complementary commercial development and the ongoing management and operation of the asset.

In Australia, we have delivered a number of high profile projects across a range of sectors, including the Sydney Metro North West, the Melbourne Convention and Exhibition Centre, the Toowoomba Second Range Crossing and the Victorian Comprehensive Cancer Centre.

We pride ourselves on delivering innovative, sustainable solutions for governments and delivering first-class infrastructure on time and on budget. Our vision is to be a world leader in developing, providing and managing public infrastructure, recognised for a distinctive approach that delivers outstanding results for clients, partners, communities and the environment.

In considering the Terms of Reference for this Inquiry, we would encourage the Committee to consider the following issues:

- Given the scale of the infrastructure pipeline around the country, it is critical that private sector capital is applied to support governments in rolling out infrastructure projects, and that there is a co-ordination in government infrastructure pipelines around the country.

- Australia has world leading infrastructure capability, which has been able to be successfully exported around the world. This is across the full range of infrastructure skills from construction, to design and the financing and delivery of infrastructure projects.
- There are opportunities to strengthen the rollout of Australia's infrastructure pipeline through strategic approaches to procurement. PPP contracts have a strong track record of being able to deliver these outcomes.

The remainder of the submission expands on these points.

Procurement practices for government-funded infrastructure & challenges and opportunities with existing procurement practices,

Given the scale of infrastructure investment around the country, all Governments should recognise the value that private sector investment can bring to the delivery of infrastructure.

Too often the debate is characterised as a contrast between public sector or private sector investment in projects, but given the need to invest in significant infrastructure into the future, both public and private sector investment will be needed.

It is our observation that there is greater potential to use Public Private Partnerships and similar models in the delivery of infrastructure projects. While the Commonwealth Government has successfully used the PPP model on a number of occasions, such as with the Department of Defence's Single LEAP projects described further below, we believe that there is more that could be done by the Commonwealth to encourage the use of PPPs where appropriate, particularly on joint Commonwealth-State funded projects.

Importantly, through a Public Private Partnership model, procurement is based on delivering an outcome for the community, rather than just construction of an asset. As such, generally a PPP will package the design, construction, operation, maintenance and financing of an asset into a single procurement. PPPs are the only procurement model that both transfers delivery risk away from taxpayers, and offers long-term maintenance of infrastructure on a risk- transfer, whole-of-life basis.

The benefits of this approach include:

- A PPP project takes a whole of life approach and ensures value for money over the life of the asset. This can involve careful consideration of the design of the asset to maximise usage of the asset over its life, or investing in higher quality assets up front to minimise operations and maintenance cost over the life of the asset.
- A single integrated party can be responsible for all elements of the project. This means that the challenges involved in interfaces between different elements are not having to be managed by government, and ensures that there is an integrated solution.

- PPPs bring a very strong incentive on all parties to solve problems as they arise. All infrastructure projects are complex and involve uncertainties in delivery. Active involvement from debt and equity is effective at resolving problems, and reduces the likelihood of cost increases or delivery delays.
- PPPs provide a sustained focus on innovation, excellence, and customer service. By combining construction expertise, operational expertise and investors who are strongly incentivised to deliver outcomes, the PPP model has been consistently shown to deliver
- Integration with precincts. Infrastructure projects need to increasingly integrate with the precincts and communities around them. A PPP can encompass and integrate with complementary development, whether that is medical suites near a new hospital, or hotel and retail facilities as part of a convention and exhibition centre.

Infrastructure is also an opportunity to put to good use the national pool of savings created through superannuation. There is strong appetite from domestic and international investors for Australian infrastructure assets. This provides a range of complementary benefits including productivity improvements through better quality infrastructure, better assets for the use of the community, and providing stable, long term returns for super fund members and other investors.

Potential to enhance the sovereign capability of the Australian industry

We commend the committee for considering the sovereign skills and capabilities needed to deliver on Australia's infrastructure pipeline. However, we would caution that any approach needs to consider the need to use world's best practice expertise in delivering complex projects and that any approach does not constrain the competitive environment, or the attractiveness of Australia as a market for international capital and international infrastructure delivery capability.

Australia has demonstrated sovereign infrastructure capability, and this sovereign capability is about more than construction inputs, such as steel, or in construction expertise. Sovereign capability is also seen in the other capabilities that go into an infrastructure project:

- Australia has world leading infrastructure financing expertise. This capacity Plenary Group has successfully taken this expertise into the North American market, and increasingly into growing markets in Asia.
- Australia has also developed world leading expertise in project management, soft services, and facilities maintenance.

In both of these cases, this expertise is creating jobs and economic activity on Australian projects, but it also has the demonstrated potential to be exported around the world and become a significant part of Australia's economic growth and global influence.

When considering sovereign capability, the approach should be about deliberately building a world class industry across the whole of the supply chain – from materials, through to construction, design, project management, finance and operations. This builds capability that can take on the world, rather than shielding Australian businesses from competition.

PPP contracts have proved effective at achieving outcomes specified by governments. As an example, the Toowoomba Second Range Crossing project was jointly funded by Commonwealth and State Governments and delivered as a PPP, with Plenary as project sponsor. Government had identified local economic impact as a key objective for project delivery. This was able to be achieved through the PPP, with around 75% of subcontractors and labour from the greater Toowoomba region, assisting in the creation of up to 1800 full time jobs during construction and maintenance of the project.

Existing infrastructure pipelines and related supply requirements

Plenary would observe that good progress has been made by governments in providing infrastructure project pipelines, that give visibility of upcoming procurements and allow preparation and planning by the private sector.

There are some areas where this pipeline could be improved. This is particularly the case in the co-ordination of pipelines and procurement across jurisdictions. This would not be intended to slow things down, or restrict the ability for governments to bring projects to market, but to aid visibility and planning on both government and private sector side and avoid resource constraints. Published pipelines should also publish intended procurement approaches, to give visibility on thinking from governments on procurement methods and ensure interest from national and international investors in potentially privately funded projects.

Lessons from other Australian jurisdictions and other portfolio areas, including Defence's industry capability approaches

Plenary has had an effective and constructive relationship with the Department of Defence on the Single LEAP 1 and Single LEAP 2 projects. These projects have delivered 4,410 accommodation units on 17 defence bases across Australia. Under these projects, Plenary has been responsible for the design delivery and ongoing management of the units across their lifecycle.

There are a few points of note about the approach taken to these projects that may be of interest to the Committee:

- The projects demonstrated the value of packaging smaller projects together into a single larger procurement. This enabled economies of scale in design and delivery, and allowed a consistent standard to be achieved across different facilities.

- Despite a single procurement, local construction firms were engaged to deliver projects. This ensured local economic impact and value for money in delivery. In the case of Single LEAP 2, five separate contractors were engaged to deliver projects across 14 bases.
- Defence has taken a whole of life view to assets and considered operating costs, maintenance and maintaining capability over the long term as key to their procurement approach. In some cases, this involved specifying more hard-wearing materials to be used to provide reduced maintenance over the life cycle of the asset.

Public Private Partnerships have a demonstrated ability to be a valuable procurement approach, with significant benefits for government. Plenary would encourage the Committee to consider the points raised above, and would be pleased to discuss these matters further.