



Propelling city growth

*Solutions to help
Australia close its social
infrastructure gap*

Time to act on Australia's social infrastructure deficit: *Four steps to address the increasing shortfall*

For the past two decades, Australia has been a leader in the use of public-private partnerships (PPPs) for social infrastructure projects. Its successes were so pronounced that countries such as Canada would send experts and civil servants to learn from local authorities how to design, structure and manage these projects. The PPP infrastructure market grew in maturity and many complex projects were delivered using this approach¹.

However, recent trends have led to social infrastructure being delivered less efficiently. The Australian pipeline of projects is thin and confidence in government's commitment to deliver it on a bi-partisan basis is waning.

In response, Australian governments need to rethink their approach and open up new pathways for more PPPs, market-led or unsolicited proposals, and alternative delivery approaches. Governments need to address the uncertainty in the bidding process that they have created. They should embrace the private sector's knack for innovation and efficiency to maximise the output from existing infrastructure and improve the outcomes delivered by new infrastructure.

¹ Infrastructure Australia (2018). Future Cities: planning for our growing population. Summary report. <http://infrastructureaustralia.gov.au/policy-publications/publications/files/future-cities/Future-Cities-Summary-Report-2018.pdf>

CANBERRA, WE HAVE A PROBLEM...

Change is crucial to meeting Australia's growing social infrastructure needs. Estimates of the infrastructure deficit in Australia range from \$300 billion to \$770 billion². The deficit is large. Even if we were to take the smaller of these estimates and assume that a mere 10 per cent represented the need for additional social infrastructure, we would still find that the current \$13.3 billion³ is not large enough.

When we take into account demographic forecasts, it becomes quite clear that this deficit is set to increase substantially. The Australian Bureau of Statistics predicts that the country's population is going to grow by 11.8 million people in the next 30 years. That is equivalent to adding a city the size of Canberra every year⁴. Or, put differently, it equates to adding a city with 150 schools, five hospitals, around 12,000 social housing properties and two correctional centres every year⁵.

Making up the deficit and getting ahead of the forecast demand will require innovation and genuine collaboration.

MAKING THE PROBLEM WORSE

Pair the above with cumbersome and lengthy bidding processes and you have a problem. While roughly 10 years ago the average time lag for infrastructure projects from announcement to preferred bidder was 17 months⁶, recent projects have stretched that process out to as much as 42 months on the redevelopment of Westmead Hospital in NSW⁷.

Part of the problem is undoubtedly the size of some recent projects. When calculating on the basis of a five-year mean value and comparing the period 2010-2015 to 2005-2010, we find that the average size of new PPP social infrastructure projects has more than doubled, from \$353m to \$753million⁸.

This increase in size reduces the pool of contractors and sponsors who are capable of bidding for these projects. In addition, governments have relied on competitive tension to drive the private sector to take on more risk over time. This has not generated the best value in the longer term, as certain risks (such as the transfer of unknown pre-existing contamination, undocumented utilities or the risk of unforeseeable changes in law during the delivery phase) have resulted in distressed projects or disputes. These outcomes serve to further reduce the pool of contractors and sponsors who can (or are willing to) participate in the market.

It is no surprise that Infrastructure Partnerships Australia reported a 24 per cent drop in overall investment likeliness in Australia from 2016 to last year in its latest Infrastructure Investment Report. While the decrease is smaller for the reported intention to invest in social infrastructure, less than half of surveyed investors (42 per cent) found the Australian market attractive. Further, almost two-thirds of investors see political risk as a major obstacle to investing in Australian infrastructure⁹.



² Grattan Institute in The Conversation (2016). Budget explainer: does Australia really have an infrastructure deficit? <https://theconversation.com/budget-explainer-does-australia-really-have-a-n-infrastructure-deficit-57549>

³ Own calculations based on data from ANZIP Australia & New Zealand Infrastructure Pipeline. <http://infrastructurepipeline.org/>

⁴ Australian Bureau of Statistics in Infrastructure Australia (2018). Future Cities: planning for our growing population. Summary report. <http://infrastructureaustralia.gov.au/policy-publications/publications/files/future-cities/Future-Cities-Summary-Report-2018.pdf>

⁵ Data on existing social infrastructure in ACT/Canberra. Australian Schools Directory – <https://www.australianschoolsdirectory.com.au/canberra-schools.php>. ACT Government. Access Canberra. https://www.accesscanberra.act.gov.au/app/answers/detail/a_id/1859/~/_/hospitals-in-canberra. ACT Government. Community services. http://www.communityservices.act.gov.au/hcs/services/social_housing. ACT Government. ACT corrective services. http://www.cs.act.gov.au/custodial_operations/types_of_detention

⁶ KPMG in NZCID (2016). Best practice project procurement: Findings from an NZCID delegation to Canada. <http://www.infrastructureontario.ca/WorkArea/DownloadAsset.aspx?id=34359739978>

⁷ NSW government. Westmead redevelopment. <http://www.westmeadproject.health.nsw.gov.au/>

⁸ Own calculations based on data from Infrastructure Partnerships Australia. <http://infrastructure.org.au/chart-group/public-private-partnerships/>

⁹ Infrastructure Partnerships Australia (2017). Australian Infrastructure Investment Report. <http://infrastructure.org.au/wp-content/uploads/2017/10/Australian-Infrastructure-Investment-Report-2017-FINAL.pdf>

SIZE, CERTAINTY AND INNOVATION ARE THE KEY

In our view, governments can take four steps to address the social infrastructure deficit and leverage private sector innovation and collaboration.

1 Smaller projects get you there faster

First, governments need to restore balance into the pipeline by introducing more smaller, critical projects. This will reduce the average project size – Currently, there are 10 hospitals in the pipeline which have an average value of \$580 million¹⁰. This is more than four times the cost of the Casey Hospital Upgrade Project, which added capacity in a high-growth area to treat an additional 25,000 patients, perform an additional 8000 procedures and support an extra 1300 births annually. Increasing the number of projects with a capital cost in the \$100-400million range, such as hospital upgrades and regional health projects, will assist in improving the overall network, reducing bid costs and timelines, and allow smaller builders and sponsors to participate in delivering much needed infrastructure.

2 An efficient process benefits all

Second, governments should remember that business appreciates one factor above all else: certainty. A nimbler and faster process for deciding the preferred bidder on a public tender will not only reduce costs for government but also for bidders. And that will make bidding more attractive, leading to more options for governments. It also means that more of the procurement and bidding costs are being spent on the final solution and less on finalising the detail of the proposals put forward by the under-bidders.

This has been a constant theme from market participants. We've seen aspects of a nimbler and faster process in processes such as Stage One of the Wagga Wagga Rural Referral Hospital redevelopment (\$450million), which took only three months from the planning application to the start of construction¹¹. This might be an extreme example, but it does prove the process does not always need to be that lengthy.

The pipeline should then be de-politicised, with bi-partisan alignment on allowing procurement processes to complete and signed contracts to proceed.

3 Set the private sector a challenge

Third, governments should identify 'challenges' for the private sector to tackle. This process could be similar to the approach former NSW premier Mike Baird took to social benefit bonds, identifying priority areas for investment. For example, the challenge might be for the private sector to reduce the number of hospitalisations resulting from chronic diseases (whether through prevention programs; alternative facilities; new treatment methods or improved hospital processes) or to improve the efficiency of emergency departments (whether through design improvements; ancillary medical clinics or other facilities or network improvements). If a private sector participant put forward the best solution (or, in the case of only one response, a solution) that was within any stated parameters and met the savings hurdle (or made the private sector's return contingent on meeting it) within the competition period, that solution would be taken forward.

4 Challenge current operating models

Fourth, governments should introduce a contestability process, through which private sector participants can identify inefficiencies in the delivery of the services supported by social infrastructure assets and pitch solutions. Innovative service delivery will be important, particularly for assets such as prisons and hospitals where the cost of running hospitals far exceeds the cost of building them. This could include the introduction of new processes or the implementation of new technologies (such as a central electronic patient record that is accessible to all relevant physicians). It could even extend to how any additional infrastructure (and related services) will be ultimately funded (user charges; adjacent uses; out of savings generated in other budgets).

¹⁰ Own calculations based on data from ANZIP Australia & New Zealand Infrastructure Pipeline. <http://infrastructurepipeline.org/>

¹¹ Own calculations based on Government of NSW. Project and initiatives. Rebuilding health. <https://www.nsw.gov.au/improving-nsw/projects-and-initiatives/rebuilding-health/>

Australia's social infrastructure shortfall

Current infrastructure pipeline in Australia:
\$13.3bn

Infrastructure projects in Australia have gotten bigger. The average size of new PPP social infrastructure projects has more than doubled to
\$753M

OUR INFRASTRUCTURE DEFICIT IS GROWING

Infrastructure deficit in Australia:
up to \$770bn

Australia's current population growth:
11.8 million in 30 years
OR
a city the size of Canberra every year
(150 schools, 5 hospitals, 2 prisons, 12,000 social housing properties)

WE NEED A BETTER PROCESS

Average duration from announcement of project to announcement of preferred bidder 10 years ago:
17 months

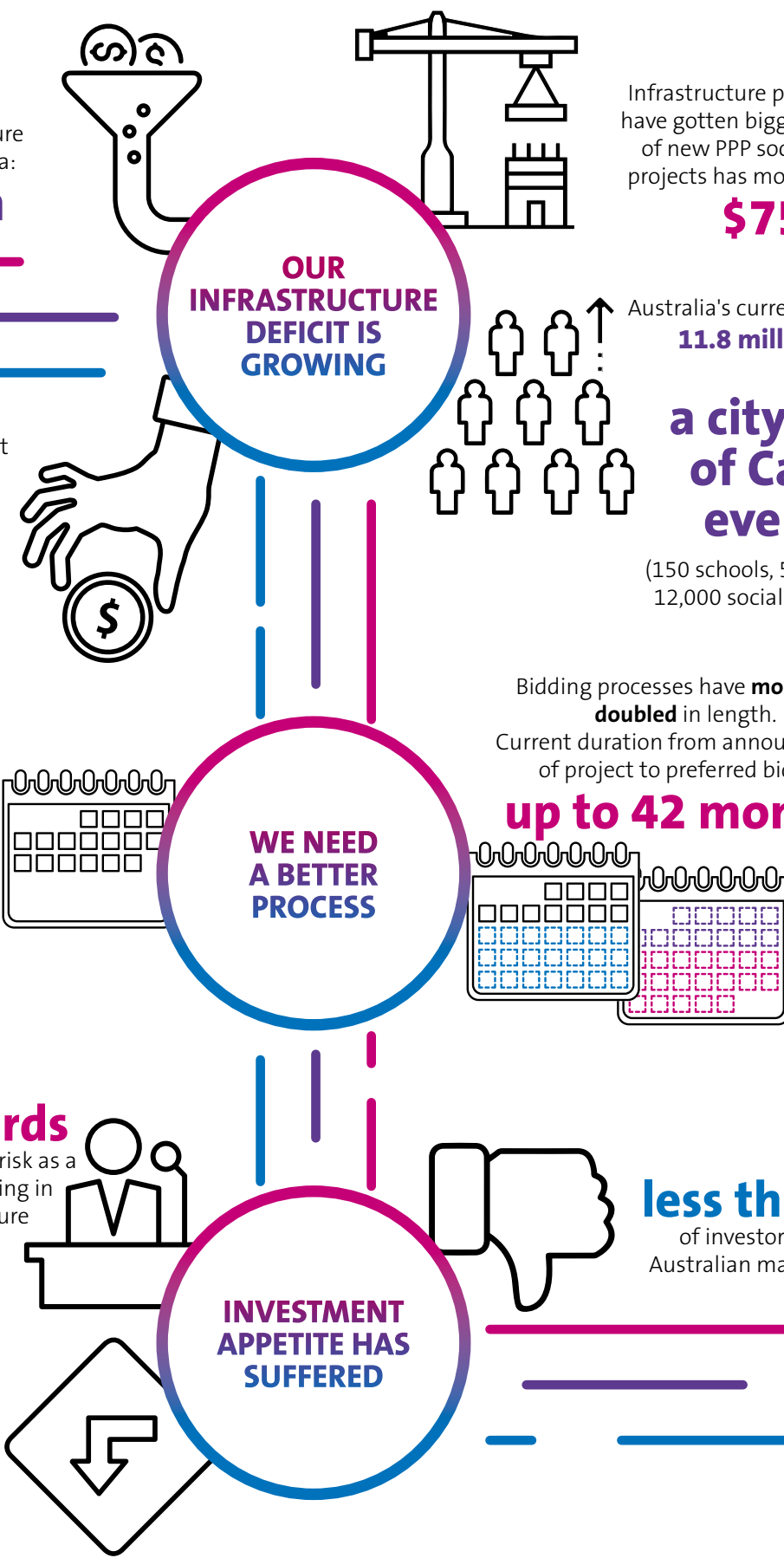
Bidding processes have **more than doubled** in length.
Current duration from announcement of project to preferred bidder:
up to 42 months

Almost **two thirds** of investors see political risk as a major obstacle to investing in Australian infrastructure

less than half of investors found the Australian market attractive

INVESTMENT APPETITE HAS SUFFERED

24% drop in investment likeliness in Australia from 2016 to last year



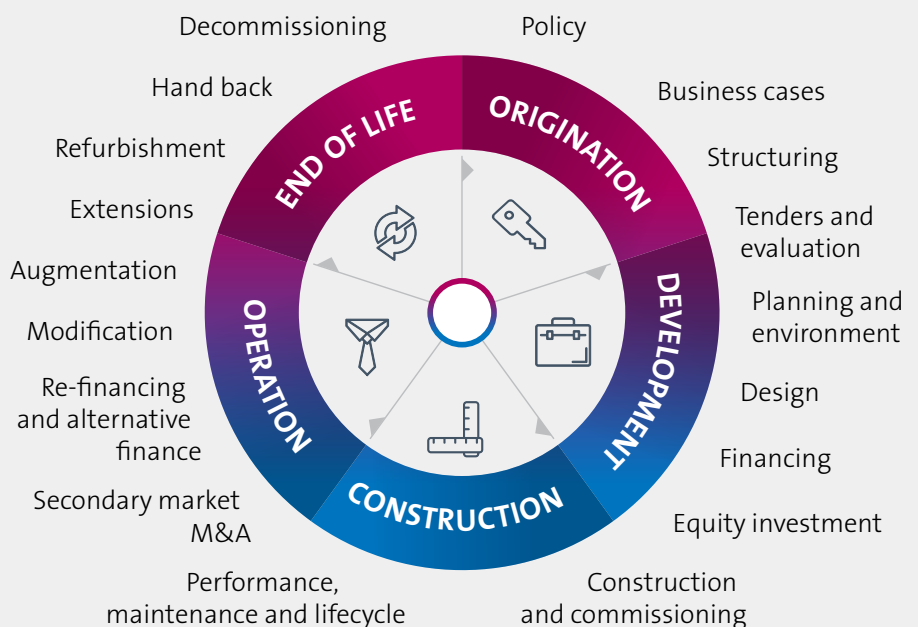
TIME TO LEAD AGAIN

Australia was once a pioneer in the usage of the PPP model for social infrastructure, but that is no longer the case. While the four steps we've proposed might not necessarily be the answer to address all the issues, or be appropriate in all circumstances, they will lead to market-wide improvements. The time is right for a conversation on how we tackle this growing problem and the tools we need to do so.

These measures are intended to complement and bolster the impressive tool kit that governments have already developed for delivering quality infrastructure. By implementing them, governments will not only reduce the social infrastructure deficit, but also use existing assets more efficiently. In doing so, Australia can increase productivity, liveability, and its attractiveness as an investment destination. In short, it can regain its position as a leading nation in delivering infrastructure.

WHAT WE DO

From origination to end-of-life, there is an urgent need to deliver better quality social infrastructure. The challenge for the sector is to become more efficient and more creative in an environment of political uncertainty and unprecedented demand. Success requires collaboration, innovation and drive.



FOR MORE INFORMATION



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