

# CCF SA



CIVIL CONTRACTORS  
FEDERATION

## CCF SA RESPONSE INFRASTRUCTURE SA 20 YEAR STATE INFRASTRUCTURE STRATEGY DISCUSSION PAPER

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# CIVIL CONTRACTORS FEDERATION (SA) SUBMISSION TO INFRASTRUCTURE SA'S 20-YEAR INFRASTRUCTURE STRATEGY

## EXECUTIVE SUMMARY

The Civil Contractors Federation SA (CCF SA) welcomes the opportunity to provide a submission in response to Infrastructure SA's 20-Year Infrastructure Strategy Discussion Paper.

South Australia's prosperity is dependent upon functional, efficient and cost-effective civil infrastructure. Healthy, well-functioning and productive countries depend on infrastructure that civil contractors construct and maintain. In addition, the civil construction industry is a proven creator of jobs and economic growth.

We commend Infrastructure SA's efforts towards designing a long-term vision and strategy for the state's infrastructure investment decisions. Civil infrastructure, in particular, will be a crucial component of such a strategy.

CCF SA submits that in developing the final strategy for SA's long-term infrastructure investment, Infrastructure SA should give consideration to the following five focus areas:

1. Roles and responsibilities for South Australia's infrastructure planning and delivery
2. Government procurement policies and practices
3. Establishing a reliable pipeline of infrastructure projects
4. New challenges and new opportunities
5. Infrastructure priorities in the context of changing population, demographics, climate and technology

The CCF SA strongly supports a strategic approach to the state's infrastructure that takes into consideration broader planning objectives and existing long-term strategies. The highest priority must be given to independent decision-making and advice to government.

In terms of implementation, it will be essential that the 20-year strategy is supported by robust public sector procurement practices that allow civil contractors to competitively tender for infrastructure projects within transparent and consistent protocols. In order to capitalise on the employment and growth generated by civil construction in this state, it will be necessary to implement strategies to accelerate the bringing of infrastructure projects to market and create a consistent and reliable flow of work.

CCF SA also believes that South Australia has an opportunity to lead innovation in infrastructure development; a dedicated focus to removing impediments and embracing our unique strengths is required. Several specific recommendations are offered that we believe will be important to meeting the demands of a growing population and changing demographics in our State.

We are hopeful that the strategy developed from the Discussion Paper will achieve better infrastructure outcomes, efficiency and value for money for the State and create optimal conditions for civil contractors to continue building the growth and prosperity of South Australia.

## ABOUT THE CIVIL CONTRACTORS FEDERATION

The Civil Contractors Federation (South Australia) (CCF SA) is the peak industry body representing, protecting, promoting and connecting the civil construction industry in South Australia. The CCF SA has a growing diverse membership of 500 companies of all sizes that employ up to 50,000 South Australians. CCF SA also has a training arm, Civil Train SA, a Registered Training Organisation (RTO), that delivers nationally accredited and non accredited training in South Australia, Western Australia and the Northern Territory, to at least 15,000 people annually.

CCF SA members are involved in a variety of diverse projects and activities (from small to very large) including the development and maintenance of civil or “horizontal” infrastructure such as roads, bridges, sewer, water and drainage pipelines, dams, wharves, airstrips, and commercial and housing land development. Members are also involved in the preparatory works for mining and other resource developments.

## INTRODUCTION

The CCF SA welcomes the opportunity to provide a submission in response to Infrastructure SA’s 20-Year Infrastructure Strategy Discussion Paper (the Discussion Paper). Our submission is based on research and feedback to a survey of our membership including interviews with CCF SA Board members, who are industry representatives from Tier 1, Tier 2 and SME civil contracting companies across South Australia.

The CCF SA submission is structured in the following way to ensure that both concerns and opportunities regarding South Australia’s infrastructure strategy are best presented:

1. Roles and responsibilities for South Australia’s infrastructure planning and delivery
2. Government procurement policies and practices
3. Establishing a reliable pipeline of infrastructure projects
4. New challenges means new opportunities
5. Infrastructure priorities in the context of changing population, demographics, climate and technology
6. Recommendations

## 1. ROLES AND RESPONSIBILITIES FOR SOUTH AUSTRALIA’S INFRASTRUCTURE PLANNING AND DELIVERY

### SOUTH AUSTRALIAN GOVERNMENT

It will be vital for the South Australian 20-year Infrastructure Strategy to take full stock of existing planning strategies already established by South Australian State Governments. For example, the South Australian Regional and Mining Infrastructure Plan, South Australian Integrated Transport and Land Use Plan, Strategic Infrastructure Plan for South Australia and the 30-Year Plan for Greater Adelaide already outline the State’s priorities for greater liveability and growth. Many plans have had disjointed audiences internal and external to government, with no overarching strategy to bring these together to be of benefit to the State. The Discussion Paper briefly mentions that “The Strategy will also work within other key government policies, strategies and plans, including the 30-

Year Plan for Greater Adelaide.” This implicitly acknowledges the secondary and complementary role of infrastructure planning, but needs to go further to explicitly highlight that infrastructure planning and broader state planning are inextricably linked, with infrastructure solutions only as good as the sound planning and policy decisions behind them. There needs to be a robust and collective discussion about what we want South Australia to look like in 20 years, and in 50 years. CCF SA poses the following questions:

- Is one of the objectives of the 20 Year State Infrastructure Strategy to consolidate infrastructure requirements previously identified and re-prioritise them?
- How will the 20 Year State Infrastructure Strategy actually relate to and intersect with other Government and other stakeholder plans and strategies (and which documents will take precedence over which)?

## INFRASTRUCTURE SA

Prior to the state election in 2018, CCF SA advocated strongly for the establishment of an independent infrastructure body in South Australia to guide long-term infrastructure investment across the state.

This advocacy was supported by a report commissioned by CCF SA in 2017, which recommended that “South Australia establish an independent infrastructure agency to undertake or review business cases on specific infrastructure initiatives and establish a pipeline of productive infrastructure projects in the state.”

The key rationale behind this recommendation, and subsequent establishment of Infrastructure SA, was to ensure the active engagement of industry in the setting of infrastructure priorities and the sound management of short and long term public investment programs through transparent and independent governance mechanisms (South Australia Infrastructure Outlook Report, BIS Economics, p. 6: Recommendations 2, 3, 4).<sup>1</sup>

On a national level, concerns that Australia was not getting value for money from its infrastructure development led to the establishment of the national independent body Infrastructure Australia (IA) in 2008, with the intention of improving the nation’s ability to identify and fund projects of greatest importance (Australian National Audit Office, 2010).<sup>2</sup> Similar initiatives have since been adopted in other states, including South Australia’s Infrastructure SA. There are now more organisations and resources than ever being applied to the planning and development of major infrastructure initiatives across the country. The question is are the politicians listening?

The history of Infrastructure Australia raises questions about how effectively Infrastructure SA will be able to influence infrastructure priorities independent from political pressures. Keys (2016) examined the impact that IA had on shaping urban transport investment and priorities over the eight years from 2008 – 2016, and found that IA had largely failed to establish a pipeline of sound transport investment options.<sup>3</sup> The review found that major urban transport projects appear to

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<sup>1</sup> South Australia Infrastructure Outlook Report, BIS Economics, p. 6

<sup>2</sup> Australian National Audit Office (2010) Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List, Commonwealth of Australia.

<sup>3</sup> Keys, E (2016) *Picking Winners: A Review of Infrastructure Australia*. Australasian Transport Research Forum 2016 Proceedings 16 – 18 November 2016, Melbourne

proceed independently of any IA endorsement, and there are a number of political and technical factors that make the process of choosing successful transport investment beset with complications. Finding solutions that will deliver on all three criteria of economic, environmental sustainability, and social outcomes is difficult, and even more fraught by the fact that political considerations appear to be more influential on project selection than objective analysis (Terrill, Emslie, & Coates, 2016)<sup>4</sup>.

CCF SA has the following questions:

- Can the 20 Year State Infrastructure Strategy withstand political cycles (i.e. not have the goal posts moved at every election)?
- What will Infrastructure SA's process be for receiving business cases and prioritising projects, and how will this be made transparent?

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## ENSURING INDEPENDENCE & TRANSPARENCY

As an independent body, it will be vital that Infrastructure SA presents an independent view that is truly aspirational and focused long-term. The current composition of the board has raised concerns within industry, particularly the involvement (albeit as ex-officio members) of the CEOs of three government departments with a construction remit, as well as the appointment of Directors of companies seen as active participants in current infrastructure activity in South Australia. Industry remains sceptical about the independence of Infrastructure SA. It is unfortunate that the industry peak body, representing the full spectrum of the construction sector, was not invited to be a member of Infrastructure SA.

In 2008, IA summarised the problems affecting the allocation of infrastructure funding prior to its formation as:

- Poor definition of the roles between the three tiers of government
- Lack of accountability and transparency of the decisions made
- Poor planning, misguided regulation, and distorted investment patterns<sup>5</sup>

It can be argued that these problems remain, and lack of transparency may be at the heart of it. IA was reconstituted in 2014, however none of the amendments addressed the issue of transparency, or giving greater strength to IA's decision-making powers. IA lacks the necessary powers to ensure objectivity prevails, and Infrastructure SA will arguably encounter the same problem – unless they are given true independence and able to make the decisions of proponents and decision-makers transparent, then we will not see quality investment decisions.

Transparent and formalised processes for identifying priority projects and deciding on delivery models need to be established. One size does not fit all. Assessing costs and benefits of the different options in a transparent and open manner should enable the SA Government to take a fresh look at its infrastructure delivery choices.

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<sup>4</sup> Terrill, M, Emslie, O & Coates, B (2016) *Roads to riches: better transport investment*, Grattan Institute.

<sup>5</sup> Infrastructure Australia (2019) *Infrastructure Priority List: Australian Infrastructure Plan Project and Initiative Summaries*, February 2019

Infrastructure SA should work closely with the Productivity Commission, Industry Advocate, and Small Business Commissioner to ensure local companies have fair and reasonable opportunities to win work on major projects. There needs to be total transparency from the prime contractor, right down the supply chain.

Infrastructure SA has the unique opportunity to learn from the lessons of other independent bodies across Australia that have also sought to focus on strategic fit and economic merit of investment decisions (e.g. Infrastructure NSW).

Our members have expressed that Infrastructure SA should take on a narrower, focussed role within the broader planning framework, to enable better opportunity for action plans, priorities, and operationalising projects, rather than extensive focus on research, discussion papers and strategic planning papers.

The CCF SA encourages Infrastructure SA to interface with government on a without fear or favour basis, and be a true driving force and strong advocate for a more vibrant and sustainable South Australia, socially, economically and environmentally.

## 2. GOVERNMENT PROCUREMENT POLICIES AND PRACTICES

South Australia's economy is driven by small business, with over 90% in the SME category. SMEs are collectively the largest employer in SA, and will be into the future. It is for that reason that the government acknowledged the need for improved communication between government purchasers and potential providers, active collaboration between businesses, review of current systems and removal of process barriers, in establishing the Industry Advocate.

The Industry Advocate needs to be given greater powers to ensure that policies such as the Industry Participation Policy are enforced. The State can benefit from growing Australian companies by creating competition and more capability that is South-Australian controlled. Local companies need to be able to work on complex projects to develop world class skills and remain competitive in the market.

There needs to be active collaboration across State Government agencies, firms, and industries to ensure the objectives of local businesses winning State Government contracts are met. It is important that government procurement processes do not create unnecessary barriers that would deter SMEs from competing for contracts, tendering, or growing and gaining experience.

The process for delivery needs to be simplified to make them more efficient, as many of the current requirements are unnecessary and actually go against what the government is trying to achieve (e.g. some safety documents actually make projects less safe as they can be too prescriptive and make people complacent and not think for themselves).

Improved regulations for mandating local employment in projects is required. While what constitutes a 'local company' may be difficult to define, it needs to be better thought out because greater involvement of mid-tier construction companies leads to savings in public spending by fostering greater competition.

CCF SA made several recommendations to the South Australian Parliamentary Inquiry into the State Procurement Board, that specifically dealt with procurement matters. Reforms must be streamlined and designed to be incorporated into existing procurement and industry participation policies, and utilise the efficient structure and capabilities of the Office of the Industry Advocate. The CCF SA also provided an extensive list of factors to be incorporated into a state government SME procurement policy to apply to all state government departments, public authorities and local councils. These are provided in attachment 1.

CCF SA understands that the Productivity Commission is currently undertaking an Inquiry into Government Procurement (Stage 2)<sup>6</sup>, and the findings from this should also inform Infrastructure SA's processes to deliver a more coherent and streamlined framework.

Once procurement policy is established, compliance should be the primary responsibility of the procurement officer, the CEO, and the relevant Minister. The Office of the Industry Advocate should have the power and role to investigate issues raised by the industry in relation to the content and application of procurement policies.

## MODELS OF DELIVERY

It is not just the amount of capital spend on infrastructure, but the way that the spending is distributed. There needs to be varying project sizes, not an aggregation of projects into a much larger project package. The benefit to South Australia extends well beyond a project. The project in many respects is often the vehicle or mechanism to generate economic activity and jobs growth.

Our members have expressed concern that over time bundled projects will become beyond the reach of SME civil contractors, and sub-contractors will be beholden to a handful of large contractors for work. This creation of monopoly ownership of major civil infrastructure projects threatens the viability of local small and medium-sized civil contracting companies – that offer ongoing local employment opportunities – and undermines quality as it decreases open market competition.

SA Water has procurement arrangements that are largely directed at a few large contractors which have the benefit of long-term contracts. This work is either self-performed or sub-contracted to smaller sub-contractors at the discretion of the head contractor. There is very little monitoring or auditing of these sub-contracting arrangements initiated by the head contractor. SA Water, as the major state owned water utility, is very well placed to have a highly targeted procurement program that deliberately supports and promotes SME businesses and contractors.

## CONTRACTING ARRANGEMENTS

Terms of tenders need to be improved to create a level playing field. Many small to medium businesses in the infrastructure sector are struggling to stay in business when sub-contracting to Tier 1 firms. The terms of contracts need to be much more transparent to protect sub-contractors, particularly in terms of timely payments, and distribution of risk. With the growing preference of the Government to package infrastructure jobs, the distribution of risk needs to be looked at much more

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<sup>6</sup> South Australian Productivity Commission (2019) *Inquiry into Government Procurement Stage 2 Issues Paper*, 5 June 2019.

closely and made transparent. Many SMEs feel that they are being put in a position of ‘gambling’ their futures because of high risk. Also, while smaller businesses bring in their IP to deliver projects, they do not get credited with the ‘runs on the board’ to win future projects. The Government needs to value the Intellectual Property of SMEs – they have significant local experience, quality of personnel that has been built up, and the loss of IP to Tier 1 companies is a real risk to these smaller companies.

CCF SA recommended to the South Australian Parliamentary Inquiry into the State Procurement Board that “the State Government adopt a standard sub-contracting contract to be used by all Head Contractors undertaking government work using sub-contractors.” Such a document would ensure that subcontracting terms and conditions are common to all Head Contractors undertaking government projects, and that the terms and conditions of the sub-contract are regarded as fair and reasonable by the Government. For the resolution of difficulties between a sub-contractor and the head contractor, an avenue of direct communication between the sub-contractor and the client (Government) would be useful.

Current contracts are failing to incentivise innovation and collaboration, with detrimental effects for productivity and quality outcomes. The current pre-qualification system in use by DPTI inhibits access to government work and does not encourage the growth of an SME. This system requires an overview as a matter of urgency.

## TRAINING AND GROWTH

The 20-year infrastructure strategy needs to be aligned with complementary government commitments, particularly in the areas of employment and training to ensure a work-ready workforce to meet future infrastructure requirements.

Projections for the civil construction industry used by the Construction Industry Training Board to underpin its FY2019 Budget for the Annual Training Plan estimates average growth in the civil construction sector of 4.43% for the coming year.<sup>7</sup>

According to the National Industry Insights Report, employment in the heavy and civil engineering construction industry has increased over the period of 2000 until 2017 despite some fluctuations related to industry cycles. This is projected to rise slightly further over the next five years.<sup>8</sup>

Industry employment projections based on the ABS Labour Survey show that construction more broadly will have the second largest growth in employment (after Health Care and Social Assistance) over the five years to May 2023 at 10%. It is notable that employment growth in the heavy engineering construction sub-sector, supported by continued infrastructure investment, is expected to be stronger at 12% than residential construction at 10.3% growth over the five years to May 2023.<sup>9</sup>

CCF SA has recently established a new apprenticeship in civil construction to meet demand for skilled entry-level workers identified by industry. Several targeted programs are also underway to build the numbers of young people engaged in training through apprenticeships and traineeships, in

<sup>7</sup> CITB Annual Training Plan Budget estimations based on averaging the forecasts of the ACIF, BIS Oxford and the MBA.

<sup>8</sup> AISC, *National Industry Insights Report: Mining, Drilling and Civil Infrastructure*, accessed on 14 September, 2018, p.4.

<sup>9</sup> Australian Government, *Industry Employment Projections*, 2018 Report, 17 August 2018.



particular young Aboriginal apprentices. Additional government support for local companies to train their workforce and grow skills and expertise, through apprenticeship and graduate training programs, will be needed. As part of the population objectives underpinning the infrastructure plan, employment and training opportunities will be essential to stemming the flow of young people leaving the State.

### 3. ESTABLISHING A RELIABLE PIPELINE OF INFRASTRUCTURE PROJECTS

A long-term pipeline of guaranteed funded infrastructure projects is needed to encourage further private investment, and to provide greater certainty to South Australian businesses. A bipartisan, holistic approach to infrastructure planning and investment is needed to support a long-term pipeline of work, so careful consideration needs to be given to effective policy tools and institutional support to the development of projects.

As stated by the OECD (2018), "...a pipeline can only be as robust as the investment-ready and bankable projects that constitute it, as effective as institutions that deliver it and as ambitious as the objectives to which it is linked."<sup>10</sup>

Therefore, a reliable pipeline must involve:

- promotion and investment in 'good projects'
- projects across a variety of sectors
- different scales
- accommodating the requirements of investors

The \$12 billion in transport and other infrastructure over the next decade outlined in the 2018/19 State Budget was strongly supported by CCF SA. These projects will increase jobs and provide stimulus to the economy. The CCF SA view though is that budgeted investment is required sooner than later.

Unfortunately, most of the investment will occur over a number of years, in some instances the project construction phase is not scheduled to occur for up to ten years. For example, the total budget allocation for new projects in the recent budget is \$5.97B, however only \$92M is forecast to be spent in the 2019-2020 period. 'Shovels in ground' new projects (5) are worth \$36M, which are estimated for completion in the June 2020 Quarter.

Previously announced projects have a projected value of \$6.61B. For the 2018-2019 financial year the estimated result of expenditure is \$851M, falling short of the forecasted \$1.29B that was announced in last year's budget. The budgeted expenditure for the 2019-2020 financial year is \$929M, with very few in the construction stage.

This issue, in addition to the capacity constraints of the main construction agency of the government (DPTI), to bring construction projects to market in a timely manner will greatly reduce the power of the budget as a social and economic driver and job creator.

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<sup>10</sup> OECD (2018) *Developing Robust Project Pipelines for Low-Carbon Infrastructure*, November 2018.

The CCF SA believes that this delay is unacceptable and deprives SA of the stimulus the state desperately requires. With most projects of scale approaching their final stages, there is a 'cliff' looming for the civil construction industry in the short-term. Large contractors will demobilise and leave the state for projects interstate. To successfully retain skilled work forces, engineers, trades, and semi-skilled workers required for infrastructure projects, there needs to be consistency of projects, rather than a 'stop/start' approach.

CCF SA members have raised issues concerning delays in tender releases across Government. With the lack of Government business cases ready for major construction projects in South Australia, it is even more important for funded projects to proceed without delays to support local industry.

There is an enduring concern that there are few or no 'shovel ready' projects available when Federal funds, out of cycle, unexpectedly become available. South Australia is the poorer for this.

To support the implementation of the 20-year infrastructure strategy, it will be necessary to build capacity within DPTI to enable agile and responsive management of the infrastructure projects currently on the horizon and further into the future.

In addition, government expenditure needs to be leveraged to stimulate the economy, jobs, and the State as a whole. Given low interest rates and relatively low government debt at the Commonwealth level, further debt funding of productive infrastructure should be used as an effective means to address the infrastructure deficit.

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#### INDEPENDENT TASK FORCE

On the 15 June 2019, the CCF SA called on the SA Government to establish, as a matter of urgency, a task force empowered to take whatever steps are required to remove barriers and bring government projects to the market in a timely manner, so that civil construction companies can tender for that work.

This taskforce should identify infrastructure referred to in existing government plans and investment commitments and then develop a systematic methodology to deliver such infrastructure in the best way possible.

CCF SA believes that it is important for government to establish such a formal mechanism, potentially as a sub-committee structure of Infrastructure SA, to ensure that expertise is brought in to support the immediate implementation of civil projects.

In respect to DPTI internal resource constraints the CCF SA encourages the state government to adopt the infrastructure construction delivery model seen in many European countries where the private sector is the dominant partner. The state agency is essentially the client and financier of the project. The final design of the project is usually as a result of a collaborative effort between the state and the construction entity.

#### 4. NEW CHALLENGES MEANS NEW OPPORTUNITIES

South Australia has a unique set of challenges and opportunities as it faces a changing economic structure, climate, and technology. The State Government will need to respond by stretching limited public resources, and prioritising projects according to best business case to get the most out of tax payers dollars.

While South Australia's limited population growth is a challenge, it also provides an opportunity to be a test bed for innovation. This is occurring to some extent in the areas of space and defence, but there are many more opportunities within the infrastructure field. It is now clear that advanced automation, including driverless cars and trucks, will be increasingly prevalent over the coming decades. Transport infrastructure planning will need to allow for seamless transition to these new technologies and an openness within government to embracing new innovative ideas and proposals. The private sector proposal for a light-rail (tram) line linking Adelaide Airport to the city is one such example that has been a missed opportunity for this state. Any private sector proposal for the construction, funding and operation of transport infrastructure that will boost construction employment, tourism and enhance suburban transport should be prioritised for consideration.

South Australia has the opportunity to be at the forefront of new technology and gain a reputation as a world leader. To make the most of the new opportunities, it will take a shift in mindset. An innovation program that ties in with the infrastructure plan should be established – people and investors could be enticed to the state with innovation. We need to look at what the most pressing problems are and then find the best possible solutions. The most successful innovative cities (e.g. Stockholm, Austin) are underpinned by exceptional digital, transport, and public service infrastructure. These innovative cities have been able to succeed above expectation by positioning themselves as specialist hubs and key nodes in important value chains (Kelly, 2018).<sup>11</sup>

Collectively, we need to look at what will make South Australia attractive to infrastructure investors if we are to be a success story. To date, roads, water infrastructure and social infrastructure have been cited by investors as the most attractive assets for investment (Dwyer and McCarthy, 2018).<sup>12</sup>

It will also be imperative to get policy tools right. South Australia's ability to realise growth is heavily dependent on the State's economic policies. Instead of re-attempting failed policies, the state government needs to start thinking 'outside the box' and looking at different, perhaps radical proposals to address challenges. One proposal to improve the economic growth of regions in SA is to create Special Economic Zones, providing new opportunities for growth and employment, and enhancing the potential of regions. SEZs are not new as a method to stimulate economic activity and investment through tax and financial incentives. Prominent examples of SEZs in our region include Shenzhen in China, and Iskandar in Malaysia.<sup>13</sup> There are also several new enterprise zones in the UK. Quality road and rail infrastructure in the regions would be essential for SEZ success.

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<sup>11</sup> Kelly, J (2018) *These are the World's Most Innovative Cities*. World Economic Forum, weforum.org

<sup>12</sup> Dwyer, A and McCarthy, R (2018) *Australian Infrastructure Investment Report 2018*, Infrastructure Partnerships Australia/Perpetual.

<sup>13</sup> Guo, W and Feng, Y (2007) *ADB Special Economic Zones and Competitiveness – A Case Study of Shenzhen, the People's Republic of China*. Available at <http://www.adb.org>



## 5. INFRASTRUCTURE PRIORITIES IN THE CONTEXT OF CHANGING POPULATION, DEMOGRAPHICS, CLIMATE AND TECHNOLOGY

### INTEGRATION OF INFRASTRUCTURE AND BROADER LAND-USE PLANNING

Data is available that can assist in appropriate strategic planning, identifying which investments should be undertaken, needs and trade-offs, and how they should be prioritised. Infrastructure has long-term impact and lag times, and requires predictability and sound analysis. Good infrastructure planning requires identification of necessary complementarities across sectors, e.g. investment in housing developments need to be complemented by the right investment in transport networks (OECD, 2016).<sup>14</sup> Integrated land use planning and infrastructure planning go hand-in-hand. The focus should not just be on economic return, but on the best overall results including social/community outcomes.

The flow of infrastructure services needs to move ahead of population growth, using the best available technology. As the population grows, there will need to be significant urban infill, including sewer, water, and other services maintenance and upgrades. Along with this, there will need to be:

- Improved public transport systems, including park-and-ride facilities, and provision of localised systems within 'precincts/hubs' (e.g. Tonsley, Bowden). Autonomous buses may be an option in the mid- long-term. SA's public transport system is 10-15 years behind the eastern states and the state government should aim to be visionary in that space over the long-term.
- Walking and cycling paths both on and off road should be constructed and well maintained and be a part of the city's long-term vision. All new road infrastructure should factor in bicycle lanes.
- Decentralised public services, with hubs in e.g. North, South, East, and West.
- Greater access to out-of-hours health facilities – there will be even greater need to reduce pressure on emergency departments.
- Investment in renewable energy, with power storage the key area needing improvement.

### EXISTING INFRASTRUCTURE

As the state grows, there will need to be a better, long-term, program for the maintenance and upgrade of existing infrastructure. Investing sufficiently in this will reduce overall costs by reducing the need for unnecessary replacement of infrastructure.

Examples of maintenance and upgrade projects considered by the CCF SA to be of high priority include:

- Rolling state-wide railway level crossing upgrade program. There are 350 crossings in SA and many are subject to fatalities and casualties regularly.
- Duplication of the Augusta Highway between Pt Wakefield and Pt Augusta. 60 serious casualties and 22 fatalities in the past three years. 8,000 vehicle movements a day. Major

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<sup>14</sup> OECD (2016) Getting Infrastructure Right: The 10 Key Governance Challenges and Policy Solutions.

freight and military transport corridor up the spine of the State. \$1.2 billion road project that would result in the creation of 200 jobs in the construction phase, State and regional economic stimulus, a safer road, increased tourism, more productive and timely freight movement.

- Local Council infrastructure: providing all Councils in SA (68 councils) with \$3 million to spend on urgent local infrastructure projects using local goods, services and materials, employing local people and using local businesses. Most councils have shovel ready projects on the backburner because they don't have adequate funds.
- Re-establishing the metropolitan Adelaide tram system. Trams are popular, relieve traffic congestion and generate local economic development.
- Extending the tram line to the Adelaide Oval and then to O'Connell Street, North Adelaide.
- Completing the north-south corridor.
- Undertaking a State-wide water and sewerage pipe replacement program. Many parts of the system are more than 100 years old, are asbestos cement and terracotta pipes that fail and waste water and damage property with great regularity.
- Undertaking a State-wide power line undergrounding program. Overhead wires are ugly and the iron/cement posts are dangerous and kill people.
- Undertaking a State-wide bridge replacement program. Most SA bridge infrastructure is aged, with some over a hundred years old and some constructed from timber.
- Designating and upgrading priority freight road corridors particularly to and from port infrastructure and the Adelaide Airport that make possible the rapid transport of goods. Ensure these road corridors are of a high standard, overhead infrastructure is not present, and regulatory requirements and permitting associated with oversize loads etc are minimised.

## REGIONAL INFRASTRUCTURE

Discussions of infrastructure priorities tend to be urban-centric. The reality for South Australia is that 30% of the population lives in regional areas and 80% of exports come from the regions. The limited capacity, condition and age of the regions' infrastructure is a major issue. Strategic road improvements are needed, rail networks systems that link to ports are a priority, including the need for a deep water port on Eyre peninsula, to support regional growth and exports. Mobile telephone and internet services are either poor or unavailable in some areas, and this needs to be addressed for industry, as well as liveability.

South Australia is somewhat unique in its 'patchwork' of regional economies that are quite different from each other in terms of geography, demographics, and economies. This reality is generally not captured in government policy. Some other countries have Special Economic Zones, of which infrastructure is an important part. The CCF SA recommends that the government look into establishing Special Economic Zones in the regions of South Australia, providing tax reforms to help regional areas.

## DIGITAL TECHNOLOGY AND INFRASTRUCTURE

Both broad planning and infrastructure planning face the huge challenge of trying to anticipate the future – which will be significantly disrupted by IT developments, and climate change – and identifying priority areas for infrastructure investment that will be relevant to South Australians in 20 years' time. There is reference to IT disruption and climate change in the Discussion Paper – these are likely to be the biggest challenges for general planning and consequently infrastructure planning, particularly long-term. For the State to compete on a global scale, it will be imperative that we have cutting edge digital connectivity, not just in urban areas, but the regions as well.

## ROAD QUALITY AND CONNECTIVITY

Planners have failed South Australia, delivering too little too late and piecemeal engineering solutions, rather than one common engineering platform like the eastern states of Australia. The current road network is approximately 50 years out of date, built to serve a completely different State economy – one with less, lighter, and smaller vehicles. There is currently an estimated road maintenance backlog of up to \$800 million in SA. As a state, we are still playing 'catch up' in regard to the upgrade of our road networks. Deferring road maintenance is a false economy, as they will need reconstruction at a much higher cost. There is congestion on all the main arterial roads and this needs to be addressed.

South Australia has also been disadvantaged by the lack of Federal funding compared to other states. South Australia has 11% of national roads. Until very recently the state only received 7% of the national funding. There has been some recent welcome improvement to this ratio. Currently, Infrastructure Australia has not listed South Australia in any of the High Priority Projects, and only 3 Priority Projects. Neither does it list South Australia in any High Priority Initiatives, and only 7 Priority Initiatives out of a total of 74. Infrastructure projects in South Australia need to be funded, and given greater priority federally. Infrastructure SA has an opportunity to play a role in elevating the needs of South Australia and redress inequities in jurisdictional infrastructure funding, which will again require an independent positioning separate from the government of the day.

Greater rail/road grade separation in transport corridors, as well as increased quality of the road network needs to be a priority. The North-South corridor upgrade should be at the top of the list of priorities for successful delivery. Key regional freight routes should also be a top priority, e.g. National Highway 1 (Augusta Highway) is one of the biggest problem areas and is not included in the current round of rural road upgrades, despite having the largest volume of freight other than Dukes Highway. The current approach of adding overtaking lanes is an ineffective 'band-aid' solution. The outdated road and rail infrastructure on Eyre Peninsula places a huge 'handbrake' on the potential of that region.

In the long-term, intermodal transport that separates heavy freight vehicles from commuters is an initiative that is likely to enhance the state's economy.



## CULTURAL, SPORTING AND TOURISM INFRASTRUCTURE

Support for sport in the state is very high so we should capitalise on that with:

- A multi-purpose stadium/hub as a long-term project (with public transport infrastructure in the CBD). Hosting a global event like the Commonwealth Games could be a boon for the State's infrastructure.
- More consistent tourism attractions and events - Adelaide is known for its 'mad March' (with the Fringe Festival, TDU, and Adelaide 500) but seen as quiet for the remainder of the year.
- Infrastructure for major events that encourage physical activity.
- SA is also known as a 'clean, green' state for produce and that is another area the State should capitalise on further.

## OPPORTUNITIES TO LEVERAGE PRIVATE INVESTMENT IN PUBLIC INFRASTRUCTURE DEVELOPMENT

The reality for private investment in South Australia is that there are minimal opportunities because any investor needs a reliable return on their investment and there are limited mechanisms to ensure this in SA. Therefore, a user-pays system like toll roads for heavy freight routes is a logical option, and may well need to be given further consideration to keep SA competitive with other states. There is a compelling argument that public transport is underutilised because using roads are free. South Australia is the only state in Australia where there is no direct financial contribution from users to road transport infrastructure. If this were not the case it is likely that South Australia would have received additional Federal funding for roads.

There needs to be work to encourage public/private co-operation on investment. Policies for encouraging and assessing unsolicited infrastructure investment proposals from the private sector could be further streamlined and opportunities for Public Private Partnerships need to be evaluated on a case-by-case basis.

Municipal Infrastructure Bonds, common in the United States is worthy of consideration as an additional source of funding for infrastructure. Financing by value capture, which featured prominently in the Federal Government's Smart Cities Plan, is also a funding mechanism warranting serious consideration.

It is also worth mentioning that Canada has some of the most sophisticated pension funds globally and have doubled their infrastructure investments (both home and abroad) in the five year period between 2009 – 2014. They have achieved this through providing a "certainty of process" and sophistication in procurement, bidding, and execution of projects.<sup>15</sup> This is what the South Australian government should be aiming for.

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<sup>15</sup> Taylor, N (2014) *Bridging the Global Infrastructure Gap*, Australian Institute of Internal Affairs.

## 6. RECOMMENDATIONS

CCF SA submits that in developing the final strategy for SA's long-term infrastructure investment, Infrastructure SA should give consideration to the following:

### ROLES AND RESPONSIBILITIES FOR SOUTH AUSTRALIA'S INFRASTRUCTURE PLANNING AND DELIVERY

- 1) A bipartisan approach to South Australia's infrastructure planning and delivery needs to be established to ensure a long-term, consistent approach.
- 2) The need for robust overarching coordination mechanisms across whole-of-government strategic planning that informs, influences and relies upon infrastructure development.
- 3) The establishment of protocols to ensure the independence of Infrastructure SA.
- 4) The establishment of protocols to ensure the decision-making processes of Infrastructure SA are transparent and open to scrutiny by industry.

### GOVERNMENT PROCUREMENT POLICIES AND PRACTICES

- 1) That procurement policies and approaches be harmonised across all levels of government within jurisdictions – and, where possible, across jurisdictions – including the use of open (rather than closed) tenders and local content rules.
- 2) Government adopt a standard sub-contracting contract to be used by all Head Contractors undertaking government work using sub-contractors.
- 3) The state government develop a policy that is very deliberately designed to make government work available to local SME businesses, and the government agencies are compelled to comply with such a policy.
- 4) The expansion of powers of the Small Business Commissioner and/or the Industry Advocate to progress reform, and identify and eliminate barriers to SMEs doing business in the public sector.
- 5) Infrastructure policy, as well as delivery models, be based on data not political agendas. There needs to be a range of project sizes and delivery models, not just large aggregated projects.
- 6) Government projects be assessed for disaggregation where possible, rather than the current trend to aggregate.
- 7) Removing unreasonable or costly barriers of entry to tenders on State Government infrastructure projects.
- 8) Strengthening the role of the Industry Advocate and the Small Business Commissioner in the oversight of infrastructure contracts by establishing direct channels for compliance and complaints.
- 9) Establishing training courses to assist SMEs with accessing State Government infrastructure contracts.

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## ESTABLISHING A RELIABLE PIPELINE OF INFRASTRUCTURE PROJECTS

- 1) Establishing an industry/government taskforce with the expertise to consider and implement strategies to accelerate the bringing of infrastructure projects to market, to create a consistent and reliable flow of work.
- 2) Undertaking inclusive consultation on all infrastructure projects, at all stages of the process from needs assessment to design and construction.

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## NEW CHALLENGES, NEW OPPORTUNITIES

- 1) South Australia is uniquely placed to position itself as a specialist hub for innovation in infrastructure projects/solutions.
- 2) Any private sector proposal for the construction, funding and operation of future-focused infrastructure should be prioritised for consideration.
- 3) An innovation program that ties in with the infrastructure plan should be established to entice people and investors to the state with innovation.
- 4) Consider 'out of the box' policy solutions like Special Economic Zones to boost the state's regional economies.

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## INFRASTRUCTURE PRIORITIES IN THE CONTEXT OF CHANGING POPULATION, DEMOGRAPHICS, CLIMATE AND TECHNOLOGY

- 1) Identification of inter-relationships across sectors that impact on infrastructure development, where reciprocity can enhance broader outcomes.
- 2) Establish a long-term program for the maintenance and upgrade of existing road, transport and civil infrastructure to meet population needs.
- 3) Significantly improve public transport, including use of innovative technology.
- 4) Decentralised accommodation and service hubs.
- 5) Improved road quality, connectivity, and freight routes, including greater road/rail grade separation in transport corridors.
- 6) Infrastructure SA to leverage its role to advocate for greater equity in infrastructure funding across jurisdictions.
- 7) Improved regional infrastructure including a deep water port and upgraded rail infrastructure for industry.
- 8) Cutting edge digital connectivity across the state.
- 9) Investment in renewable energy.



## CONCLUDING REMARKS

Thank you for consideration of this submission. The CCF SA strongly supports a strategic approach to the state's infrastructure that results in a reliable pipeline of civil construction projects, and optimal public sector procurement practices that allow civil contractors of all sizes, and from all parts of the state, to competitively tender for these projects.

We are hopeful that the strategy developed from the Discussion Paper will achieve better infrastructure outcomes and value for money for the State and create optimal conditions for civil contractors to continue building the growth and prosperity of South Australia.

We would welcome any opportunity to further discuss the issues raised in this submission.

**If you require further information, please contact:**

Phillip Sutherland

Chief Executive

Civil Contractors Federation SA

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The CCF SA recommends that the following be incorporated into a state government SME procurement policy to apply to all state government departments, public authorities and local councils. We suggest that an SME for the purpose of this recommendation is a business employing up to 100 people.

- Where possible, projects should be disaggregated.
- SME spend target: Forty percent (40%) of the government capital and other works budget each financial year to be awarded to SMEs either singularly, or in a consortium or joint venture with other SMEs. (State Government Capital works budget for the next four years is \$12 billion). Investment in the SME sector of this magnitude (40% of this figure) would be a significant targeted economic and job creating stimulus. This spend target to be subject to audit by the Auditor General.
- SME spend target: For projects in excess of \$10 million, 30% of the works is to be awarded (sub-contracted) to SME contractors. Government contracts to require this of their client (Head Contractor). This spend target to be subject to audit by the Auditor General.
- SME spend target: For projects between \$1million and \$10million, 60% of the works to be awarded (sub-contracted) to SME contractors. Government contracts to require this of their client (Head Contractor). This spend target to be subject to audit by the Auditor General.
- SME spend target: All projects below \$2 million are to be awarded directly to SMEs.
- There should be no bank guarantee requirements on projects under \$2 million. Maximum bank guarantee provision in contract over \$2 million should be 2-2.5% of the contract sum. It should be noted that in many cases DPTI are requesting dollar-for-dollar bank guarantees when SME contractors are completing DPTI work via a private developer.
- Formal prequalification requirements for projects below \$500,000 to be abolished. The prequalification system currently in use in DPTI creates artificial barriers to companies wishing to grow capacity or gain experience in larger projects. The current system locks companies out of designated projects because they don't have the experience. The required experience and expertise is impossible to gain under the current system. Larger contractors with a national footprint have the experience because they have access to bigger projects interstate.
- If prequalification requirements continue, government agencies are to be required to take into consideration in the awarding of a contract, factors relevant to the subject matter of the procurement must be proportionate (e.g. safety, financial, insurance, quality). Any pre-qualification requirements to tendering should be open, simple, clear, relevant, proportionate and objective. Prequalification criteria should be enabling, not restrictive.
- A contractual requirement to make payment within 30 days, or pay interest on the outstanding monies to be required. Government agencies to publish statistics showing the proportion of invoices paid in accordance with these obligations; the total amount of liability to pay interest which arose during the year; the total amount of interest actually paid in discharge of any such liability. These figures must be published annually in the agency annual report, and a return submitted to the Commissioner for Small Business.
- SMEs to be registered on the Industry Capability Network (ICN) and have entered the industry/sector in which they operate to be directly notified of any contract opportunity which may be of interest to them.
- Allow and encourage innovative solutions from SMEs.
- All government tenders to include the relevant designs and specifications. Government tenders should include clear designs and specifications. Restricting construction contracts to "design and construct" necessarily removes SMEs who do not have in-house design capabilities from the tender process, thereby reducing competition. Design and Construct projects should be avoided as far as practicable. If design of civil works is outsourced by government departments and agencies (such as DPTI) design contracts should be put for tender. When the preferred design is settled, then clear designs and specifications with appropriate risk allocation should be put for tender for construction.
- Where possible, contract requirements / frameworks agreements to be broken down into smaller 'lots', for which SMEs can more easily tender. There must be particular oversight of DPTI and SA Water in this area.
- Bidder conferences following the issuing of tender documents to be held to explain the requirements and the procurement process, and allow potential tenderers to ask any clarification question.
- Unsolicited bids from SMEs or the identification of sub-contracting opportunities to be permitted.

- *SMEs to have the option of registering their capacity, background, qualifications and experience on a data base and be issued with a unique identifier that can be noted on tender documentation. This will reduce the time, cost and duplication and the necessity to submit the same often voluminous information over and over again to the same and different government agencies. The SME's information on the register can be updated from time to time. Government agencies can access the register as part of the tender evaluation process. Tenders ideally should focus on key risks, cost being one of them.*
- *All government agencies and statutory authorities to use simplified, fit for purpose and harmonised template tendering documentation that is as concise as possible and written in plain English.*
- *All government agencies and statutory authorities to have a principal procurement officer who should be familiar with all good governance and procurement policies as well as issues facing SMEs which restrict or tend to restrict open competition from the private sector and SMEs.*
- *SME consortium bids to be evaluated as a whole, taking into account the roles and responsibilities of consortium members, and the risks and guarantees/indemnities associated with the consortium's constitution.*
- *Full details of tender evaluation scores to be provided to unsuccessful tenderers for contracts with the offer of the opportunity for a verbal debrief.*
- *Tenders attractive to international companies may specify the requirement to use designated local SME subcontractors and/or those included on the ICN register.*
- *Up-front and staged payments to be allowed to assist SMEs with their cash flow or assist them in making the initial investment required to deliver the contract*
- *Procurement processes to be as SME-friendly as possible, including through training and guidance delivered by staff involved in procuring goods, services and works*
- *'Meet the Buyer' events designed for SMEs to be a requirement.*
- *Bidders' Conferences following the issuing of tender documents to be held in order to allow SMEs to network and discuss potential joint bids and/or subcontracting opportunities.*