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DEVELOPMENT OF PUBLIC INFRASTRUCTURE IN SOUTH AUSTRALIA

The South Australian Government recognises the critical importance of infrastructure in fostering a more productive economy. To meet the changing needs of society while maintaining our quality of life and achieving South Australia's economic goals, South Australia's ageing infrastructure asset base, a product of the 1950s and 1960s post-war building boom and rapid population growth, needs to operate more efficiently.

Through the newly developed Infrastructure portfolio and the Strategic Infrastructure Plan, South Australia has made fundamental changes to the way it plans, manages and delivers public infrastructure. The State Government is now taking a more strategic, coordinated and long-term approach to identifying and addressing infrastructure priorities.

Infrastructure project proposals will now be rigorously assessed, prior to any funding decisions being made. This reduces the emphasis of the current annual competitive budget bid process for capital funds and allows for innovative funding mechanisms to be explored.

The South Australian Government is committed to maximising private sector investment in public infrastructure where such investment brings clear benefits to the community. Public Private Partnerships (PPPs) are one innovative funding mechanism that provides the private sector with an opportunity to play an increased role in the delivery of public infrastructure. Through the *Partnerships SA* program, private sector participation in the delivery of Government infrastructure is encouraged and promoted where value for money and project efficiencies can be achieved.

IDENTIFYING SOUTH AUSTRALIA'S STRATEGIC INFRASTRUCTURE PRIORITIES

The Economic Development Board (EDB), led by Robert Champion de Crespigny, was established in April 2002 as an initiative of the South Australian Labor Government. The EDB's May 2003 report *A Framework for Economic Development in South Australia* made several recommendations for developing a system to better plan, manage and

deliver infrastructure. The EDB identified the need to satisfy the commercial objectives of private providers and the broader economic and social objectives for the State.

In response to the EDB's recommendations, in May 2003 I was appointed as Minister for Infrastructure with the responsibility of giving greater priority to the infrastructure needs of the State. The Office for Infrastructure Development (OFID) was then established to provide a whole-of-Government point of reference to consolidate key infrastructure planning and priority setting. While infrastructure provision is still generally implemented through State Government agencies, OFID is responsible for prioritising, coordinating and monitoring infrastructure initiatives.

The recently developed Strategic Infrastructure Plan for South Australia identifies strategic priorities for infrastructure investment over five and ten year timeframes as well as actions to improve the performance and management of the State's existing infrastructure assets. The Strategic Infrastructure Plan was identified as a priority action in South Australia's Strategic Plan, released by the Premier in March 2004. South Australia's Strategic Plan identifies specific targets for increasing investment in strategic areas of infrastructure and building and maintaining infrastructure to create sustainable communities in regional areas. The initiatives identified in the Strategic Infrastructure Plan will directly contribute towards achieving several of the targets and objectives contained in South Australia's Strategic Plan.

The development of the Plan was led by OFID and required State Government agencies to identify and address infrastructure priorities to deliver better whole-of-Government outcomes. The Strategic Infrastructure Plan aims to:

- Promote a longer term, strategic, coordinated and sustainable approach to planning, building and managing the State's infrastructure assets
- Identify strategic priorities for new infrastructure investment by Government and the private sector over the next five to ten years

- Promote timely construction of affordable, fit for purpose infrastructure
- Promote a full life cycle approach to asset development, management and maintenance
- Improve the performance of the State's existing infrastructure assets.

The Strategic Infrastructure Plan introduces a new approach to funding infrastructure projects, which requires the staged development and appraisal of a proposal prior to funding decisions. This new funding approach reduces the emphasis of the current annual budget bid process for capital funds and focuses more on a coordinated evaluation of the State's priority needs over a longer timeframe.

Once priority projects have been identified, developed and assessed, all funding options will be considered. This includes innovative funding arrangements such as debt funding and alternative private sector delivery options such as PPPs.

SOUTH AUSTRALIA'S APPROACH TO PPP PROJECTS

South Australia's PPP guidelines are similar to guidelines in other jurisdictions. We share a common objective in developing PPP proposals – that private sector involvement must deliver value for money for the Government.

In broad terms, we define value for money as the private sector delivering the project at a lower whole-of-life cost than equivalent public sector procurement. Value for money can be generated in a number of ways including:

- Through a more efficient or intensive utilisation of the assets, for example, through third party revenues.
- By ensuring that the PPP contract has measurable performance criteria and a reasonable mix of incentives and penalties to motivate the private sector to deliver the required outcomes.
- By allocating risks to the party best able to manage them. An efficient allocation of risk allows the Government to utilise the best of the skills in both the public and private sector. The public sector is then able to focus on its core business of delivering services leaving the management of commercial risks to the private sector.

Although our approach to PPPs is similar to other jurisdictions throughout Australia, South Australia faces a number of issues in developing PPPs that are not faced by other states. These result from our relatively small population size and resource base.

Potential PPP projects in South Australia are generally smaller value projects compared to other states. Our smaller population base also constrains our ability to set up projects with the required revenue streams to make potential projects attractive to the private sector. The effect is the market appetite for PPP projects is lower in SA, which means less competitive pressure driving the value for money outcomes for the State. While this is a hurdle, it should not prevent us from completing a number of successful PPP projects.

The South Australian Government is currently procuring six new regional police stations and four new regional courthouses through a PPP. The capital value of the project is more than \$30 million with some facilities expected to be completed late 2005 and others completed first quarter 2006. Under the agreement the buildings will be financed, designed, built, operated and maintained by private sector organisations. The Government will lease the buildings for 25 years for police and court operations.

This PPP project will provide substantial new investment in regional SA and will deliver wins for the public sector, the community and the Government. The private sector wins through the investment opportunity and a secure 25-year Government lease. The community wins through better facilities and the ability of the Government to have greater focus on delivering community services rather than maintaining buildings. The Government wins through the provision of purpose built, high quality facilities that would not otherwise have been built for at least a further ten years.

The main issue for this State is to make sure we identify the key priority infrastructure projects and make a commitment to deliver them in a timely manner. We accept that, as a Government, we need to make a commitment to the justification for and delivery of a project before we determine the funding method. Some of our projects will be delivered by the private sector alone with the Government playing a facilitation role. Some will be delivered through the State's capital investment program and some through negotiated arrangements or partnerships between the private and public sectors.





We want the private sector to understand that when they bid for projects in South Australia, they are investing their time and efforts on projects that have been identified and justified as a priority for our State.

A NATIONAL APPROACH

South Australia is keen to be involved in a national infrastructure market. We see a great benefit in regular national meetings of infrastructure Ministers along with those with PPP responsibility. We are particularly keen to see if templates for contracts can

be developed that will reduce the upfront transaction costs, as these can be major deterrents to delivering smaller PPP projects. The development of contracts is currently occurring in South Australia through the regional police stations and courthouses PPP.

The SA Government is committed to a strategic, coordinated and long-term approach to identifying and addressing infrastructure priorities and will continue to improve the methods and frameworks for delivering them.

Name: The Hon Patrick Conlon, BA LLB (Hons), MP

Title: Minister for Infrastructure
South Australian Government

Description: The Hon Patrick Conlon MP is one of the senior members of the South Australian Government and is responsible for the key portfolios of Energy, Infrastructure and Emergency Services. He is also leader of Government Business in South Australia's House of Assembly. Mr Conlon was appointed as South Australia's first Infrastructure Minister in May 2003. The Government made the appointment and established the Office for Infrastructure Development following a recommendation from the SA Economic Development Board. Mr Conlon is committed to improving coordination and priority setting across Government agencies for the vitally important area of infrastructure.

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