

Delivering The Plan

Changing the Way We Do Things

Effective implementation of the Strategic Infrastructure Plan requires fundamental changes to the way infrastructure is currently planned and delivered.

The government's role in infrastructure today is different to that of 10 years ago. It continues to have a significant role providing the infrastructure that underpins the delivery of key community services, such as health and education. But the government is no longer the sole provider of economic infrastructure, with delivery of services such as energy, some transport and water now either outsourced or owned by the private sector.

The foundation for infrastructure planning is provided by South Australia's Strategic Plan, which establishes the broad long-term priorities for the state (see Appendix 1). This will continue to guide the development of strategic infrastructure priorities that best meet the government's objectives.

The Strategic Infrastructure Plan calls for a coordinated, efficient, sustainable and innovative approach to infrastructure provision to improve the state's position for the future. It will also identify the state as a place that is willing to tackle and progress hard issues to improve the living standards of all South Australians. This requires a major shift in the way government and private sector providers plan for, deliver and manage infrastructure.

Government processes will have to change. This involves moving the State Government's approach to capital planning away from the annual competitive bidding process by individual agencies. A culture of managing across portfolios rather than within portfolios will be fostered. The emphasis will be on meeting prioritised needs and adopting the most appropriate funding method for each project.

The success of the Strategic Infrastructure Plan over the next ten years will rely upon very close cooperation between the State Government and business and other levels of government. The Strategic Infrastructure Plan is a plan for the whole of government and for the whole of South Australia to guide investment in new infrastructure and the use of existing infrastructure.

The plan, which enables business and other levels of government to be aware of the State's infrastructure priorities over the next ten years, is intended to support a partnership of all the players, which is central to its success.

Strategic Priorities

- Foster a culture of managing across rather than within government portfolio structures, driven by South Australia's Strategic Plan to support better outcomes.
- Develop an integrated and more rigorous whole-of-government and whole-of-state approach to identifying and prioritising infrastructure requirements.

Working with the Private Sector

Microeconomic reforms over the past decade and privatisation of traditional government infrastructure provision means that the government is no longer the main decision maker in many infrastructure sectors. Nevertheless the government has a keen interest in ensuring that private providers deliver an adequate level of service to complement its economic, social and environmental development aspirations for the state.

Regulatory arrangements applying to markets for infrastructure and services may need periodic reform to ensure that there is an appropriate sharing of risks and benefits. Additionally, regulations must provide sufficient incentive for large-scale long-term investments while supporting competition where appropriate.

A fresh approach is needed to the way government does business with the private sector to meet the state's infrastructure requirements in future. An open and transparent partnership between the State Government and business, together with the Australian and local government is essential.

Once priority projects have been properly scoped and substantiated, a full range of public and private sector delivery options will be considered with a view to optimising private sector involvement whilst maintaining the highest standards of integrity and meeting appropriate probity requirements. The emphasis will be on removing barriers to private sector investment and the proper structuring of projects to ensure best practice outcomes for the state. Processes will aim to minimise transaction costs for the private sector, consistent with the need for attention to be given to requirements for competition, regulation or service standards.

Where a company has an innovative and unique proposal that addresses priority needs, it may require assurances concerning protection of its intellectual property. In such circumstances, government should be able to provide them.

The government should also have the capacity to strike sensible, open and transparent deals involving a contracted lump sum price, provided the public interest is protected by assuring it that a fair price has been agreed. This can be achieved where the public sector has independent data on costs of delivery, which can be obtained through market testing and a range of other approaches.

A further factor to be considered is the appropriate balancing of cost against risk. Where the private sector assumes a substantial set of risks, this will be traded off in the price charged to the public sector. This arrangement may represent 'value for money' to the taxpayer, depending on the assessment of costs and benefits. However, where the government and the public pay for risk, it is inappropriate for them to compensate the private provider if things go wrong. This would be akin to paying for something twice.

In deciding on the trade off between risk and cost, each case must be assessed on its particular circumstances and merits. The government must balance the public interest against a range of factors. There is no single best way to deliver major projects efficiently in the public interest. Rather, the government must be flexible and keep all options open to ensure the efficient and effective delivery of the infrastructure, ensuring always that arrangements satisfy rigorous standards of probity and propriety.

Strategic Priorities

- Implement procurement reforms that preserve high levels of probity but allow the state to capture the benefits of innovation by the private sector.
- Improve coordination between government and private sector infrastructure providers in the project development and scoping stages.
- Ensure streamlined approvals processes are in place to support the delivery of innovative, fit-for-purpose infrastructure solutions.
- Ensure that government procurement processes maximise opportunities for local industry participation in infrastructure projects.

Priorities

The plan presents an overarching strategic framework to guide infrastructure planning by public and private sector infrastructure providers over the coming five and 10 years. It nominates proposed strategic infrastructure priorities from a whole-of-state perspective and specific initiatives, with associated timeframes, to address infrastructure needs. These initiatives include new investment opportunities, ways to make better use of existing assets and options for deferring costly capital expenditure by better managing demand.

For the purposes of this plan the initiatives within each of the 14 infrastructure sectors have been assessed according to their state-wide significance and assigned a preliminary ranking of 1, 2 or 3. The rankings do not reflect any final government commitment and should not be used for comparing the significance of projects between sectors or regions. Rankings have been determined by looking at whether the initiative:

- makes a positive and sustainable contribution toward the achievement of one or more targets in the SASP
- builds on existing state strengths or addresses weaknesses with respect to economic, social or environmental development
- takes account of the advice of key public and private sector stakeholders
- directly addresses an infrastructure-related constraint to sustainable development and improved living standards for the state
- improves performance of the state's asset base.

There are targets not only for the State Government but local government, the Australian Government and private investors. It should be noted that priorities have been attached to projects that are the responsibility of stakeholders outside of the State Government. This is in recognition that the challenge to provide infrastructure in the new century will require unprecedented levels of coordination between the State Government, private investors, the Australian Government and local government. Not all priority projects can, should or will be funded by the State Government.

The identification and initial prioritisation of strategic initiatives completes the first step in a new approach to infrastructure planning and delivery. A staged process will follow, discussed in more detail below, of developing, assessing and refining project proposals to address the identified needs and priorities. In most cases, the initiatives proposed in this plan are yet to undergo this process of more rigorous evaluation. Project proposals that successfully pass this appraisal process will then compete for available private or public funding.

Along with the rankings, a sphere of government or the private sector is identified as having lead responsibility for further development of each infrastructure initiative and completion of a project appraisal process. The project rankings proposed in the plan may be modified as a result of this process.

In those areas where the State Government has a funding role, it is anticipated that projects ranked '1' will receive first consideration. However, decisions on projects to receive funding and the timing of such funding will depend on the outcome of the full project appraisal process discussed below.

The New Planning and Delivery Framework

South Australia's Strategic Plan targets increased investment in infrastructure. This is an investment in the future of the state and a fundamental tenet of intergenerational equity and prosperity.

In its May 2003 framework report, the Economic Development Board (EDB) recommended that the government adopt a strategic capital investment approach that is consistent with the priorities in South Australia's Strategic Plan (Recommendation 18). The Board has also called for a two-stage process where the business case is developed and approved before approval of the funding method (Recommendation 61).

Annual agency-by-agency bidding for capital funds is not always conducive to delivering the desired strategic outcomes. Decisions on capital priorities may be influenced more by the level of funds traditionally allocated to an agency, rather than the strategic priority of the particular proposal.

The current process often assumes that the project will either proceed as a capital funded project or not at all. As a result, opportunities for better asset management, redevelopment initiatives or private sector participation may not be fully explored.

An increasing number of projects require negotiations with private operators or users for a cost sharing or financing arrangement. Changes to the budget process are required to assist the government to successfully conclude such negotiations.

There is a clear need for the development of appropriate business cases and project plans, including the full exploration of opportunities for better asset management, redevelopment initiatives or private sector participation, before a budget allocation is made to a project. Too often the lack of such preparatory work has resulted in a need to revise the budget or, alternatively, tailor the project to meet the budget, sometimes at the expense of project objectives. The development of the Strategic Infrastructure Plan marks a shift toward a more strategic and holistic approach to investment in infrastructure.

A new five-step approach to developing and funding infrastructure projects is presented below.

Strategic Level

1. Identify the Service Need

Step 1 is the identification of the state's infrastructure priorities in this Strategic Infrastructure Plan. These will be further evaluated and/or refined by the government through an ongoing strategic infrastructure planning process focusing on a five and 10 year timeframe and responding to the objectives of South Australia's Strategic Plan.

This new approach has commenced with the preparation of the Strategic Infrastructure Plan, which provides overall direction on strategic infrastructure priorities to guide the preparation of individual agency forward plans.

The guiding principle for agencies is whether the project is consistent with South Australia's Strategic Plan, the Strategic Infrastructure Plan and other agency plans and specific infrastructure priorities as determined by Cabinet.

2. Outline the Case for Change and Define the Services Required

Step 2 is the definition by agencies, in association with the Office for Infrastructure Development and the Department of Treasury and Finance, of the required services and the scope of projects that will address the state's strategic infrastructure priorities. Agencies at this stage will apply a whole-of-government approach to the development of an outline case for each project, showing:

- required services to be delivered
- preliminary costs and timeframes
- a review of the existing asset base to identify opportunities for redevelopment or disposal of assets
- a well-argued case for the project, clarifying its objectives, in view of competing priorities
- initial analysis of affordability, funding method and budget impact
- the results of initial consultation with key government agencies to ensure alignment of potentially conflicting policy objectives, and the possible inclusion of additional supporting agencies

This process essentially leads to a short list of projects that have been adequately scoped and are then approved by the government for further detailed analysis.

Project Level

3. Substantiate and Assess the Project

Step 3 involves the development of a full business case or justification for the project, through the following series of parallel processes:

- presentation of reasons for the project
- design development for the project
- identification of sustainability targets for the development.
- development of whole-of-life project costs and benefits, including a triple bottom-line assessment
- consideration of hurdle rate of return concepts, where relevant
- identification of financing options, including budget impact, if any
- discussion of procurement options
- advice on development consents required
- the results of more detailed consultation with government agencies
- discussion of the government's role
- recommendations.

Agencies may need to be granted an allocation of funds to support the development of the full business case.

A structured and well-rounded process will be applied to all projects to evaluate their economic, social and environmental impacts, both positive and negative. Other factors influencing the strategic priority of projects will also be considered, to derive their score or ranking within infrastructure sectors.

At this stage the project is ready to be endorsed by Cabinet as meeting the criteria for project approval.

4. Determine the Funding Method and Resource Allocation

Step 4 involves determining the funding method, which may include an allocation of state capital funds that may need to be drawn down for the project. A state capital allocation may be submitted as a budget bid, or Cabinet could be asked to approve a draw down of funds as the need is established from an earlier budget allocation.

Consideration is also given to opportunities for private provision and/or funding of the project, as well as local or Australian Government participation.

Opportunities for private sector participation in the project will be reviewed, according to key criteria established in the Partnerships SA document, 'Private Sector Participation in the Provision of Public Services – Guidelines for the Public Sector'.

At this point, Cabinet is able to approve the funding method for the project and any appropriations that are required.

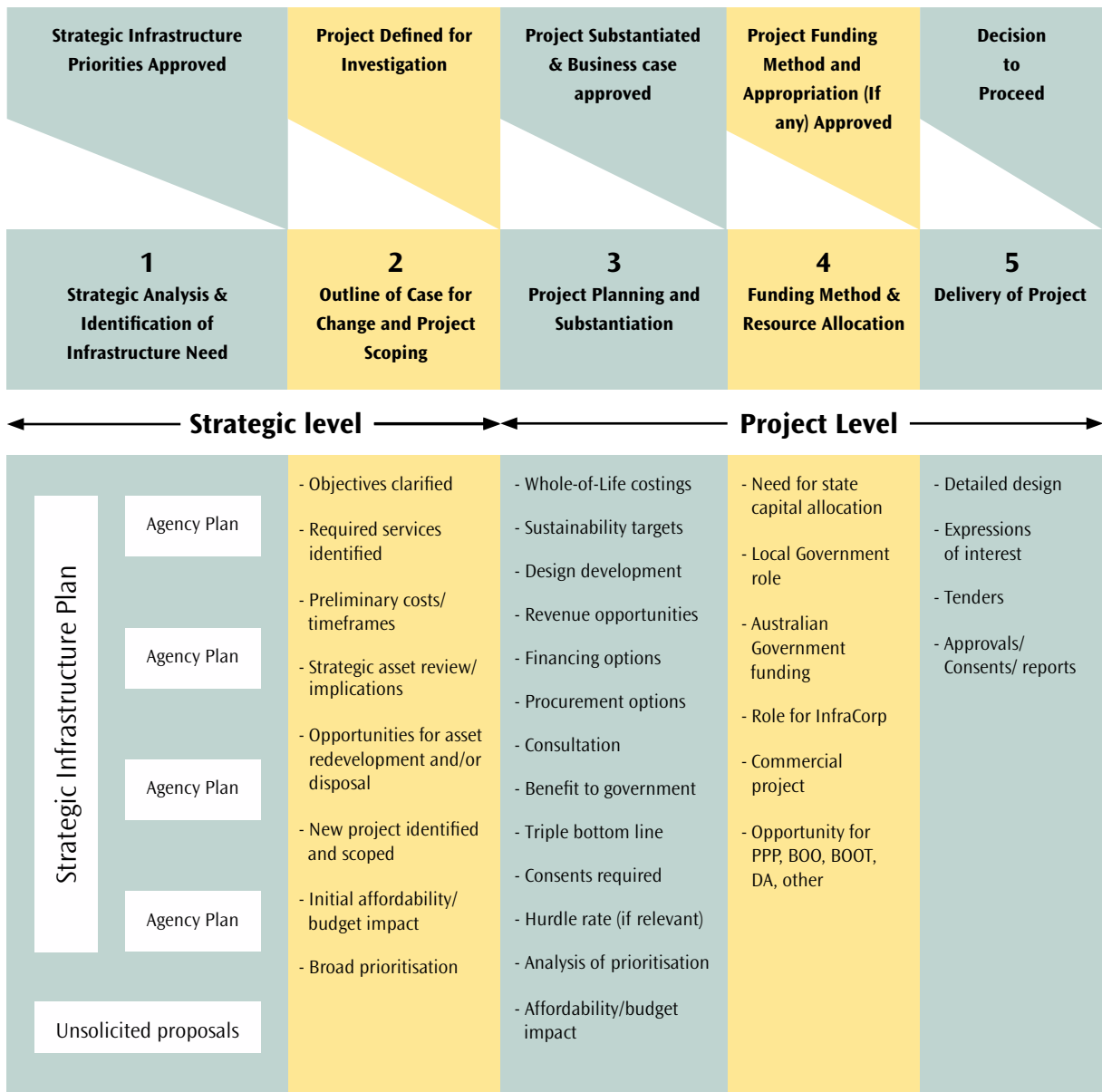
5. Deliver the Project

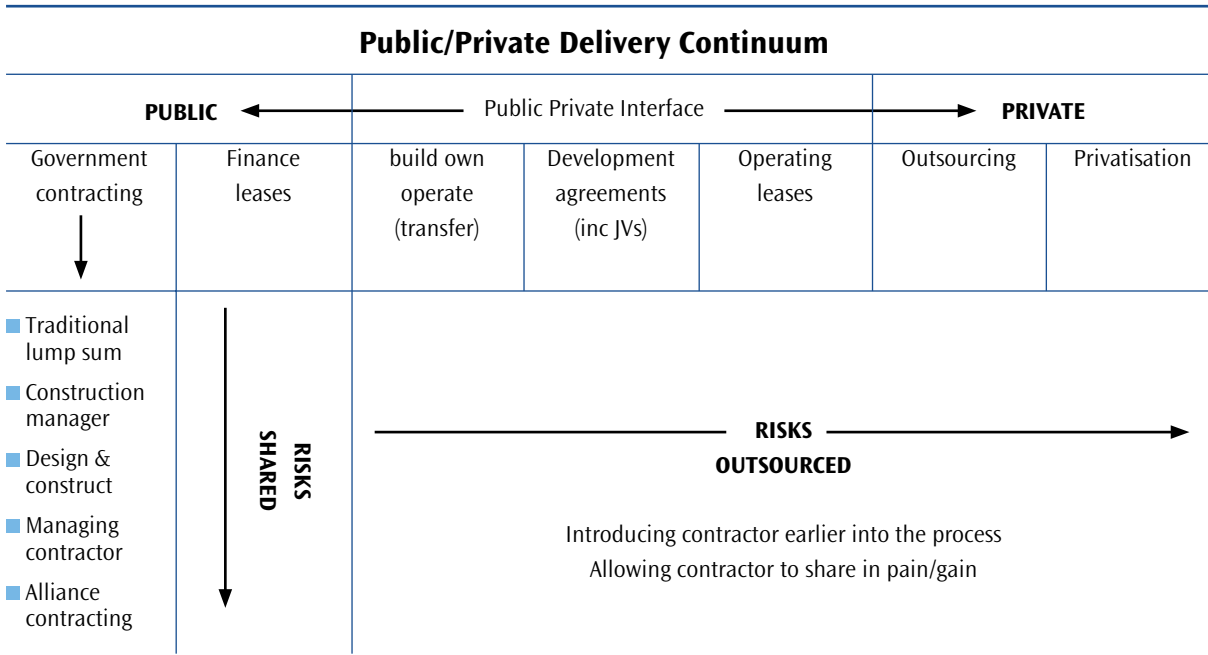
Step 5 is the detailed design and procurement stage for the project and may involve:

- determination of the best forms of contracting
- implementation of expression of interest and tendering processes
- negotiation of contracts and development agreements
- compliance with all government probity and other policy requirements.

This process is illustrated on the following chart.

Proposed Infrastructure Planning And Delivery Framework





The process advocates consideration of a full range of public and private sector delivery and funding options. Although not exhaustive, possibilities are illustrated on the diagram above and will be subject to current government policy commitments on private sector delivery of ‘core’ services.

Objective identification of infrastructure needs to support South Australia’s Strategic Plan (Step 1 above) does not imply any delivery commitment from either government or the private sector, or funding obligations, which will be the result of separate decisions. The important objective is to present a true representation of overall infrastructure needs to meet the functional needs of the state and from this point, decisions on matters such as priority, delivery and funding can be made by the State Government or other appropriate authorities.

Disciplined budget management in recent years has cut state debt by nearly a third to less than 5 percent of GSP, without resort to privatisation. Ratings agencies have restored the state’s AAA credit rating. This provides scope and flexibility for judicious and responsible infrastructure investment by the public sector.

The state’s balance sheet can accommodate quality investment in infrastructure that will lift the productivity and growth performance of the economy. This conclusion was reached by an expert Infrastructure Finance Group chaired by Dr Barry Hughes, Chief Economist at Credit Suisse Asset Management. Its principal conclusions are reflected in the plan.

Today, there is a broad range of options available for financing investment in public infrastructure. However, projects will only be funded once their merits have been established clearly.

The extent to which State or local government can access Australian Government grant programs will be reviewed. State/federal funding agreements for health, housing and education will also be scrutinised. Innovative approaches to service delivery having national significance may also attract funding.

Strategic Priorities

- Ensure all funding and procurement options are considered for projects identified as of high strategic priority for the state, including debt, Australian Government funding, and a full range of public sector contracting and private sector delivery options.
- Develop a more strategic and integrated approach to influencing Australian Government policy and accessing Australian Government program funding.

Management of Government Assets

Improving the current approach to asset management will provide many opportunities for the state to achieve better outcomes for the provision of infrastructure.

There is a general overcapacity of built assets across government, but it is more often reflected in under-used and poorly maintained buildings and sites than vacant facilities.

Traditionally, all three spheres of government have thought independently about their built assets consistent with the historical division of responsibilities. However, significant progress has been made in recent times towards the use of collaborative state-local government approaches to address a range of infrastructure issues. There is the potential for greater coordination and cooperation between the spheres, which will deliver better service outcomes and value.

Opportunities for better use of public assets have been outlined in various sections of the plan. Over time, the shared use of better located facilities will help to improve the efficiency and effectiveness of a wide range of services.

Decisions on retention or replacement versus disposal of assets must be considered in the same whole-of-government context required for decisions on new investments. Optimisation of the whole-of-government asset base is expected to provide better outcomes for the state than optimisation on an individual agency basis.

The identification of priorities for investment, redevelopment or changes in use of government infrastructure, requires sound up-to-date knowledge of the condition, use and performance of existing built assets. Such strategic planning in government has been hampered by the lack of consistent and comprehensive information on both assets and their service delivery capabilities.

The government's Strategic Asset Management Information System (SAMIS) will give all government agencies that rely on a significant built asset portfolio to deliver services, the capability to systematically and objectively prioritise works to remedy deficiencies with regard to asset capacity, suitability and condition. The system can also be used to support a broader whole-of-government approach to asset management. Once fully operational, SAMIS will help in the prioritisation of works programs in health, education and training, recreation and sport, justice, and the arts.

Work has also begun on establishing a broader database of information on all areas of infrastructure covered by the plan. Improved access to such information will help infrastructure providers to make investment decisions and families and businesses to make decisions about where to live or start a business respectively.

The adoption of proper asset management practices is critical to ensuring that the whole-of-life cost of the state's asset base is minimised. This includes analysis of appropriate data to understand how built assets perform over their design life to inform future capital works decisions and ongoing asset management.

Strategic Priorities

- Ensure that systems and processes are in place to monitor the condition and use of government-owned assets, so as to minimise their whole-of-life costs and so that accurate and timely decisions can be made about their repair and maintenance, replacement, redevelopment or disposal.
- Develop and promote more collaborative approaches both within and between spheres of government for the management and use of infrastructure assets.
- Develop strategies to improve knowledge about assets and support the adoption of sound asset management practices by infrastructure providers.

Critical Infrastructure Protection

The State Government has established a partnership with industry and other Australian governments to implement nationally consistent arrangements for the protection and resilience of infrastructure in the face of a range of natural and other hazards. Infrastructure identified as critical to economic and community wellbeing includes some key electricity generation facilities, gas supply systems, water storage and distribution assets, telecommunication and data networks and a number of major hospitals.

Owners and operators of critical infrastructure are expected to have robust risk management strategies in place, to ensure adequate levels of asset protection, minimum points of failure, appropriate emergency responses and rapid recovery arrangements. Major interdependencies between items of critical infrastructure also need to be understood and taken into account in plans and redundancy arrangements. Strong communication links have been established to ensure timely warning, transfer of intelligence and security information and collaboration in emergency planning.

The government will support consultation, education and training opportunities for owners and operators of critical infrastructure in risk management and protective security, and will encourage them to participate with governments in any exercises to test plans and response, recovery and redundancy arrangements.

The likelihood of more extreme events (e.g. fire and floods) arising from climate change and sea-level rise will require new approaches to risk management to be factored into infrastructure investment, particularly for coastal and stormwater infrastructure.

Strategic priority

- Ensure that infrastructure owners and operators throughout the state have appropriate risk management plans and business continuity and redundancy arrangements in place for all critical infrastructure.

Implementation of the Plan

The Strategic Infrastructure Plan for South Australia is the first major step forward in developing a more coordinated, efficient, sustainable and innovative approach to infrastructure provision. It provides direction to other spheres of government and the private sector on the government's priorities for South Australia. It also provides a framework to guide more detailed infrastructure planning by state agencies.

The plan proposes action, in response to the preliminary priorities identified, by the various entities listed as having lead responsibilities. The State Government seeks the support of these entities to work collaboratively to verify and confirm the infrastructure issues in the plan and to scope out and develop business cases for projects to address them.

Preparation of the plan gives effect to Step 1 of the new approach to infrastructure provision described above. The selection of issues and projects for inclusion in the plan has been driven by their strategic fit with South Australia's Strategic Plan and their potential to underpin the state's progress toward a stronger economy and community. Further development and assessment of potential solutions or projects, along the lines described in Steps 2 and 3, is the first task in implementing the plan.

Success in delivering the plan will be demonstrated by the provision of more accessible, reliable and affordable infrastructure-based services, improved connectivity between South Australia and the rest of Australia and the world and a strengthening of the state's 'clean and green' credentials through integration of sustainability objectives in infrastructure decision making.

The government invites all providers and users of infrastructure throughout the state to contribute to the task of implementing and refining the plan.

While comprehensive, it is acknowledged that the plan may not have captured all infrastructure issues that South Australians regard as important to the development of this state. The government is keen to receive information and advice from business and community groups on infrastructure issues of strategic significance. Proposals for innovative infrastructure projects which will contribute directly toward the achievement of South Australia's Strategic Plan objectives and targets are welcome.

The government also intends to seek expert advice from key infrastructure providers on the implementation of the plan.

The plan will be updated to incorporate new infrastructure priorities as they emerge.

Projects

Project	Priority #	2005/6–2009/10	2010/11–2014/15	SASP Targets
Further develop and refine assessment tools for prioritising infrastructure proposals *Lead – State Government	U/way	*		1.16 5.11
Work with other jurisdictions to harmonise procedures and identify ways to decrease bid costs for private sector involvement in infrastructure development Lead – State Government	U/way	*		1.18
Complete the roll-out of the Strategic Asset Management Information System (SAMIS) to improve the overall level of information on government built assets and their performance Lead – State Government	U/way	*		1.18
Undertake the planning, standard setting, training and consultation necessary to protect critical infrastructure Lead – State Government, private sector	1	*		1.16
Implement the strategic five step approach to investment in infrastructure Lead – State Government	1	*		1.16 5.11
Reform public procurement processes to enable more innovative approaches to delivery and funding of infrastructure investment while maintaining high standards of probity Lead – State Government	1	*		1.18 1.6
Build public sector skills in procurement, contract management and asset management Lead – State Government	2	*		1.18
Monitor and report on progress in implementing the plan's priority initiatives Lead – State Government	2	*	*	1.18
Establish more rigorous reporting requirements for government agencies with respect to asset condition, use and performance Lead – State Government	3	*		1.18

* Lead – lead responsibility for promoting, developing and evaluating the project.

Priority – preliminary rankings. Priority numbers do not represent a final commitment by the State Government or other lead entities. See the Delivering the Plan section for further details.



Delivering The Plan

State Challenges and Opportunities Contents

Transport

Land

Information and Communications Technology

Education and Training

Science, Technology and Innovation

Justice and Emergency Services

Recreation and Sport

Arts, Culture and Heritage

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Community Services and Housing

Energy

Water

Natural Assets

Waste Management