

4. CAPITAL STRATEGIES AND POLICIES

- The Government's capital strategies and policies seek to ensure all infrastructure investment delivers the greatest benefit to the State.
- The *NSW State Infrastructure Strategy 2018-2038*, *Future Transport 2056* and the *Greater Sydney Region Plan – a metropolis of three cities*, detail the Government's strategic approach to investment in infrastructure to meet the State's long-term needs.
- Project selection policies are designed to ensure the best projects are prioritised.
- To support the significant investment program, the Government has released an action plan detailing its commitment to work with the construction industry to deliver its infrastructure objectives (see Box 4.1).
- The Government is committed to delivering projects on time and on budget and has policies in place to facilitate this.

This chapter sets out the high-level strategies guiding decision making alongside the policies governing project selection and delivery. Together, these strategies and policies ensure that capital investment supports the people of New South Wales by meeting current and future needs.

There are four major components to successful infrastructure delivery:

- **Project Planning** – a high-level strategic approach guides infrastructure planning in New South Wales.
- **Project Selection** – ensures individual projects or programs represent value for money and are economically, socially and environmentally justifiable.
- **Project Funding** – implementing an innovative approach to funding infrastructure, while maintaining the State's triple-A credit rating.
- **Project Delivery** – ensuring projects are delivered efficiently, within budget and on time.

Infrastructure NSW plays a key role in supporting the capital framework and ensuring the successful delivery of infrastructure by:

- providing independent expert advice to the Government on investment priorities
- driving key infrastructure in partnership with the private sector
- managing the presentation of projects to the Commonwealth Government for potential funding
- conducting project reviews and providing selection advice for the five-year State Infrastructure Plan (detailed in Appendix A to this *Infrastructure Statement*)
- recommending projects for Restart NSW funding, based on a consistent and objective assessment framework
- operating the Infrastructure Investor Assurance Framework.

4.1 Project planning

In March 2018, the Government released the *NSW State Infrastructure Strategy 2018-2038*, the State's *Future Transport Strategy 2056*, and the *Greater Sydney Region Plan*. Together these important strategic plans outline the Government's long-term vision for a thriving New South Wales – creating jobs near where people live and delivering infrastructure to ensure cities and regions are connected and liveable.

For the first time, these plans were developed jointly to deliver integrated policy and investment directions for New South Wales. This new vision combines social infrastructure, transport and planning to optimise the Government's significant investment in communities across the State.

The Government takes a strategic approach to investment, drawing on the long-term plans set out in this chapter.

NSW State Infrastructure Strategy 2018-2038

The *NSW State Infrastructure Strategy 2018-2038* sets out the Government's infrastructure vision over the next 20 years, across all sectors.

In 2012, the first *State Infrastructure Strategy and Long-Term Transport Master Plan* laid the foundations for the major projects being delivered today such as Sydney Metro Northwest, WestConnex, and major hospital upgrades at Campbelltown, Dubbo, Bega, Wagga Wagga and Tamworth.

Over the past seven years, the Government has invested and delivered projects to reduce its vast infrastructure backlog, creating a pipeline of future investment in major projects. New South Wales now has the most infrastructure projects underway of any state or territory in Australia, with new public transport networks, modern roads, schools and hospitals in delivery or planning.

Recognising the State has a long pipeline of investment already underway or in advanced planning due to past plans, the new 20-year *NSW State Infrastructure Strategy* switches the focus from developing an infrastructure project pipeline to supporting sustainable growth in the NSW population and economy.

Future Transport 2056

Future Transport 2056 is a suite of strategies and plans setting the vision and directions for mobility, transport and integrated land planning for the next 40 years. It includes service and infrastructure plans for Greater Sydney and regional New South Wales, and supporting plans for safety, disability inclusion, freight and tourism. Transport is critical to the future of NSW, and the vision recognises transport's contribution to economic, social and environmental outcomes.

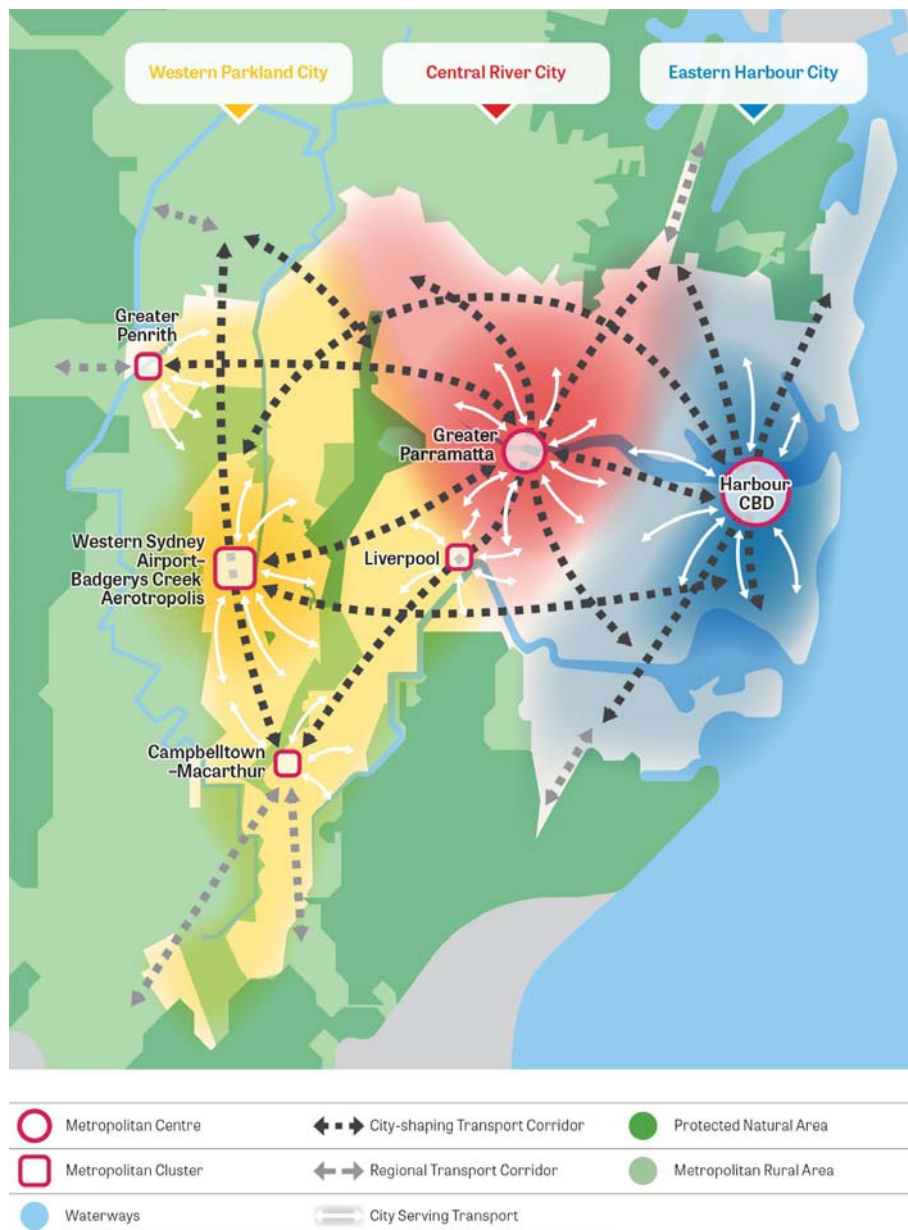
For further information on the strategy and supporting services and infrastructure plans see <https://future.transport.nsw.gov.au/plans/future-transport-strategy>.

The Greater Sydney Region Plan

The *Greater Sydney Region Plan*, developed by the Greater Sydney Commission and adopted by the NSW Government in March 2018, will transform Greater Sydney into three distinct but connected cities. The three cities vision (see figure 4.1 below) addresses the desire of Sydneysiders to live closer to where they work and have more convenient access to education, health and recreation.

The plan promotes Greater Sydney's health and education precincts as generators of innovation, research and future jobs, while the city's 'green infrastructure' is valued, protected and enhanced.

Figure 4.1: Map of Greater Sydney as a metropolis of three cities: Western Parkland City, Central River City and Eastern Harbour City



Source: *Greater Sydney Region Plan*, page 7, available at <https://gsc-public-1.s3.amazonaws.com/s3fs-public/greater-sydney-region-plan-0318.pdf>

District Plans

The Greater Sydney Commission's five District Plans are a guide for implementing the three-cities vision. These plans set out a vision for each district along five dimensions: infrastructure and collaboration, liveability, productivity, sustainability, and implementation.

Western City District – forms the Western Parkland City and the majority of the Central River City. The plan builds on the Western Sydney City Deal for infrastructure planning and delivery in the Parkland City.

Central City District – falls within the Central River City and its plan focuses on promoting greater diversity in high-skilled roles within the Central River City, building on the presence of existing health, education and advanced technology industries.

North District – forms a large part of the Eastern Harbour City. The plan emphasises increased transport linkages, including Sydney Metro Northwest, Western Harbour Tunnel and Beaches Link. These are intended to improve access to jobs in the Harbour CBD.

Eastern City District – includes Sydney's established Harbour CBD; its plan's objectives include aligning growth with infrastructure, planning open space areas and protecting trade and freight routes.

South District – forms part of the Eastern Harbour City but connects to the Central River City. The plan emphasises enhanced transport links to research, health and education precincts, and using the international gateways of Sydney Airport, Port Botany and Port Kembla to support productivity and access to jobs.

For more information see <https://www.greater.sydney/greater-sydney-region-plan>.

Regional Development Framework

The Regional Development Framework provides an overall government vision for providing quality services and infrastructure in regional New South Wales.

The framework provides for better coordination, decision making and delivery, based around an investment model that:

- provides quality services and infrastructure, ensuring a baseline set of services across regional areas
- aligns efforts to support growing regional centres, acknowledging the needs of areas with a strong growth in population, jobs or both
- identifies and activates economic potential by looking across regional New South Wales for opportunities to change the economic outlook and activate local economies.

Premier and State Priorities – a vision for New South Wales

The NSW Government is focused on implementing 12 Premier's priorities and 18 State priorities to grow the economy, deliver infrastructure, protect the vulnerable, and improve health, education and public services. Priorities relating to infrastructure include:

- delivering infrastructure – key metropolitan, regional and local infrastructure projects delivered on time and on budget
- accelerating major project assessment – halve the time for state significant developments
- improving road travel reliability – 90 per cent of peak travel on key road routes is on time
- increasing housing supply – deliver more than 50,000 approvals every year
- addressing housing affordability – 90 per cent of approvals within 40 days and rezonings to support 10,000 extra dwellings a year in appropriate areas
- ensuring on-time running for public transport – maintain or improve reliability of public transport
- reducing road fatalities – by at least 30 per cent from 2011 levels by 2021
- increasing cultural participation – at cultural venues and events in New South Wales by 15 per cent by 2019
- creating sustainable social housing – increase the number of households successfully transitioning out of social housing by 5 per cent over three years
- improving service levels in hospitals – 81 per cent of patients through emergency within four hours.

These priorities and the Government's vision for New South Wales have helped inform the selection of projects for inclusion in the 2018-19 State Infrastructure Plan.

For further information see <https://www.nsw.gov.au/improving-nsw/premiers-priorities/>.

NSW Intergenerational Report 2016

The NSW Government publishes an intergenerational report every five years, which provides projections for the State's demographic, workforce and housing trends for the next four decades. The analysis assists the Government to lay the foundations for a strong future.

The latest report – titled *Future State NSW 2056* – was published in 2016. This report identified adequate and appropriate infrastructure investment as critical to ensuring the State achieves its economic potential. The plans and policies included in this chapter support the implementation of strategic capital investment that is crucial to long-term sustainability.

Refer to the NSW Intergenerational Report 2016 for more detail

<https://www.treasury.nsw.gov.au/nsw-economy/intergenerational-report>.

4.2 Project Selection

Individual projects must be financially, economically, socially and environmentally justifiable to attract Government investment. Moreover, high-quality project selection is crucial for realising the full benefits of infrastructure investment. The project selection process provides assurance to the people of New South Wales that spending only goes to projects that support economic growth and improved living standards. Mechanisms described below are in place to support project selection.

Capital Planning Policy

NSW Treasury will release a Capital Planning Policy that updates and supersedes the previous Total Asset Management Policy in 2018. The Policy will help the Government to take a strategic and systematic approach to capital investment across the whole of government.

As part of the Capital Planning Policy, all agencies are required to submit 10-year Capital Investment Plans. These plans enable greater forward capital planning.

Asset-intensive agencies will also be required to submit Asset Utilisation and Recycling Plans to ensure only assets required for service delivery are held and surplus assets are available for future divestments. These plans will enable a more strategic assessment of the efficiency of asset use (see Section 4.4).

Capital Prioritisation Process

Ahead of the 2018-19 Budget, the Government conducted a Capital Prioritisation Process as part of a more strategic and long-term approach to capital allocation. The Process involves the assessment and ranking of projects likely to be brought forward for an investment decision over the coming ten years. All uncommitted projects with an expected capital spending of greater than \$10 million were considered in the Process.

Cost-benefit analysis

Cost-benefit analysis (CBA) is a systematic, evidence-based method for conducting appraisals and evaluations of public projects, programs and policies across the NSW Government. The approach helps the Government to understand the economic, social and environmental impacts of projects to the NSW community.

In March 2017, NSW Treasury released the NSW Government Guide to Cost-Benefit Analysis (CBA Guide), which promotes a consistent approach to the appraising and evaluating projects across the whole of government. The Guide provides agencies with greater clarity on the application of CBA and will assist the Government to effectively plan and assess infrastructure projects.

Business case guidelines

Business cases are used to inform investment, policy and regulatory decisions for the Government.

Business cases address five aspects of a proposal:

- a case for change – a clear rationale for agency and government action based on an identified priority outcome, benefit, need and/or opportunity
- evidence appropriate options – that among the solutions outlined, the one selected achieves the required outcome(s) while maximising benefits and delivering value for money (cost benefit analysis)
- evidence that appropriate options (solutions) are financially viable
- confidence that the delivery agency has the necessary capacity and capability to procure, implement and maintain the proposed asset or investment and realise the benefits anticipated
- confidence that the solution put forward is deliverable, and that governance and systems are in place to optimise value and adapt if required.

Gateway Review

The Gateway Review system is the Government's assurance program for investments. It consists of peer reviews conducted by independent external experts at key decision points (or gates) in a project or program's lifecycle. The intention is to provide the NSW Government with a level of investor confidence that programs and projects are being effectively developed and delivered on time, on budget and in accordance with the Government's objectives. It also provides delivery agencies with independent assessments to complement their internal assurance arrangements, to support the delivery of successful projects.

NSW Treasury issued an updated NSW Gateway Policy in early 2017. This took into consideration recommendations made as part of a review of the NSW Gateway Policy in 2016, along with those made by the Auditor General in reports relating to Gateway.

Updated features of the policy include:

- a Gateway review process that not only applies to significant government capital projects but also major ICT and recurrent projects
- a risk-based approach to determine when and at which decision points (or gates) Gateway reviews should be undertaken
- the minimum requirements for risk-based assurance frameworks
- the use of three Gateway Co-ordination Agencies (GCAs) to design and operate risk-based assurance frameworks.

Infrastructure Investor Assurance Framework

In June 2016, the Government approved the Infrastructure Investor Assurance Framework (IIAF), to further enhance the governance and oversight of capital infrastructure projects. The IIAF delivers a tiered, risk-based approach to investor assurance for capital projects, which seeks to:

- provide the Government with confidence as the investor that key capital projects across the State are being delivered on time and on budget
- act as an effective tool to monitor the State's infrastructure program, flagging emerging issues and allowing the Government to act ahead of time to prevent projects from failing.

Infrastructure New South Wales is the Gateway Coordination Agency (GCA) for the IIAF and is responsible for its design and administration. Under the IIAF, capital projects valued at an estimated total cost of \$10 million or more that are being developed and/or delivered by agencies covered by the NSW Gateway Policy, must be registered on Infrastructure New South Wales' Reporting and Assurance Portal. Once a project is registered, it will undergo risk profiling to determine if the appropriate levels of assurance and reporting are applied.

ICT Assurance

ICT Assurance is an independent risk-based process, developed to improve ICT investment outcomes and deliver better value for the State's capital and recurrent ICT spending. The GCA responsible for ICT Assurance is DFSI which uses the ICT Assurance Framework (IAF) to deliver its objectives. Compliance with the IAF is mandatory and is monitored through a centralised and standardised project monitoring and reporting framework, and Treasury's annual budget process.

Recurrent or capital ICT proposals greater than \$10 million, or other nominated projects must register with ICT Assurance. Projects are tiered based on risk and value. Those considered high risk will receive more assurance and reporting support.

Unsolicited Proposals Guide

The Government recognises that the private sector can offer innovative ideas, approaches and solutions to the State's policy goals. The Government seeks to encourage more private sector investment and participation in projects, with rigorous planning and costing to deliver the highest standards of public value and confidence to investors and the community.

The *Unsolicited Proposals Guide for Submission and Assessment 2017* (the Guide) gives the private sector the consistency and certainty of a transparent and streamlined framework for assessing their proposals.

The Guide was released in August 2017, following a review which incorporated feedback from industry, the findings of the 2016 Department of Premier and Cabinet (DPC) review and the Acting Auditor General's report.

The Guide outlines principles for assessing unsolicited proposals, including:

- achieving optimal benefit for the State
- delivering a unique benefit
- probity to assure the integrity of the parties involved in the decision-making process
- proponents will be required to commit resources.

Governance arrangements will include whole-of-government management and coordination through DPC of a single Unsolicited Proposals Steering Committee, Proposal Specific Steering Committees where required, proposal specific assessment committees, and a staged approach to assessment, negotiation and contracting.

The Guide aims to improve the quality of proposals received and will be monitored periodically to assess its effectiveness.

4.3 Project Funding

The Government is better utilising available funds for infrastructure projects by:

- continuing to fund projects through the Restart NSW Fund (Restart NSW), a dedicated fund for infrastructure to improve the State's economic competitiveness (refer to Chapter 3 of this *Infrastructure Statement*)
- establishing several other funds, including the Housing Acceleration Fund, to deliver on some of the Government's key policy aims in a targeted manner
- better managing contingency allowances for efficiency gains and savings to free up funding for other projects
- working closely with the private sector to fund and deliver productive infrastructure projects.

Restart NSW and Rebuilding NSW

Restart NSW was established in 2011 to promote economic growth and productivity by funding the delivery of major infrastructure projects. By 30 June 2018, approximately \$33 billion is expected to have been deposited in Restart NSW. These inflows are from proceeds of asset sales, Asset Recycling Incentive payments from the Commonwealth Government, Waratah Bonds, interest income, windfall tax revenues and other cash deposits from the Consolidated Fund.

The \$20 billion Rebuilding NSW plan is funded by Restart NSW. This plan focuses on investments that increase productivity and improve the State's overall economic performance. It involves unlocking \$20 billion from the proceeds of the lease of 49 per cent of the NSW electricity network businesses for investment in new infrastructure. Areas of priority include public transport, urban and regional roads, water, hospitals, schools and cultural and sporting infrastructure.

See Chapter 3 of this *Infrastructure Statement* for more detail.

Contingency management

Major infrastructure projects are long-duration, highly complex undertakings that are often significantly affected by external events. They therefore need a contingency component covering costs that are difficult to precisely identify given the risk profile of these projects.

In 2014, NSW Treasury and Infrastructure New South Wales issued a circular and guidelines to improve the allocation and management of contingencies. The guidelines are there to assist agencies better plan and manage risks, and reuse surplus contingency for investment in other projects.

Contingencies are managed throughout the full lifecycle of a capital project, including at the following stages:

- strategic business case
- final business case
- pre-tender
- project delivery.

Infrastructure finance and public private partnerships

Infrastructure finance involves a range of tools that facilitate better access to potential financing for infrastructure investments in New South Wales. These include public private partnerships (PPPs), concession agreements, leases, vendor finance, and other structured finance arrangements.

NSW Treasury's Infrastructure and Structured Finance Unit (ISFU) focuses on developing innovative solutions to enable continued partnerships with the private sector. These partnerships support complex service-enabling infrastructure projects.

PPPs offer an approach to procurement and financing that enables an appropriate risk allocation between the Government and the private sector on a value for money basis. These partnerships are developed using world-class standards and expertise, and emphasise the role infrastructure projects play as an enabler for government service delivery. PPPs include social infrastructure PPPs (such as availability payment PPPs in health, education, correction, transport and roads) and economic infrastructure PPPs (such as user charge PPPs in roads and water).

The Government's NSW Public Private Partnership Guidelines 2017 reflect best practice in procuring PPPs, which have the following principal features:

- creating public service-enabling infrastructure assets
- a contribution by Government through land, capital works, availability payments, risk sharing, revenue diversion or other supporting mechanisms and
- engaging the private sector for a specified period for the provision of related services.

The Guidelines provide a transparent mechanism to competitively pursue innovative solutions. This is primarily achieved through optimal risk allocation, management synergies, encouraging innovation in operations, design and construction, efficient asset utilisation and integrated whole-of-life asset management.

The Guidelines refer to the PPP Toolbox and template project documents. The PPP Toolbox is a suite of templates, pro-forma and guidance documents relating to all phases of the PPP procurement cycle. The PPP Toolbox ensures a streamlined transaction process, improved consistency across NSW Government projects, and incorporation of new thinking or lessons learned on past projects. These benefits are expected to reduce bid costs and ensure the NSW PPP procurement processes remain world-class.

4.4 Project Delivery

Delivering infrastructure projects efficiently, on time and on budget is a key priority for the Government. Capital policies and strategies, discussed above, are designed to facilitate this. The publication of the strategic plans – *NSW State Infrastructure Strategy*, *Future Transport* and the *Greater Sydney and Regional Plans* – enables agencies and private providers to plan based on a reliable project pipeline. The innovative delivery models discussed above, like the establishment of the Sydney Motorway Corporation Pty Ltd, also help to focus accountability and expertise when engaging with the private sector.

Beyond these, there are specific policies and institutional arrangements within the Government to drive project delivery. These include:

- Health Infrastructure, an independent expert organisation responsible for delivering all major health capital projects over \$10.0 million on behalf of the Ministry of Health
- School Infrastructure NSW, a specialist assets unit in the Department of Education responsible for the planning and delivery of capital projects in NSW public schools
- the Transport Asset Holding Entity, a dedicated asset manager for the State's public transport sector responsible for managing assets consistent with government requirements and negotiating leases and other contracts with operators
- the Major Projects Executive Committee, comprised of chief executives from central and infrastructure agencies, who supervise all major infrastructure projects and report to the Cabinet Sub-Committee for Infrastructure.

Box 4.1: NSW Government Action Plan: A Ten Point Commitment to the Construction Sector

The Government's Construction Leadership Group (CLG), led by Infrastructure NSW, has developed the NSW Government Action Plan which is endorsed by its member agencies, all of whom are engaged in the delivery of a large long-term pipeline of infrastructure investment. The overarching principle behind this plan is that the Government can only achieve its infrastructure objectives in partnership with the private sector, and this depends on healthy ongoing competition among a capable field of construction and development firms, and the industry supply chain in the long term.

The plan outlines 10 commitments that member agencies aim to achieve through the CLG, which are:

- procure and manage projects in a more collaborative way
- adopt partnership-based approaches to risk allocation
- standardise contracts and procurement methods
- develop and promote a transparent project pipeline
- reduce the cost of bidding
- establish a consistent NSW Government policy on bid cost contributions
- monitor and reward high performance
- improve the security and timeliness of contract payments
- improve skills and training
- increase industry diversity.

The plan is designed to increase capacity to meet future demand, reduce industry costs and down-time through more efficient Government procurement processes, and develop the skills, capability and capacity of the construction industry's workforce.

Procurement policy

The Government has reformed its procurement system for the New South Wales public sector to deliver value for money, quality government services, and alignment with business needs.

The NSW Procurement Policy Framework 2015 was developed by the NSW Procurement Board, in consultation with government agencies and suppliers, to provide a single source of guidance on mandatory procurement requirements. The framework's fundamental objective is to ensure that government procurement achieves best value for money.

Construction procurement

The New South Wales Industrial Relations Guidelines: Building and Construction Procurement 2013 were updated in September 2017. These guidelines deal with matters including:

- protecting freedom of association laws
- protecting independent contractors (including sub-contractors) from coercion
- restrictions on over-award payments, unregistered workplace agreements and project agreements
- ensuring right of entry laws are appropriately applied on construction sites
- ensuring projects are delivered on time and within budget.

The guidelines apply to contractors, including prospective contractors who participate in government procurement processes for public building and construction work.

Asset management policy

The Government, alongside Infrastructure NSW, is in the process of developing an updated asset management policy, in line with the *NSW State Infrastructure Strategy* recommendation. The process is being carried out collaboratively with input from government agencies. The policy aims to gather information on assets held across the government sector and how these facilitate the delivery of services to the people of New South Wales. The updated policy will be released in 2018-19.