

## 4. CAPITAL STRATEGIES AND POLICIES

- The Government's capital strategies and policies seek to ensure all infrastructure investment delivers the greatest benefit to the people of New South Wales.
- The *NSW State Infrastructure Strategy 2018-2038*, *Future Transport 2056* and *A Metropolis of Three Cities*, detail the Government's strategic approach to investment in infrastructure to meet the long-term needs of the State.
- Project selection policies are designed to ensure that the best projects are prioritised.
- Sound financial management is at the forefront of project funding decisions.
- The Government is committed to delivering projects on time and on budget. Robust policies and sound practices as outlined below assist to achieve this.

The strategies and policies detailed in this chapter outline the State's governance framework which ensures that capital investment supports the people of New South Wales by meeting their current and future needs.

There are four major components to successful infrastructure delivery:

- **Project planning** – a high-level strategic approach to guide infrastructure planning in New South Wales
- **Project selection** – ensures individual projects or programs represent value for money and are financially, 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 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 the Government with independent expert advice on investment priorities
- conducting project reviews and providing selection advice for the five-year State Infrastructure Plan
- managing the delivery of select infrastructure projects through Projects NSW
- recommending projects for Restart NSW funding, based on a consistent and objective assessment framework
- operating within the Infrastructure Investor Assurance Framework
- providing assurance on the implementation of the asset management policies by agencies.

## 4.1 Project planning

---

In March 2018, the Government released the *NSW State Infrastructure Strategy 2018-2038*, the State's *Future Transport 2056*, and *A Metropolis of Three Cities* (also known as 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 - Building Momentum**

*NSW State Infrastructure Strategy 2018-2038 - Building Momentum* 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 delivery of major projects such as North West Metro, WestConnex, and major hospital upgrades at Campbelltown, Dubbo, Bega, Wagga Wagga and Tamworth.

The Government over the past eight years has invested in and delivered projects that has created a pipeline of future investments. New South Wales now has more infrastructure projects in progress than any other Australian state or territory, with new roads and public transport networks, modern schools and hospitals in delivery or planning.

Recognising the State has a long pipeline of investment already completed, in progress or in advanced planning, *Building Momentum* extends the focus from developing an infrastructure project pipeline to supporting sustainable growth in the New South Wales 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 its contribution to economic, social and environmental outcomes.

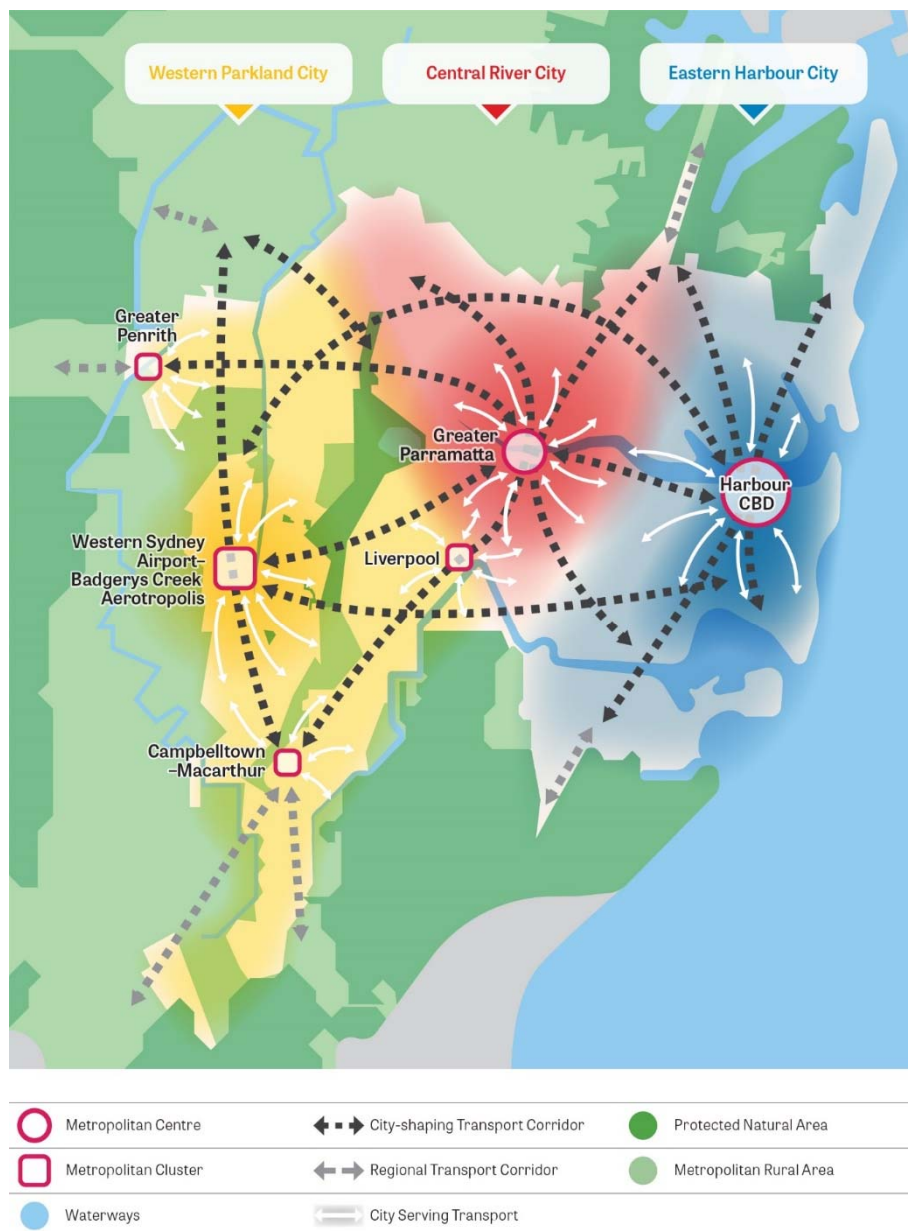
For further information on the strategy and supporting services and infrastructure plans see <https://future.transport.nsw.gov.au/plans/future-transport-strategy>.

## A Metropolis of Three Cities

A *Metropolis of Three Cities*, also known as the *Greater Sydney Region Plan*, was developed by the Greater Sydney Commission and adopted by the New South Wales Government in March 2018. A *Metropolis of Three Cities* will guide the transformation of 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 facilities.

The plan promotes Greater Sydney's health and education precincts as generators of innovation, research and future jobs, and ensures 'green infrastructure' is valued, protected and enhanced. It promotes the advancement of the Central River City (based around the Greater Parramatta area), and the development of the new Western Parkland City (centred on the new Western Sydney Airport).

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 Western Parkland City.

**Central City District** – 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 North West Metro, Western Harbour Tunnel and Beaches Link, all which are intended to improve access to jobs in the Harbour CBD.

**Eastern City District** – includes Sydney's established Harbour CBD. Its 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 the delivery of quality services and infrastructure in regional New South Wales, based on better coordination, decision making and delivery. The investment model has been designed to:

- provide quality services and infrastructure, ensuring a baseline set of services across regional areas
- align efforts to support growing regional centres, acknowledging the needs of areas with a strong growth in population, jobs or both
- identify and activate economic potential in local economies throughout regional New South Wales.

## NSW Intergenerational Report 2016

The 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 need to 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 has been designed to assure that spending only goes to projects that support improved living standards and economic growth. The mechanisms described below support project selection.

#### NSW State Infrastructure Plan

The State Infrastructure Plan (SIP) highlights selected priority projects the New South Wales Government will deliver over the next five years. These projects are important both for the direct benefits they will deliver and for the future growth they will unlock. The Government is committed to providing infrastructure that meets the needs of a growing population and a growing economy.

The *Infrastructure NSW Act 2011*, requires Infrastructure NSW to review the existing five-year Infrastructure Plan (the Plan) every year and submit a revised Plan to the Premier for consideration.

The Plan represents Infrastructure NSW's advice to the Government on the State's infrastructure priorities and the projects which should be included in the Government's SIP. As required under the Infrastructure NSW Act, the Plan is to have regard to the Government's adopted State Infrastructure Strategy 2018-2038.

This year Infrastructure NSW will be submitting its advice to the Government after the conclusion of this budget process. This advice is focussed on delivering the specific election commitments which were reviewed by the Parliamentary Budget Office. Infrastructure NSW's advice, and the Government's response, will be focussed on informing the 2019-20 Half-Yearly Review and the 2020-21 budget process.

## **Asset Management Policy**

The Asset Management Policy has been developed by NSW Treasury and Infrastructure NSW, in line with the *NSW State Infrastructure Strategy* recommendation. The policy aims to ensure that investment in infrastructure maintenance is properly managed to both minimise the whole-of-life cost to taxpayers and to ensure those assets deliver the services the community expects.

Under the terms of the policy, NSW Government agencies are required to develop a fit - for- purpose Strategic Asset Management Plan, Asset Management Plans, and an Asset Register. These plans enable a more strategic assessment of asset efficiency which assists agencies in project selection and investment planning.

## **Capital Investment Plan**

All agencies are required to submit ten year Capital Investment Plans (CIPs) in accordance with the annual budget process and in line with the Asset Management Policy. The requirements of the Asset Management Policy and Capital Investment Plan supersede previous capital planning policy requirements.

Agency CIPs help the Government to take a strategic and systematic approach to capital investment across the whole of government to enable greater forward capital planning.

## **Cost-benefit analysis**

A cost-benefit analysis (CBA) is a systematic, transparent and evidence-based assessment methodology used to quantify the economic, social and environmental benefits of any proposed initiative. The Government uses CBA to gain a better understanding of potential benefits and costs relating to proposed capital and recurrent initiatives.

In March 2017, NSW Treasury released the *NSW Government Guide to Cost-Benefit Analysis* (CBA Guide), which promotes a consistent approach to project appraisal and evaluation across whole of government. The CBA Guide also gives agencies greater clarity on CBA application and assists the Government in effectively planning and assessing infrastructure projects.

## **Business case guidelines**

In September 2018 NSW Treasury released the *NSW Government Business Case Guidelines*. Business cases are used to inform investment, policy and regulatory decisions for the Government.

Business cases also provide evidence to inform government decisions by addressing 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 of appropriate options – that among the solutions outlined, the one selected achieves the required outcome(s) while maximising benefits and delivering value for money (CBA)

- 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 anticipated benefits
- 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 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 the NSW Gateway Policy in early 2017. Features of the policy include:

- a Gateway review process that applies to significant government capital projects and major Information and Communication Technology (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 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 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 NSW is the Gateway Co-ordination Agency (CGA) for the IIAF and is responsible for its design and administration. Under the terms of the IIAF, capital projects developed and/or delivered by agencies covered by the *NSW Gateway Policy* valued at an estimated total cost of \$10 million or greater must be registered on Infrastructure New South Wales' Reporting and Assurance Portal. Once a project is registered, it will undergo risk profiling to determine appropriate levels of assurance and reporting.

## 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 the newly formed Department of Customer Service 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 by Treasury's annual budget process.

Recurrent or capital ICT proposals greater than \$10 million, or other nominated projects below the threshold 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:

- strategic asset recycling initiatives which have enabled it to fast-track vital infrastructure projects and unlock funds that would otherwise not have been available
- continuing to fund projects through the Restart NSW Fund, a dedicated fund for infrastructure to improve the State's economic competitiveness (refer to Chapter 3 for further details), 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.

### Contingency management

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

NSW Treasury and Infrastructure NSW issued a circular and guidelines in 2014 to improve the allocation and management of contingencies. The guidelines are there to assist agencies to 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 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 include social infrastructure PPPs (such as availability payment PPPs in health, education, corrective services, transport and roads) and economic infrastructure PPPs (such as user-charge PPPs in roads and water).

The Government's *NSW PPP 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
- 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 PPP Guidelines refer to the PPP Toolbox. 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 New South Wales Government projects, and incorporation of new thinking or lessons learned on past projects. These benefits are expected to reduce bid costs and ensure the New South Wales 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 2056, A Metropolis of Three Cities and District plans* – enables agencies and private providers to plan based on a reliable project pipeline. The innovative delivery models discussed above (like for the North West Metro which is the largest PPP awarded in New South Wales) 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 of \$10 million and above 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 public schools
- the Transport Asset Holding Entity, a dedicated asset manager for the public transport sector responsible for managing assets consistent with government requirements and negotiating leases and other contracts with operators.

**Box 4.1: Collaboration through construction****NSW Construction Leadership Group**

The Government's Construction Leadership Group, led by Infrastructure NSW, has developed the *NSW Government Action Plan* which is endorsed by its member agencies, all of whom are engaged in a large, long-term pipeline of infrastructure delivery.

The plan is designed to improve collaboration and 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.

**Construction Industry Leadership Forum**

A forum of leaders from the construction industry and the New South Wales and Victorian public sectors has been established to improve collaboration and action around procurement and delivery of major government infrastructure project. It also addresses capability and capacity constraints and the need for greater workforce diversity.

The overall purpose of the Construction Industry Leadership Forum is to improve the effectiveness and value (to governments and industry) of procurement and the delivery of the governments' infrastructure program.

**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* was 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.

## **Governance for complex infrastructure projects**

NSW Treasury is in the process of developing a policy to assist responsible agency project teams in developing a governance plan for Tier 1 High Profile High Risk complex infrastructure projects. Improved project outcomes can be achieved by applying a consistent, best practice approach to governance across New South Wales Government agencies.

The policy will establish the need for good governance and specify the minimum requirements for a governance plan. The policy will require responsible agencies to seek approval of a governance plan by the senior governance body, and update it as the project progresses through its lifecycle. As a project transitions from one phase to the next, responsible agencies will need to outline the governance arrangements for the next phase.