

4 April 2014

Mr Peter Harris AO
Chairman, Productivity Commission
Public Infrastructure Inquiry
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Dear Peter

PUBLIC INFRASTRUCTURE INQUIRY

The Australian Sustainable Built Environment Council (ASBEC) welcomes the opportunity to respond to the Productivity Commission's draft report for its Inquiry on Public Infrastructure.

About ASBEC

ASBEC is the peak body of key organisations committed to a sustainable built environment in Australia.

ASBEC's membership consists of industry and professional associations, non-government organisations, and government observers involved in the planning, design, delivery and operation of our built environment, who are concerned with the social and environmental impacts of this sector.

Our earlier submission

ASBEC's interest in this inquiry relates principally to the role of infrastructure in supporting more productive, sustainable and liveable communities.

Our prior submission outlined some of our policy ideas relevant to the in relation to the Productivity Commission's investigations, including the need for:

- a coordinated and accountable approach to cities, with more innovative mechanisms for infrastructure financing and clear performance indicators; and
- a framework to improve the resilience of the built environment in the face of climate change.

This submission takes that earlier correspondence as read and responds to some of the key recommendations of the draft report.

General comments

ASBEC largely supports the draft report, and its findings and recommendations.

We recognise the importance of this inquiry as an opportunity to review and rethink public infrastructure approval, financing, construction, and maintenance.

The role of government in infrastructure delivery needs to be strategic and considered, with all decisions based on tangible economic, demographic, and environmental evidence of the need for, appropriateness of, and likely impacts of such construction.



To this end, we strongly support the Commission's support for reforming governance and institutional arrangements for public infrastructure.

In particular, we feel that draft recommendations 7.1 – proposing that institutional arrangements for the provision and delivery of public infrastructure incorporate good governance practices – and 7.3 – arguing that funding or assistance should be conditional on effective analysis, transparency, and public interest – are essential reforms to current infrastructure programs.

ASBEC also supports proposals for governments to:

- improve land policies and require explicit consideration of available alternatives to costly projects (recommendation 8.1);
- implement a detailed, independent benchmarking framework for major infrastructure projects to assist with future planning and evaluation of proposals (recommendation 8.2); and
- invest more in the initial concept design specifications to help reduce bid costs (recommendation 11.1).

Requests for information

ASBEC has not been in a position in the time available to provide detailed responses to the report's information requests.

However, many of our members will be making individual submissions, which will undoubtedly provide additional material for consideration by the Commission.

In particular, the report sought evidence on the potential benefits of creating special-purpose agencies to conduct infrastructure procurement (information request 11.2) – we draw your attention to work by the Urban Coalition.

The Urban Coalition comprises ASBEC, the Association of Building Sustainability Assessors, the Australian Conservation Foundation, the Australian Institute of Architects, Consult Australia, the Green Building Council of Australia, the National Growth Areas Alliance, the Planning Institute of Australia, the Property Council of Australia, and the Urban Development Institute of Australia.

In its paper *A New Deal for Urban Australia*, released in April, 2013, it proposed the establishment of an independent Australian Centre of Procurement Excellence, which would develop and implement best practice procurement and deliver value for money (see the attached).

ASBEC recommends that the Productivity Commission consider this proposal when investigating more effective infrastructure procurement practices.

If you would like to further discuss any issue raised in this submission, please contact Executive Officer Suzanne Toumbourou on (02) 8006-0828 or by email at eo@asbec.asn.au.

ASBEC commends the Productivity Commission for undertaking this inquiry, and looks forward to working together with the Commission to achieve better outcomes for all Australians.

Yours Sincerely

Tom Roper
President

A New Deal for Urban Australia



The Urban Coalition



April 2013

This paper was prepared by the *Urban Coalition*:



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1. Introduction

More than 80 per cent of Australia's population live in cities that collectively generate over 80 per cent of our economic wealth.

The quality of life we know and love in our cities has been realised only because of the visionary planning, foresight and investment in infrastructure made by generations of Australians before us. However, many of the decisions that shaped our cities were made in response to the challenges of a different age: A booming agricultural industry; a newly industrialised manufacturing base; and the emerging dominance of the car.

Today, Australians more than ever before, are demanding more liveable cities and urban centres that better reflect the way we now live and how we want to live in the future. Driving this demand is the personal and collective experience we have of our cities day-to-day; lived through the social and economic costs of congestion; the reality of a growing and ageing population; the challenges created by outward urban growth, unaffordable housing, more frequent extreme weather events, and inadequate infrastructure.

These challenges are great, and demand leadership, vision and investment to help ensure our cities retain their status as some of the greatest places to live and work in the world. Our cities, like our regions, are part of our national fabric. It is our cities that drive national productivity, and it is through investment in the infrastructure that supports our cities that we can deliver a better deal for all Australians: through improved health, education and jobs.

A bi-partisan commitment to planning and delivering better cities; to working collaboratively with the states and territories, and with industry, to prioritise and fund the infrastructure we need for jobs, growth and a better way of life is now more urgent than ever.

This is a call for leadership and investment. It is time to support a New Deal for Urban Australia. Here, we detail those decisions that if taken today will shape a better future for our cities tomorrow.

The Urban Coalition makes two key recommendations:

1. Unlock private sector dollars through a new Urban Infrastructure Fund

Establishing an Urban Infrastructure Fund to create, in partnership with the states and territories, a new urban infrastructure investment asset class; offering lower risk, attractive credit-enhanced returns appealing to both institutional and retail (mum and dad) investors: creating a new source of infrastructure funding.

Details on how the Urban Infrastructure Fund would be structured are in section three.

2. A stronger role for Infrastructure Australia and a new Federal Minister and Department for Cities and Urban Development incorporating the Major Cities Unit

Strengthening and deepening the role of Infrastructure Australia and the Major Cities Unit; to help ensure that for every dollar invested by the government in infrastructure across portfolios and through our cities, the best possible return is achieved for tax-payers and investors.

More detailed recommendations are in section four.

2. The Need for a New Deal

While Australia's cities rank highly on global liveability rankings, some areas within our cities do not perform as well on liveability and productivity indicators. Such areas include some of Australia's fastest growing municipalities, such as those on the outskirts of capital cities, where the populations are growing at twice the rate of the national average.

This population growth brings with it greater demands for infrastructure and services and a greater impact on our environment. Residents want more health, education and employment opportunities closer to home and are concerned about the lack of infrastructure such as public transport and recreational and community facilities for younger and older people.

Securing a sustainable investment base for urban infrastructure should be a major priority for the Australian Government for these reasons:

- Cities are where most people live and our cities will continue to grow whether planned or not.
- As cities grow, they become less productive and less sustainable if the growth is not well managed and therefore living affordability and quality of life is a vital concern.
- Continuing unequal access to employment and education opportunities will mean lower skills, higher unemployment and increased congestion and travel times so creating vibrant employment centres and diverse employment opportunities is fundamental.
- Adapting to a changing climate and preparing for a low carbon future needs to be cost effective and well managed.
- Improving population health needs greater investment in preventative health care to reduce the cost burden to governments, particularly with an aging population.
- By looking after our environment and biodiversity we will ensure that they can continue to provide their ecosystem services such as natural water filtration and pollination for food production.

Better management of urban population growth and investment in infrastructure must be a key focus for the Australian Government and for State and Territory Governments to ensure that all urban areas are liveable, sustainable and are contributing to national productivity.

3. Urban Infrastructure Fund

Recommendation 1

Unlock private sector dollars through a new Urban Infrastructure Fund

Introduction

This section outlines a model for boosting the capital available to fund local community infrastructure.

It recommends the Australian Government (in collaboration with states and territories) foster an **urban infrastructure investment asset class through a new Urban Infrastructure Fund**.

This asset class would offer **lower risk, credit-enhanced returns** that appeal to both institutional and retail (mum and dad) investors.

Funds raised by issuing urban infrastructure investment products would capitalise a special purpose statutory investment vehicle – the Urban Infrastructure Fund - that would then provide **attractive seed finance** to qualifying projects that meet criteria set by COAG in the form of local community infrastructure.

What is 'Local Community Infrastructure'?

'Community infrastructure' refers to investment projects in metropolitan and regional communities across the country.

Some examples of local infrastructure are:

- **transport** – public and active travel transport systems, railway crossing pinch points;
- **energy** – low carbon precinct power and water capture;
- **resilience** – coastal management, levees, flood control, stormwater;
- **community, cultural and recreational** facilities;
- **learning, health, aged care, seniors** facilities;
- **housing facilities** – affordable housing projects; and
- **protecting and enhancing biodiversity and ecosystem services** – community waterways and grassland/woodlands.

The elements of the basic model are outlined in the following sub-sections:

1. **credit-enhanced investment products** – what do they look like?
2. **eligible priority projects** – what are the criteria?
3. **issuing financial instruments** – the role of Government and intermediaries;
4. **project sponsors** – who are they and what are their obligations?
5. **complementary finance instruments** – how can infrastructure project finance be further leveraged?
6. **Urban Infrastructure Fund** – how would it be run and governed?
7. **supporting processes** – what else needs to be considered?

Some Frequently Asked Questions are also provided at the end of this section.

The funding mechanism and institutions proposed in this section are intended to **complement** both traditional sources of infrastructure finance and other innovative capital raising techniques.

1. Credit-enhanced infrastructure investment products – what do they look like?

**Community
Infrastructure
Investment Products**
*...enhance returns and
manage risks*

The goal is to develop long-dated investment products that deliver guaranteed total returns that are more attractive than standard government bond rates.

This will require credit-enhancement as generic infrastructure-related returns are not high enough to appeal to investors.

Two techniques are proposed:

- a tax rebate of 10% for investors purchasing bonds that finance eligible projects within the Urban Infrastructure Fund pool
- a capped government guarantee.

2. Eligible priority projects – what are the criteria?

Eligible Projects
*...to be recommended
by Infrastructure
Australia*

The broadening of Infrastructure Australia's remit to identify projects that qualify for credit enhancement is proposed.

In addition to its current priority-setting role, Infrastructure Australia would identify community-level infrastructure projects that meet criteria, including:

- COAG cities benchmarks
- positive cost-benefit (including non-economic) criteria across city networks
- capacity to generate sustainable cash flows or cross financing from reliable sources
- capacity to provide/attract co-funding using complementary financial instruments
- the quality and track record of project sponsors
- demonstration of partnerships with local governments, state and territory governments, private sector and NGOs to deliver outcomes
- inclusion of a set of indicators and/or targets and a robust, independent method of measurement to ensure that criteria are being met and desired outcomes achieved
- there is a strategic basis for the project
- there is demonstrated commitment to quality urban design, good architecture and sustainability.

Guided by COAG, Infrastructure Australia would establish investment categories to ensure an optimum spread of project priorities – for instance, regional towns, outer metro growth areas, rejuvenation corridors, new master planned communities, low carbon/eco efficient networks, coastal adaptation zones.

Infrastructure Australia would also regularly publish a list of projects that indicate a long-term investment pipeline. This would demonstrate deal flow opportunities to capital markets players.

3. Issuing financial instruments – the role of government and intermediaries

**Australian Office of
Financial
Management (AOFM)**
*...to manage capital
raising*

AOFM would manage bond issues on behalf of the Urban Infrastructure Fund.

AOFM would liaise with financial market intermediaries.

Funds secured by capital raisings would be transferred to an Urban Infrastructure Fund.

AOFM would also pool and securitise bundles of prospective infrastructure asset income streams to ensure they are of sufficient scale to attract institutional investors.

4. Project sponsors – who are they and what are their obligations?

Project Sponsors
*...would submit
eligible projects for
funding*

Project sponsors, such as local governments, statutory authorities, or regional development corporations would:

- make applications for funds based on eligibility criteria
- develop joint ventures with other government, private sector and NGO partners
- agree to contractual delivery conditions
- secure complementary funding streams that utilise approved financing pathways
- provide plans for managing counterparty risk
- provide evidence of capacity to manage the operating (post construction) phase of an asset.

5. Complementary financial instruments – how can infrastructure funds be further boosted?

Complementary Financing

...to diversify lines of credit and reduce reliance on the Urban Infrastructure Fund's capital

Project sponsors would complement Urban Infrastructure Fund seed capital with finance from partners and sources that may include:

Traditional Government

- Recurrent expenditure
- Other government infrastructure funds
- Other government incentives – NRAS etc.

Non-Traditional Government

- Local asset-backed vehicles (LABV)/joint project development (JPD) techniques
- Tax increment financing/growth area bonds
- Sale/lease back
- PPPs

Market Instruments

- Bank finance
- Covered bonds
- Corporate bonds
- Mezzanine/hybrid finance
- Other asset backed securities
- Other securitised/REIT index-linked structures



6. Urban Infrastructure Fund – what would it do?

Establish a Dedicated Fund

...with governance arrangements that boost investor confidence

The primary task of the Urban Infrastructure Fund is to:

- manage disbursements of funds to sponsors of eligible (Infrastructure Australia-approved) projects, backed by strict performance contracts
- ensure performance against contracts.

The Urban Infrastructure Fund would also help match-make syndicates of project sponsors and facilitate financial package design.

In addition, the Urban Infrastructure Fund would:

- work closely with ratings agencies to develop credible early warning systems
- facilitate investment tranche design.

The Urban Infrastructure Fund would seek to support investor confidence through:

- transparent regulatory controls and reporting that reduce the potential for default
- providing information on deal flow
- standardising financial information requirements (with AOFM) – simplified PDS etc.
- developing a national database of projects (commenced and completed) with an assessment of the community dividends expected and delivered.



7. Supporting processes – what else needs to be considered?

What else...

Fostering an informed market...

- promote a reputable index of Urban Infrastructure Fund products
- foster an investible index

Reduce the Federal Government's cost of providing guaranteed support...

Utilise a suite of quarantining measures to classify government guarantees as a contingent liability – and, thereby, not incorporated on the Government's balance sheet, such as:

- time-limited guarantees
- 'burning off' guarantees upon pre-agreed milestones
- guarantees restricted to agreed metrics (with the balance of risks hedged)
- guarantees linked to specified credit tranches (supplemented by complementary non-guaranteed financial products, such as mezzanine or equity components).

Capital Management

Explore opportunities to effectively transfer capital deductions (depreciation etc.) to the long-term owners of infrastructure.



Frequently Asked Questions

Q: *Infrastructure Bonds – What are they?*

A: Infrastructure bonds are a financial product designed to increase private sector investment in critical infrastructure projects.

These bonds attract private investment through a tax rebate on a proportion of the interest earned from an investment.

This credit-enhancement increases the return on projects so they compete more effectively with alternate investment products.

The tax rebate represents tax revenue foregone rather than an increase in government debt.

The infrastructure bonds introduced in the mid 1990s reduced borrowing costs by 40% compared to conventional borrowing expenses. They were poorly designed and subsequently scrapped; however, the concept remains sound.

A proposal previously considered by the Coalition estimated that an incentive (tax foregone) of \$150 million would leverage \$20 billion of new infrastructure investment.

Q: *Asset Backed Securities – What are they?*

A: Asset Backed Securities (ABS) are an investment product that combines the expected income streams of underlying assets – typically mortgages, credit card debt, car loans – into a pool that is then securitised – that is, offered to investors as bonds or notes.

The value of an ABS lies in the quality of the underlying assets in the pool and the prospect of consistently tapping into the stream of revenue generated by such assets over the long-term.

Q: *Is there a model for governing the proposed Urban Infrastructure Fund?*

A: The proposed entity is a financing authority and requires individuals skilled in governing finance and investment entities.

The guardians of the Future Fund provide one model.

The board should also include individuals experienced in all aspects of infrastructure procurement.

Q: *Are there any models for the Urban Infrastructure Fund?*

A: The financing instruments proposed in this paper are used in dozens of cities around the world.

Two examples of entities that specialise in local government finance are:

- Municipal Finance Authority of British Columbia
- New Zealand Local Government Financing Agency.

The United States operates a widespread 'muni' (municipal) bond market.

Nevertheless, the concept proposed in this paper relies on the pooling of income streams from entities with marginal (but long-term) cash flows. The concept also utilises Australia's unique superannuation system – which is why a special purpose entity is proposed.

Q: *What is the Urban Infrastructure Fund likely to finance?*

A: Firstly, the Urban Infrastructure Fund will provide seed finance to quality projects. It is expected that project sponsors will also secure complementary capital.

The elements of the qualifying criteria are outlined in chapter five.

In addition, finance would focus solely on development and redevelopment capital, not meeting operational costs.

Q: *What should the scope of the Fund cover?*

A: The scope of the Urban Infrastructure Fund could cover both Nation Building Projects as well as Community Infrastructure.

Nation Building Projects - These are large-scale projects with capital construction costs greater than \$100 million, such as transport projects. These projects will be assessed by Infrastructure Australia and aimed at driving productivity and equipping Australia for a low-carbon future. The criteria for this scale of infrastructure should build on Infrastructure Australia's existing categories and Nation Building 2's themes. However it should not be restrictive and there should be no exclusion of any type of infrastructure as long as it meets productivity, liveability and sustainability goals.

Community Infrastructure Projects – will include projects such as community, cultural and recreation facilities, learning, health, aged care and seniors facilities.

4. Enhance Governance Arrangements to deliver the New Deal

Recommendation 2

A stronger role for Infrastructure Australia and a new Federal Minister and Department for Cities and Urban Development incorporating the Major Cities Unit

Since 2008, Infrastructure Australia has provided independent advice to governments, investors and infrastructure owners on a wide range of issues including:

- Australia's current and future infrastructure needs;
- mechanisms for financing infrastructure investments;
- policy, pricing and regulation; and,
- efficiency of the delivery, operation and use of national infrastructure networks.

Infrastructure Australia's audits and annual reports to COAG on the state of national infrastructure sectors, alongside the development of a priority list of nationally significant infrastructure, are critical to helping ensure value for money for the taxpayer and certainty for investors in a longer term pipeline of projects across the country.

In parallel with the creation of Infrastructure Australia, the Australian Government has established the Major Cities Unit, now housed within the Department of Infrastructure and Transport, to provide advice on policy, planning and infrastructure that have an impact on our cities and suburbs. With the announcement of the National Urban Policy in 2011, and the creation of the National Urban Policy Forum, the importance of cities in driving outcomes across policy portfolios is clearer than ever.

As we approach the fifth anniversary of Infrastructure Australia, there is now strong bipartisan support for this model of independent, transparent and expert advice: one that is increasingly referenced in state governments' own reforms supporting infrastructure development and urban planning.

Alongside this support for Infrastructure Australia there is widespread recognition regarding the importance of the Australian Government having a strong policy focus on urban development and those major cities and growth areas in which over 80 per cent of our population live and work.

There is now an opportunity to build on what is a strong foundation: to strengthen and deepen the role of Infrastructure Australia and the Major Cities Unit; to help ensure that for every dollar invested by the government in infrastructure across portfolios and through our cities, the best possible return is achieved for taxpayers and investors.

We believe that the implementation of the recommendations below will support these objectives. And, alongside the establishment of the Urban Infrastructure Fund, will deliver more productive, sustainable and liveable cities for all Australians.

The following six recommendations should be implemented to enhance governance arrangements for a New Deal:

- 2.1 Build on the success of the Major Cities Unit to more effectively support policy to deliver better outcomes for cities across government portfolios.
- 2.2 Refine the governance overseeing Infrastructure Australia to better align with the National Urban Policy and improve coordination with and between state and territory governments.
- 2.3 Infrastructure Australia to establish future research priorities in consultation with industry, alongside increased investment in a research program supporting evidence-based policy development.
- 2.4 Infrastructure Australia to provide advice to the Australian Government on priority projects to be funded through the Urban Infrastructure Fund; evaluated using broad cost-benefit analysis against the goals of the National Urban Policy.
- 2.5 Establish an independent Australian Centre of Procurement Excellence to develop and implement best practice procurement and deliver value for money.
- 2.6 COAG criteria for future strategic planning of capital cities to be expanded to include better and deliberate management of population growth.

More detail on these six recommendations follow.

Recommendation 2.1

Build on the success of the Major Cities Unit to more effectively support policy to deliver better outcomes for cities across government portfolios.

A dedicated cabinet portfolio for cities and urban development will help influence policy across agencies and departments critical to achieving the broader objectives of the National Urban Policy:

- a. Establish a Federal Minister for Cities and Urban Development responsible for cities' policies across portfolios.
- b. Establish a Cities and Urban Development Cabinet Committee to include key federal ministers whose portfolios involve decisions or activities pertaining to urban centres.
- c. Transform the Major Cities Unit, currently situated as part of the Department of Infrastructure and Transport, into a Department for Cities and Urban Development: providing a centre of excellence within the Australian Government which is resourced to work across governments and portfolios to develop and implement policies supporting better cities.
- d. Support the National Urban Policy Forum as an ongoing source of independent, expert, and transparent advice on cities, with continuing industry and community engagement through an expanded role (providing for a regular reporting mechanism through to the Standing Council on Transport & Infrastructure (SCOTI)) supported by the Department for Cities and Urban Development.
- e. Improve cooperation between the Australian Government and the states and territories through the establishment of a COAG Cities and Urban Development Ministerial Council chaired by the Federal Minister for Cities and involving representation by state and territory Treasurers and Planning Ministers, as well as local governments. The Council's agenda should be established through an Inter-Governmental Agreement and should include a five-yearly review of cities' metropolitan planning systems.

Recommendation 2.2

Refine the governance overseeing Infrastructure Australia to better align with the National Urban Policy and improve coordination with and between state and territory governments.

- a. Broaden the membership of Infrastructure Australia to include specifically:
 - the Secretary of the Department of Infrastructure and Transport; and,
 - industry representatives with specific expertise in urban development, design and planning.
- b. Provide additional resources to Infrastructure Australia to effectively interface with the Department of Cities and Urban Development and the National Urban Policy Forum, and better integrate infrastructure prioritisation and delivery with urban development policy and research.
- c. Re-establish the Infrastructure Finance Working Group, supported by a dedicated secretariat, as a permanent advisory committee to Infrastructure Australia and government; considering opportunities to drive lasting improvements to the planning and financing of infrastructure across the nation.
- d. Since the establishment of Infrastructure Australia in 2008, a number of states have implemented governance reform resulting in more independence in the prioritisation of infrastructure projects. Infrastructure New South Wales, Infrastructure Queensland, the Western Australian Infrastructure Coordinating Committee, and the Tasmanian Infrastructure Advisory Council reflect increasing capacity within the states for more informed and considered infrastructure policy development.

We recommend that Infrastructure Australia establish a regular forum of state infrastructure agencies—and, for those states and territories without an equivalent body, include the secretary or equivalent of the relevant first ministers' departments—to improve coordination between agencies, share best practice policy and implementation.

Such a forum could improve coordination across the states and territories and support a coordinated approach through COAG, and complement the proposed regular report by the National Urban Policy Forum to SCOTI (see 2.1.d + 2.2.b above).



Recommendation 2.3

Infrastructure Australia establishes future research priorities in consultation with industry, alongside increased investment in a research program supporting evidence-based policy development.

In addition to Infrastructure Australia's annual reports to COAG, over the last five years it has undertaken significant research supporting policy development across infrastructure funding, planning and delivery. This research and policy development is welcomed and should be strengthened:

- a. Infrastructure Australia develops forward research priorities in consultation with industry, academia, state and territory and local governments.
- b. Infrastructure Australia should have adequate resources to promote research findings to industry, state, territory and local governments.



Recommendation 2.4

Infrastructure Australia provide advice to the Australian Government on priority projects to be funded through the Urban Infrastructure Fund; evaluated using broad cost-benefit analysis against the goals of the National Urban Policy.

The Urban Infrastructure Fund is proposed to increase the capital available to fund local community infrastructure. Funds raised by issuing community infrastructure investment products would capitalise a statutory entity that provides financial support, based on agreed criteria, to community infrastructure project sponsors.

- a. Infrastructure Australia will identify those projects that qualify for credit enhancement through the fund with reference to criteria such as:
 - COAG cities benchmarks
 - positive cost-benefit analysis (including non-economic criteria across city networks)
 - capacity to generate sustainable cash flows from a range of sources
 - capacity to attract co-funding using complementary financial instruments
 - quality and track record of project sponsors.Please also refer to Section 3 regarding project selection criteria.
- b. Infrastructure Australia would regularly publish a list of priority projects that meet agreed criteria and demonstrate a long-term investment pipeline to be supported by the Fund.



Recommendation 2.5

Establish an independent Australian Centre of Procurement Excellence to develop and implement best practice procurement and deliver value for money.

With large amounts of public funds being spent on infrastructure, it is incumbent on governments to ensure they get maximum value for money through the procurement process. To buy wisely you need wise buyers: there are substantial opportunities for governments and business to share expertise, and identify and deliver solutions that improve productivity and value for money across the procurement process.

The Australian Government alone issued nearly \$42 billion across some 82,000 contracts valued over \$10,000 in 2011-12. Just a one per cent efficiency dividend would equate to nearly half a billion dollars in savings. If this also included the value of procurement across six states, two territories and 562 local governments, the opportunities would translate to savings for investment in for example, new infrastructure, hospital beds, police and other in-demand government services.

In the construction sector alone, a 2009 report estimated the cost of disputation at \$7 billion per year, a figure that is likely to have grown. Similarly, a 2008 survey of pressure points in the Australian construction industry found that poor procurement practices had led to 26 per cent of projects worth over \$1 billion in Australia running over budget by \$200 million or more, while a 2006 study found that only 56 per cent of projects were completed on time.

To overcome persistent deficiencies in procurement skills and practices, we recommend a whole of government approach supporting the establishment of an Australian Centre for Procurement Excellence, building on the work of the Australasian Procurement and Construction Council (APCC):

- a. The Centre for Procurement Excellence could expand the APCC's role and remit, broadening government engagement and building on work across jurisdictions considering efficiencies in procurement. The Centre would be tasked with building a stronger relationship between government and business and supporting best practice procurement in Australia at all levels of government. The Centre should:
 - be established independent of government
 - build stronger linkages between government and with industry sectors
 - provide transparent expert advice to all levels of government
 - develop guidelines, build capability and improve standards.

The Board of the Centre for Procurement Excellence should include an equal number of representatives from industry and government.

- b. COAG in collaboration with the Business Advisory Forum should lead a Government & Business Procurement Summit in 2014 to build the mandate to establish the Australian Procurement Centre of Excellence. The Summit should:
 - highlight opportunities across all sectors to share expertise, increase productivity and deliver savings and efficiencies through better procurement; and,
 - identify key stakeholders, determine the terms of reference and appropriate governance supporting the Centre for Procurement Excellence.

Recommendation 2.6

COAG criteria for future strategic planning of capital cities to be expanded to include better and deliberate management of population growth.

The Urban Coalition believes the COAG criteria for future strategic planning of capital cities provide a sound basis for the Australian Government's continued engagement with state and territory governments on city planning and decision making. There is one element, however, that the Urban Coalition believes needs to be explicitly addressed and that is better and more deliberate management of population growth.

- a. The Urban Coalition recommends the adoption of a further criterion to the COAG Reform Council Strategic Planning Criteria, as follows:

"Strategic plans should directly address how they are going to manage growth, based on detailed planning and analysis and stakeholder and community engagement. This includes:

- *The preferred pattern of settlement*
- *The planned, sequenced and evidence-based land release and appropriate balance of infill and greenfields development (criteria 6), within a framework of a polycentric form for our cities and which is based on detailed analysis of how targets are to be achieved.*
- *The infrastructure needed to drive that pattern*
- *Articulation of the standards used for assessing required infrastructure and services*
- *How the growing city will address agreed outcomes including:*
 - *Equity*
 - *Productivity*
 - *Resilience*
 - *Sustainability*
 - *World class urban design and architecture*
- *How the growth is to be serviced, in relation to major infrastructure and community level infrastructure as well as recurrent services*
- *Outcomes, targets and indicators and a robust method for measuring whether the plans have succeeded in developing equitable, productive, resilient and sustainable cities*
- *Implementation strategies including a pipeline of priority projects, timelines and trigger points, responsibilities, funding commitments and financing mechanisms."*

- b. The stakeholder engagement process undertaken by the COAG Reform Council (CRC) during its 2011 review should continue and be undertaken at regular intervals.

5. Conclusion

This paper represents the views of a broad-based coalition of stakeholders – the Urban Coalition.

It proposes a major investment in urban Australia to improve our national quality of life and economic competitiveness.

Securing a sustainable investment base for urban infrastructure investment should be a major priority for the Australian Government for these reasons:

- Cities are where most people live and our cities will continue to grow whether planned or not.
- As cities grow, they become less productive and less sustainable if the growth is not well managed and therefore living affordability and quality of life is a vital concern.
- Continuing unequal access to employment and education opportunities will mean lower skills, higher unemployment and increased congestion and travel times so creating vibrant employment centres and diverse employment opportunities is fundamental.
- Adapting to a changing climate and preparing for a low carbon future needs to be cost effective and well managed.
- Improving population health needs greater investment in preventative health care to reduce the cost burden to governments particularly with an aging population.
- Restoring, preserving and enhancing the environment and biodiversity so that they can continue to provide ecosystem services such as natural water filtration and pollination for food production.

We make two key recommendations:

1 *Unlock private sector dollars through a new Urban Infrastructure Fund*

Establishing the Urban Infrastructure Fund to create, in partnership with the states and territories, a new urban infrastructure investment asset class; offering lower risk, attractive credit-enhanced returns appealing to both institutional and retail (mum and dad) investors: creating a new source of infrastructure funding.

Details on how the Urban Infrastructure Fund would be structured are in section three.

2 *A stronger role for Infrastructure Australia and a new Federal Minister and Department for Cities and Urban Development incorporating the Major Cities Unit*

Strengthening and deepening the role of Infrastructure Australia and the Major Cities Unit; to help ensure that for every dollar invested by the government in infrastructure across portfolios and through our cities, the best possible return is achieved for tax-payers and investors.

More detailed recommendations are in section four.

The Urban Coalition calls on all political parties to adopt this platform.

6. Contacts

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