

18 November 2011

Executive Officer
Public Accounts and Estimates Committee
Parliament House
Spring Street
East Melbourne VIC 3002

Dear Sir/Madam

I am writing in response to the Public Accounts and Estimates Committee's request for submissions to its Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects.

Plenary Groups is a specialist Public Private Partnership (PPP) development and investment business with infrastructure investments across Australia and Canada. As such this submission will present a view that is based on our expertise in the PPP infrastructure market.

A Victorian Infrastructure Perspective

Victoria has been at the forefront of infrastructure procurement over many years. From the Kennett Government period during the 1990s - where Victoria commenced a significant push of private sector involvement in the management of public infrastructure – through to the introduction of the Partnerships Victoria Policy and its implementation over the past decade.

The Victorian PPP tender process has historically been effective in generated the competitive tension needed to deliver much cheaper design and construction pricing at better quality than other forms of procurement. As a result, the Victoria policy platform has been utilised by some other State Governments to model their approach to infrastructure procurement.

The overall strength of the Victorian infrastructure market is also evidenced by the take-up of its PPP infrastructure procurement model by various government bodies in Australia and overseas. For instance:

- It is generally considered in the PPP market that the Victorian policy framework of Partnerships Victoria formed the basis of an alternative procurement approach by some of the larger Canadian provinces;
- The adaptation, in the main, of Partnerships Victoria policy framework into Infrastructure Australia's National Public Private Partnership Policy and Guidelines.

Skills Development for Effective Decision Making

The strength of the Victorian infrastructure platform can be seen in the skills base, expertise and decision making that have emerged in both the public and private sectors.

The ability of Victorian PPPs to harness private sector skills to deliver infrastructure has been widely acknowledged and can be seen in the delivery of a string of world class public facilities. Here the Victorian County Court, Southern Cross Station and Melbourne Convention Centre have all been recognised for their architectural excellence and functional outcomes.

The skill set of the public sector has also been developed through the assessment of private sector PPP proposals which address long term risk of key assets on a whole-of-life basis. It is also developed through the engagement with the private sector during the delivery and operational phases of the project under a meaningful partnership which looks to achieve optimum outcomes for the infrastructure and its users; a partnership that results in the development of expertise, new ideas and new processes.

In relation to private sector skills, the assumption by the private sector of design risk, construction risk, and whole-of-life delivery and facilities management risk has resulted in improved risk monitoring, risk mitigation, and execution skills being developed by a wide range of private sector industry players.

The cross pollination of skills and an improved understanding between the public and private sectors has been a successful outcome of the Victorian PPP market.

Facilitating Effective Decision Making Post GFC

The GFC has had a major impact on the infrastructure market across the globe. Notwithstanding the challenges associated with the aftermath of the global financial crisis and its affect on financial markets, delivery of public infrastructure is one of the key economic and social issues facing Victoria.

Here the Public Private Partnership (PPP) model remains a valuable and important procurement method of infrastructure for Governments; a critical tool to delivering infrastructure. The benefits of PPP projects for Government continue to justify private sector participation and there is a growing body of research that endorses PPPs as a value-for-money procurement approach¹.

The question is how the PPP market can continue to contribute to the pool of expertise and effective decision making for the delivery of infrastructure.

It is critical the State's management and administrative structures facilitate the retention of recent "corporate memory" of executives and consultants and enable them to apply lessons learnt to upcoming projects. The infrastructure market is constantly evolving and State project teams need to be exposed to the most recent procurement and delivery initiatives on a constant basis or risk their knowledge becoming dated.

It follows that in many respects, effective decision making on significant infrastructure will rest on the exposure of State executives and consultants to a steady stream of projects; completing the procurement of PPP projects will inevitably be where valuable and practical expertise is developed and transferred across the market.

¹ Performance of PPPs and Traditional Procurement in Australia (Allen Consulting Group, University of Melbourne, November 2007) and In Pursuit of Additional Value: A benchmarking study into alliancing in the Australian Public Sector (Melbourne University, Evans & Peck on behalf of the Inter-Jurisdictional Alliancing steering Committee, October 2009)

In short, the key to skill development and effective decision making is in the continued development of a sophisticated market for infrastructure delivery, including under a PPP model. A regular pipeline of projects will benefit expertise in both the public and private sectors in and so, negate the "brain drain" which has started to see Victorian intellectual capital eroded by its attraction to other markets;

An Active Market

Our focus in this section is on the impact a strong deal flow can have on the development of expertise and effective decision making. In particular we can reference the Ontario market and Plenary Group's experiences in Canada following the creation of Infrastructure Ontario. This North American market, which initially took a lead from the Victorian PPP policy framework, has grown at a faster rate in recent years delivering many more public infrastructure projects.

Infrastructure Ontario houses the individual public sector disciplines of finance, construction, project management and asset management and applies expertise gained over many projects to determine the best form of infrastructure procurement and the most efficient tender process.

Here it is instructive to consider the deal flow in Ontario relative to Victoria. Infrastructure Ontario commenced in 2005 and has itself undertaken more than 50 PPP projects. Over the entire Province of Ontario, more than 80 PPP projects are listed on Canadian Council for Public-Private Partnerships website data base. In comparison, Partnerships Victoria was launched five years earlier in 2000 and now lists some 22 PPP projects in various forms of delivery and operation - close to four times the number of projects undertaken in Victoria (22).

Victoria has been indicative of the Australian PPP market in general which has gravitated in recent years to a smaller number of very large PPP projects. At the other end of the spectrum, the Canadian Province of Ontario has put together an aggressive infrastructure agenda and recognisable deal flow that has been diverse in project size.

In achieving a continuous pipeline this market has achieved a number of flow-on outcomes:

- growth in experience and expertise within Infrastructure Ontario has allowed the Government the confidence to streamline the bidding process and reduce costs for both the Government and bidders;
- attracted significant international and local expertise to the Ontario economy that has filtered through the market; and
- created certainty in the public mind that the infrastructure gap is being closed.

Importantly, the Ontario deal-flow has seen enormous investor interest in that PPP market which has, in turn, assisted price competition for financing and helped the local bond market rebound (still largely dormant in the PPP market in Australia post GFC).

Plenary's own project by project experience is of a significant private investor interest from the Canadian pension funds, investing in infrastructure as a separate asset class. These funds have been active players in the Canadian market for over a decade investing in large infrastructure projects in sectors exhibiting significant governmental or regulatory barriers to entry as well as industry sectors and businesses exhibiting strong, stable cash flows linked to inflation or underpinned by long-term contracts.

Because the market is deep it warrants significant investment by Canadian Pension Funds who have responded to the market opportunities to invest in dedicated expertise that has grown up around the local infrastructure pipeline.

Summary

The Victorian infrastructure market has been at the forefront of the PPP procurement in Australia for over a decade, exporting its policy framework and procurement expertise to other Governments in Australia and overseas.


The State has delivered major infrastructure partnership projects between the private and public sector that have not only delivered value for money to the taxpayer but, importantly, expanded the expertise of the industry participants (public and private sectors). This knowledge feeds directly into the pool of project decision making experience and has seen overall growth in the transferral of skills and knowledge between the two sectors.

The single largest determinant of increased knowledge leading to effective decision making for the delivery of significant infrastructure is a dynamic market place and strong pipeline of projects. This will create certainty and provide the platform to attract the range of specialist expertise required

In a competitive national and international market, Victoria can continue to grow an infrastructure environment where decision making expertise and skills are retained in the State, rather than risk a 'brain drain' to other markets.

Plenary has seen the benefits of a strong PPP deal flow on decision making, skill development and investment attraction in other jurisdictions and sees the communication of a PPP infrastructure pipeline to the market as a critical step.

Yours sincerely



Kelvyn Lavelle
Executive Director, Corporate Affairs

Note: Plenary Group

Plenary Group was founded in Australia in 2004 as a specialist PPP development and investment business looking to apply the knowledge and experience of its founding Directors in the delivery of social infrastructure to a pipeline of projects in Australia. It subsequently commenced operations in Canada in 2005.

Plenary Group is the largest dedicated PPP business in both Australia and Canada. Plenary Group Australia has offices in Melbourne, Sydney, Adelaide and Singapore while Plenary Group Canada has offices in Toronto, Vancouver and Edmonton.

Plenary Group has successfully closed 19 PPP projects with a market capitalisation of some A\$9.5 billion across Australia and Canada.