



SMART CITIES PLAN

SUBMISSION

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ABOUT US



Consult Australia is the industry association representing consulting firms operating in the built and natural environment sectors. Our member firms' services include design, engineering, architecture, technology, survey, legal and management solutions for individual consumers through to major companies in the private and public sector including local, state and federal governments. We represent an industry comprising some 48,000 firms across Australia, ranging from sole practitioners through to some of Australia's top 500 firms with combined revenue exceeding \$40 billion a year.

Consult Australia is a proud member of the Australian Sustainable Built Environment Council, the Australian Services Roundtable, and the Australian Chamber of Commerce and Industry.

Some of our member firms include:



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INTRODUCTION

Consult Australia welcomes the opportunity to comment on the Smart Cities Plan as a long-term advocate for the establishment of smarter and more innovative polices supporting more productive, liveable and sustainable communities.

As highlighted in the Plan more than 80 per cent of Australia's population lives in cities that collectively generate more than 80 per cent of our economic wealth. Many of our future infrastructure challenges are unique to cities, as the places with the greatest concentration of population, and where quality of life issues caused by inadequate infrastructure will be most acutely felt in the future.

While these issues fall within the wider framework of infrastructure and planning decisions, we submit that having a designated cities policy is an important element of the policy response to the wider infrastructure challenge. By planning and delivering better cities, we can improve the quality of life for those Australians who live there.

In particular, we believe the Cities Taskforce, operating within the Department of Prime Minister and Cabinet is important and its role in supporting optimal decision making around urban infrastructure is vital.

The Smart Cities Plan is crucial to addressing Australia's infrastructure challenge: a continuation of current practices will fail to achieve the outcomes needed for Australians to enjoy quality of life outcomes, and the economic benefits that our infrastructure helps achieve today.

The first challenge, identified in the plan, is to ensure that the infrastructure debate involves all stakeholders, including all tiers of government, the private sector and the community. Additionally considering alternative methods of financing and utilising partnerships in the private sector will help ensure infrastructure projects are delivered with the best possible return to government and the taxpayer.

Without this coordinated approach to investment decisions and infrastructure delivery the true potential of our cities cannot be met. Ensuring that governments take a longer term view will ultimately benefit all Australians and make our cities more liveable.

Furthermore, with an economy in transition and rapid changes in technology it is critical that government plan early and consider how best to work with the private sector where appropriate. If we are to maximise the benefits brought by the inevitable technological changes and want to ensure that the infrastructure we are planning today is positioned to accommodate new models for our cities such as passenger and freight movement, changes in consumer behaviour and new markets for services that have not existed previously.

SMART INVESTMENT

1. Prioritising projects that meet broader economic objectives

Critical in assessing the merits of public investment in infrastructure is the application of broad cost-benefit analysis. Increasingly infrastructure projects are assessed individually, over relatively short time-frames and viewed as 'ready to proceed' only where utilisation is close to capacity. The benefits of a longer-term view of infrastructure investment, and governments' vital role in facilitating those longer-term benefits as part of a vision for our cities and regions, needs to be re-established.

Governments need to consider less easily quantified benefits that come with some forms of infrastructure investment. The transformation achieved in Bilbao through the construction of the Guggenheim Museum is often quoted and in some cases poorly emulated. Similarly, the Sydney Opera House demanded unforeseen investment by the governments of the time. But there is no doubt that this is a similarly 'transformational investment' that has been recouped both economically and culturally in the decades that have followed—though this would not likely have been reflected in any cost-benefit analysis.

The criteria governing cost benefit analysis are generally not well understood by the public and are also subject to change and influence. Good governance is critical to resolving this issue, as outlined above. Equally, as already noted, where appropriate, cost benefit analysis should be conducted across multiple projects, and have regard to wider economic benefits that come through agglomeration, jobs growth, and the delivery of more sustainable and liveable communities. It is this approach that has been successfully applied overseas, for example in London through the delivery of the Crossrail project, and which has resulted in significant new private sector investment.

2. Treating infrastructure funding as an investment wherever possible & 3. Getting involved early in project planning and business cases

A major challenge in infrastructure delivery is the shortage of investment-ready projects developed through robust integrated strategic planning, community engagement and participation, environmental impact analysis and business case development. Too often the early design of projects is rushed to market, developed reactively against pre-made decisions only when funds are made available for construction. Consequent compromises in design, or poor overall business case development lead to information asymmetries in decisions to proceed, and/or a failure to achieve social licence to operate, and in some cases project cancellation and a perception of increased sovereign risk with potential investors.

There is widespread agreement amongst all governments that infrastructure decisions should reflect long-term infrastructure planning. Consult Australia recommends the development of thirty-year infrastructure plans reviewed every five years.

To realise this vision however, dedicated funds must be made available to support feasibility studies, community engagement and public participation, business case development, cost-benefit analysis (including assessments of wider economic benefits) and environmental impact analysis.

Without this investment in the long-term infrastructure pipeline, at the earliest stages of project conception and development, the ability for governments to identify investment ready projects when funds become available is significantly diminished.

It is critical that well-conceived projects can quickly move to construction to deliver best possible value for money outcomes and productivity benefits.

Consult Australia recommends: A dedicated innovation fund, separated from pre-determined infrastructure projects, to support the development of new investment-ready infrastructure through: feasibility studies, community engagement and public participation, business case development, cost-benefit analysis (including assessments of wider economic benefits) and environmental impact analysis.

The fund should encourage innovative solutions to problems at the earliest stages of identification. Early engagement by experts, supported by such a fund can often deliver governments with more cost-effective solutions than those developed without appropriate analysis and evidence. Not every solution investigated through the fund should result in investment-ready projects, but sometimes the decision not to proceed will deliver greater benefits than an ill-informed decision to build.

A deep pipe-line of projects ready for investment and construction as soon as the funds are available will deliver a powerful economic tool in the event of a more significant economic downturn.

4. Increasing investment

A key challenge highlighted in the Smart Cities Plan is the need to find new sources of funding for infrastructure, as state and federal budgets are increasingly constrained in their ability to fund projects. While government spending will remain an important part of the mix, user charges and other funding sources need to be considered to ensure that Australians continue to enjoy world class infrastructure. More diverse funding sources will also serve to ensure a smoother pipeline of works, overcoming the boom/bust cycle that has characterised infrastructure investment in years past. In the longer-term this will lower construction costs for future investment when an upswing in demand will require skills lost in the downturn.

An integrated approach to funding & financing

Consult Australia has long advocated for innovative ways of funding and financing infrastructure projects in Australia. Considering new and improved mechanisms for paying for infrastructure to support the vital role it plays in boosting productivity.

Taxes are no longer enough to pay for the infrastructure we need to maintain our high standard of living. Governments need to consider new and improved funding mechanisms, such as fairer, cost-reflective road pricing, value capture, alongside ongoing asset recycling.

Government must overcome longstanding resistance to newer ways of paying for things, acknowledge that there is no 'one size fits all' solution, and understand that any new arrangement must be equitable while still raising the level of funds needed. The recognition of the vital role of infrastructure investment in boosting productivity must be continued.

Alongside effective funding streams, innovative financing mechanisms should be structured to support infrastructure projects and to deliver more equitable, value-for-money outcomes for governments. Public Private Partnerships, including for example value capture and bond banks, provide new opportunities to leverage greater private sector investment across a range of projects.

Consult Australia does not consider any single financing or funding policy will by itself provide a stand-alone solution to the substantial challenge for governments, however all options present opportunities for reform.

Leveraging government balance sheets to drive productivity

Increasingly challenging for governments, where budget bottom-lines have become more politicised, is the identification of projects worthy of public financing. In this context governments must reconsider the extent to which surplus-driven budgets and unquestioning dedication to AAA credit ratings limit opportunities to invest in long-term productivity-enhancing infrastructure, particularly at times when interest rates are low such as at present. The 'fiscal populism' that now characterises governments' approach to debt is at the expense of much-needed infrastructure investment.

The connection between decision making supporting infrastructure investment and the willingness for governments to leverage their credit rating should not be underestimated. Ultimately an approach to public infrastructure investment, supported by transparent, independent, expert advice, is essential to support a more sophisticated debate about budget policy. This approach will deepen the public's understanding of the benefits of government debt in funding public infrastructure, and apply a high level of rigour, accountability and transparency to the decision making process.

Consult Australia recommends: New funds for infrastructure must urgently be released as an investment in future productivity.

Value capture

Overcoming institutional resistance to more innovative policy solutions will be critical to delivering new financing mechanisms. It is important to realise that not every tool available to governments will be appropriate for every project. Nonetheless steps should be taken to ensure all options are available so they can be used where appropriate.

In the case of Value Capture, institutional resistance, and/or a lack of awareness of potential benefits may be one of the major barriers to implementation. Consult Australia has identified numerous opportunities and lessons that can be learned from overseas experience in successfully implementing value capture mechanisms. Two editions of our report on value capture, published jointly with SKM (now Jacobs) in October 2013 and AECOM in June 2015, set out success factors and a roadmap for value capture in Australia, establishing important reference points for a whole of government approach.¹

Consult Australia recommends the Australian Government continue its consideration of opportunities to incentivise value capture mechanisms as an element of infrastructure financing to deliver new infrastructure and urban regeneration.

Asset sales

Consult Australia has long argued for asset sales to release government funds for new infrastructure investment. Earlier announcements by the Commonwealth Government providing tax incentives supporting assets sales by state governments are a positive step. The creation of Restart NSW from funds

¹ Consult Australia & Sinclair Knight Merz, (2013) *Capturing Value* and Consult Australia & AECOM (2015) *Value Capture Roadmap*. See www.consultaustralia.com.au

hypothecated from the lease of Port Botany and Port Kembla is an important model that can be replicated across jurisdictions.

We were disappointed to see the return of over \$850 million in unused funds from the Government's Asset Recycling Initiative in the Federal Budget; furthermore it is disappointing not to see savings from previous commitments to infrastructure redirected to reform initiatives. Consult Australia is of the view that these funds could help improve business case development for new projects, or accelerate pilot studies into alternative funding arrangements like road user charging, or value capture, to charter difficult challenges more broadly in the infrastructure arena.

Consult Australia urges the continued commitment to asset recycling through tax incentives and related policy by the Australian Government.

Road user charging

Governments should start moving towards a better model of road pricing that is more efficient – raising a greater amount of funds more equitably. Any changes to road user charging need to be done in a way that is equitable, recognising that drivers in certain locations such as outer suburbs or rural areas, are required to drive further with fewer public transport options.

There is no doubt the implementation of any systemic approach to user charging is a long-term goal, and again one contingent on the hypothecation of revenues to infrastructure projects. But achieving that goal is reliant on governments considering international experience, understanding the barriers to implementation and developing pilot schemes to support community engagement and understanding. The establishment of the Transport Reform Network², in 2012 bringing together over 35 key organisations with a united message, is an important step towards delivering the consensus necessary to support more ambitious policy for new funding and financing approaches.

Consult Australia recommends a public inquiry into road user charging led by Infrastructure Australia alongside ongoing support for current work seeking to establish a heavy vehicle charging trial as a first step.

² www.transportreform.org.au

SMART POLICY

1. Delivering City Deals &
2. Leading regulatory reform

Better governance

Consult Australia has long-supported the delivery of a City Deals type approach, and we welcome the Government's commitment to this model.

To facilitate the Smart City Plan, it is critical that we establish independent, expert and transparent governance arrangements for the evaluation, prioritisation and decision-making supporting infrastructure delivery across all spheres of government.

Across Australia there are a number of models now implemented supporting greater independence in the selection and prioritisation of infrastructure projects. Infrastructure Australia, Infrastructure Victoria and Building Queensland are just some of the approaches now employed.

The Infrastructure Australia Audit and Plan, alongside the Productivity Commission Inquiry into Public Infrastructure, present a comprehensive evidence base for improvements to governance arrangements supporting infrastructure prioritisation and delivery across Australia.

A long-term approach to the prioritisation of infrastructure is essential. While many infrastructure projects are prioritised through clear and rational assessment, in some cases decision making risks being misconstrued, and may appear to be driven by political exigency where no clear process or guidelines for assessment have been developed. When communities are competing for dollars, clear processes are essential to assess, rank and prioritise projects. Decisions must be robust and stand the test of changing political and economic circumstances.

At a state, territory and federal level the establishment and/or preservation of independent statutory authorities to provide expert and transparent advice to governments and industry supporting an interagency focus on all those projects that will contribute to City Deals.

These agencies and their interaction should facilitate a more informed debate across industry and the community about government priorities, supported by strong evidence, research and public advice to government published independently. Delivering an integrated strategic approach to infrastructure planning and prioritisation, they will facilitate better urban and regional development through support for a long-term pipeline of coordinated infrastructure projects, like those proposed through these deals, supporting productivity and jobs growth.

Consult Australia recommends that access to Australian Government funding or other forms of assistance (such as loans and government guarantees) for public infrastructure that is provided to local, state and territory governments should be conditional on the establishment of, and adherence to, these frameworks.

Consult Australia supports the example of how good governance can help delivery City Deals, as already provided in the Australian Sustainable Built Environment Council's submission to the Smart Cities Plan.

Planning and land use

Consult Australia believes there is an intimate relationship between funding and planning. Funding the vision, value capture and financing of infrastructure and development is as much a planning issue as it is a finance issue.

Consult Australia believes good planning provides the potential to achieve integrated, sustainable outcomes more efficiently, and provides a robust framework to guide funding, project development and delivery over a long period.

The value, cost and role of strategic planning is often less well understood by the community. The main exception to this assertion is in the face of implementation, where communities might rally to oppose a project due to its impacts on them. There is an acute need for the community to better understand the need for infrastructure and how to plan for it, as well as engage in the process that results in the plan that affects their community. This nexus between people, their level of service expectations, the associated infrastructure requirements and its costs needs to be better communicated and addressed in order to instil a clear understanding of the planning process required to best achieve optimal land use and infrastructure outcomes.

It is essential that governments support longer-term planning goals in consultation with business and the community. All governments have a responsibility to support decision making and community engagement that provides for and delivers integrated planning, land-use and infrastructure. At a national level this could be supported with a national spatial policy and plan to provide an overarching framework. A national spatial plan would provide the basis for planning and infrastructure delivery well into the future and support evaluations of supply chain links between cities and regions. Vulnerabilities and risks to our agricultural land from urban development could be assessed, alongside opportunities to diversify food supply chains and increase resilience.

Achieving social licence by valuing better community engagement

The standard and nature of community engagement around infrastructure projects has the ability to determine the project's success in terms of its acceptance and use by the public. Indeed, 'community engagement' is often identified by policy makers as an important component of good policy and program development and project delivery. However, too often, particularly when it comes to infrastructure, we see this referenced as an important 'box to tick', but with no real idea of (and sometimes no real interest in) how to meaningfully engage communities and other stakeholders effectively.

Ultimately engagement is the process by which organisations, communities and individuals connect in the development and implementation of decisions that affect them. Engagement is a tool to achieve outcomes, develop understanding, educate and/or agree on issues of concern. The process of seeking community feedback on a project is often challenging and frequently undervalued, but our understanding of how we can undertake better engagement and in turn achieving greater social licence is worthy of more attention.

In a more democratised modern society, it is more critical than ever before that the community consultation process is done right to ensure projects are not unduly delayed. To this end guidelines and resources can help to ensure that best practice community engagement occurs.

Consult Australia recently launched a *Guide to Procuring Engagement Services* and with PwC an economic *Framework for Valuing Better Engagement* on projects. Both these tools provide essential resources to support the delivery of social licence as part of any City Deal created with effective public participation.

Consult Australia recommends governments support better community engagement practices as a precondition for any City Deals. We believe the success of the Smart City Plan will rest on the effectiveness of the public participation and engagement practices supporting its implementation.

Delivering value for money through improved procurement

At a time when public finances are stretched, better procurement offers government the chance to build more for less, achieving better project outcomes with fewer delays. It also makes government agencies a more desirable client for industry to do business with, which in turn will lead to more firms competing to provide their services to government.

The 2015 report, *The Economic Benefits of Better Procurement*, written by Deloitte Access Economics on behalf of Consult Australia, found a 5.4% saving could be achieved through better procurement, together with a 7% reduction in delays and a further 7% improvement in the quality of the project (where quantifiable). Together with the supplementary Consult Australia report, *Better Buying, Better Outcomes*, a number of issues in procurement are highlighted as being key opportunities for reform, these include:

Risk Allocation

While at face value it might seem a prudent move by public sector agencies to offload project risk to their industry partners, this common practice can bring about a range of less desirable consequences. The practice of offloading risk according to bargaining power rather than the appropriateness of individual parties to manage that risk automatically means that risks won't be properly managed.

It also means that professional indemnity insurance may not respond to claims made. While firms may respond to this practice by taking a commercial risk, many enter into contracts unaware of the insurance implications of doing so, while other firms respond either by pricing that risk into their bid, or deciding not to bid for work. All of the private sector responses to this issue point to projects costing more, having delays, and less desirable project outcomes being realised

Innovation

Many professional services firms reported that public sector clients weren't always open to innovative ideas when proposing solutions to projects, despite the possibility of that innovative idea saving money, or driving the existing funding to allow for a better project outcome.

While probity concerns are a major impediment to innovation, other factors inhibiting innovation include a lack of understanding around the budget impact, or risk transfer pushing designers to over-engineer their design. Better procurement has the ability to drive greater innovation, which in turn will save money and lead to better project outcomes.

Reducing Bid Costs

A number of reports, including those released by Consult Australia, have found that the cost of bidding for work can be prohibitive, and represents a major inefficiency in the development of infrastructure. There are two major drivers behind unnecessarily high bid costs: Firstly, firms are often put in a situation of being shortlisted for a project when only one bidder has a realistic chance of success. Being "strung along" adds to the cost of bidding, when a quick "no" would be preferable.

Secondly, in the course of bidding, firms are required to demonstrate a wide range of competencies through compliance checks. When the final bid is submitted, these checks regularly comprise a substantial proportion of their bid documents, when compared to their proposal as to how they actually plan to go about the work.

Firms know that the cost of bidding is the cost of business, but ask that their partners respect this fact in designing their processes – and avoid unnecessarily asking them to incur extra costs, that ultimately will impact on the client

Furthermore, early engagement and collaboration with industry, so that government can understand what's possible, and where risks lie is prudent. Additionally we submit that Government agencies should be prepared to explain why they are following a particular procurement practice to allow for service providers to better understand the needs of their client, and increase empathy. This approach also forces clients to examine whether a particular practice is really necessary, given that it may cost them more.

Consult Australia proposes a number of recommendations to improve procurement, to the advantage of industry and government alike. We recommend that governments adopt best practice procurement as a precondition for any City Deal. This should reflect that:

- 1. Government commits to being a “model client,” in line with its commitment to be a model litigant.**
- 2. Government must invest in the skills of its procurement professionals. We have previously suggested the establishment of a Centre for Procurement Excellence to develop public sector procurement skills. A Commissioning Academy exists in the UK for exactly this purpose.**
- 3. Early engagement and collaboration with industry, so that government can understand what's possible, and where risks lie. This includes developing better briefs and reallocating resources to the front end of a project.**
- 4. Government agencies should be prepared to explain why they are following a particular procurement practice. This allows for service providers to better understand the needs of their client, and increases empathy. It also forces clients to examine whether a particular practice is really necessary, given that it may cost them more.**
- 5. Agency heads accountable for the procurement performance of their agency, to provide cover for contract managers reluctant to try newer and better ways of doing things**
- 6. Streamline compliance processes, perhaps through a central register of competencies, to reduce bid costs**
- 7. Verify brief information by public sector clients.**
- 8. Develop and apply limited liability guidelines to provide industry with certainty.**
- 9. Ensure the right mix of skills exists on procurement teams.**
- 10. Government should be aware of the implications of onerous risk allocation/ shifting – and remove those clauses that don't stack up.**

3. Measuring success

Consult Australia supports the delivery of a range of indicators to measure the effectiveness of infrastructure relative to the population that it serves. Measuring and reporting success, not as a score-card but to track progress, will incentivise long-term evidence-based policy development. A range of appropriate measures of the various aspects of quality of life is a useful and important tool to see whether infrastructure is meeting its ultimate aim, and to inform decisions about future projects and policies.

Consult Australia supports the Australian Sustainable Built Environment Council recommendation for the adoption of transparent and consistent indicators by all state and territory governments across all our major cities.

SMART TECHNOLOGY

1. Thinking of technology solutions first

It is critical that we plan early to maximise the benefits brought by changes in technology, and ensure that the infrastructure we are planning today is positioned to accommodate new models for passenger and freight movement, changes in consumer behaviour and new markets for services that have not existed previously.

For example, autonomous vehicles, now in production and subject to trials in Australia and internationally, hold the potential to radically transform the use of our transport infrastructure within shorter timeframes than those currently guiding the development of our future infrastructure networks.

The transformative benefits (increased safety, more efficient land and infrastructure use, improved mobility and social inclusion), alongside the risks and challenges are enormous, with many benefits perhaps unforeseen.

The consultation by the National Transport Commission considering how to develop the best laws and regulations for these emerging technologies is an important first step.

By being ready for that change, we can ensure that the best possible transport infrastructure is planned to accommodate what may be the most dramatic shift in the way we move around since the invention of the motor car. By being ready for technological change, rather than reacting after it happens, we can develop the appropriate infrastructure more quickly and better manage the transition.

Further investment and strategic planning is required from a whole-of-government perspective to ensure we capture the full benefits of new technology for existing and future infrastructure networks as it happens.

CONCLUSION AND NEXT STEPS

Consult Australia welcomes the opportunity to comment in response to the Smart Cities Plan and looks forward to working with the Government to help implement and advise on its key aspects. This submission has highlighted a range of issues and suggestions that Consult Australia and our membership believe can help improve outcomes for the Government as a provider of vital infrastructure in our cities.

Consult Australia recommends establishing regular consultation with key organisations to ensure the ongoing delivery of the Smart Cities Plan and associated policy reform reflects industry expertise and maximises the opportunities that come with early engagement.

Alongside the Australian Sustainable Built Environment Council, Consult Australia is uniquely positioned to facilitate consultation with the technical experts throughout our membership that will help support the government's vision for our cities.

If you would like to further discuss any issue raised in this submission, please contact our National Policy Team: Jonathan Cartledge by email at jonathan@consultaaustralia.com.au; or Ryan Bondar by email at ryan@consultaaustralia.com.au or phone: 02 8252 6711.