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INSIGHT

Building Australia Model

by David Neal

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INFRASTRUCTURE

Australia's pool of superannuation savings are ready to be deployed for major infrastructure projects to protect and grow the retirement savings of fund members, help create thousands of jobs and kick-start the economy following the COVID-19 pandemic.

To this end, industry super-owned IFM Investors is proposing a new infrastructure investment model – the *Building Australia Model* - to better meet the needs of governments and the public.



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How do we see the problem?

The current procurement model for large infrastructure projects is not working as well as it could be.

This is because it relies on attracting large constructors whilst limiting the role for local medium-sized constructors and long-term equity owners. When things go wrong with construction, equity providers are passive.

This effectively transfers construction and budget risk back to governments, and is resulting in substantial delays and cost overruns in some large projects. Furthermore, bidding consortia tend to be dominated by participants that exit and earn their profits shortly after construction is complete. They have little if any interest in the infrastructure asset's long-term operational performance and outcomes for the public.

IFM and industry super funds are reluctant to invest on these terms, as we don't think it's in the interests of industry super fund members or in the public interest.



What are we proposing?

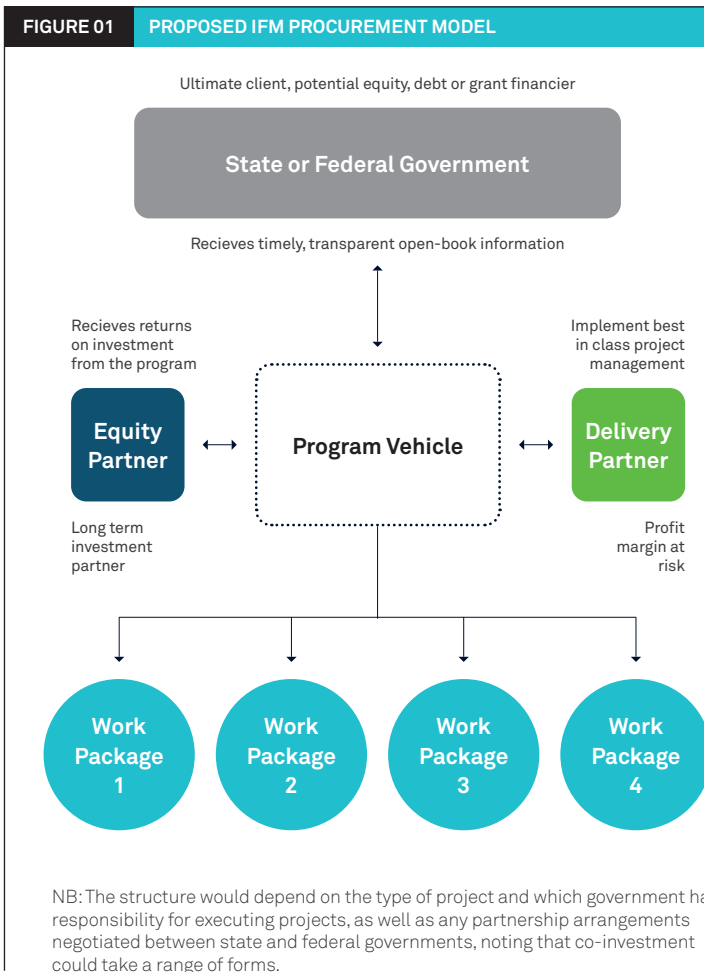
The Building Australia Model is based on the idea of governments bringing in a well-capitalised, aligned long-term equity partner early on in a project selected through a competitive public tender process. This could be IFM Investors or another private infrastructure investor – we are not asking for preferential treatment for Australian super funds.

The long-term equity partner would help governments deliver better value for money, as well as improved collaboration on design and engineering, better risk allocation and more transparency during the procurement and delivery process.

By working together sooner, this could lead to:

- breaking major projects up into smaller packages, enabling projects to be shovel-ready faster and allowing mid-tier contractors to compete in bidding processes, stimulating job creation and construction
- less risk for taxpayers, with more active management of projects by the long-term equity partner, enabling issues to be identified earlier and dealt with quickly
- more transparency and greater cooperation by jointly developing project scope, delivery milestones and project costings, and
- more effective risk transfer to the private sector, as equity partners have an incentive to ensure the project delivers a quality service to the community at a reasonable price over the long term.

FIGURE 01 PROPOSED IFM PROCUREMENT MODEL



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