

20 December 2013

Public Infrastructure Inquiry  
Productivity Commission  
Locked Bag 2, Collins Street East  
MELBOURNE VIC 8003

Dear Sir/Madam,

We write to you in relation to the issues paper for the Public Infrastructure Inquiry.

**Executive Summary:**

Although there are a number of issues relating to construction costs that make South Australia's economic infrastructure more unaffordable which in turn leads to longer delays in getting projects off the ground, issues of funding and financing are equally important. It is critical that Governments at both a State and Federal level, in conjunction with the private sector, develop more innovative delivery models which appropriately separate and price components of risk to the party best able to manage them.

While Governments are not the only proponents of economic infrastructure, they are the natural leader in developing road and public transport infrastructure, and as such need to properly engage with the private sector, in particular superannuation funds, to participate in public private partnerships. There is no one size fits all model for delivering economic infrastructure and only a collaborative approach between Governments and the private sector can result in models which appropriately apportion risk and result in sustainable outcomes for all involved. It is Business SA's view that the State Government must be open to all types of infrastructure funding, including user charging, and needs to engage in good faith with the private sector to find models which provide adequate returns for the private sector concomitant with an economically efficient outcome for Government.

**Background:**

Business SA is interested in exploring all funding and financing options to address South Australia's infrastructure needs, particularly in preparation for Holden's closure in 2017. Business SA has just completed its 2013 pre-election survey of members and 71% of respondents agreed that the State Government should give proper consideration to all types of infrastructure funding models, including user charges, which may result in the cost of infrastructure being shared by Government and the users.

Although the South Australian Government's current policy position opposes any form of user charge funding, Business SA has evidence to support a change in direction amongst business and a recognition that the time has come to take a realistic path to ensuring that required economic infrastructure is delivered in an appropriate timeframe.

Business SA provides the following comments in support of our position:

1. The South Australian Government has recently released a 30 year transport plan and while Business SA welcomed the plan we have concerns as to how the plan will be properly funded and delivered.

We note that of the \$36 billion in transport infrastructure funding required over the next 30 years in South Australia, \$29 billion is estimated to come from State and Federal Governments. This is underpinned by the assumption that funding will continue to be available at the same levels of recent years, which would provide an estimated \$23 billion, leaving a \$6 billion shortfall.

The fundamental issue with this assumption is that both State and Federal Governments were in a vastly different fiscal position some 5 years ago prior to the global financial crisis (GFC). Prior to the GFC there was the leverage to borrow substantially to invest in infrastructure which could be employed once Australia's economy faced strong headwinds from abroad. But now, both the State and Federal Governments are saddled by record net debt and Business SA has serious doubts as to whether Governments can continue to borrow for infrastructure at levels of recent years.

Further, for the majority of the previous decade South Australia was able to borrow against a AAA credit rating but now faces a AA rating (stable outlook), the worst Standard and Poor's credit rating amongst the States. This will further hinder South Australia's ability to borrow for required transport infrastructure until fiscal confidence can be restored.

2. Feedback from Business SA's members regarding what is required to increase private sector (including superannuation) investment in greenfield infrastructure confirms that there is not a one size fits all model in terms of how infrastructure should be funded.

What is clear however is that the market seems to be failing to produce infrastructure delivery models which appropriately apportion risks to the party best able to manage them. It is not a lack of desire preventing the private sector from being more involved with financing and or funding infrastructure, but they can realistically only bear a certain level of risk given their responsibilities to either shareholders or future retirees.

3. From a construction perspective, there are also issues around how risk is best managed between Governments and the private sector which seem to indicate the market is failing to strike the right balance. This is one of the reasons why construction costs are so high as contractors are having to factor in too high a risk premium to allow for the fact that they are subject to cost overruns from risks that are beyond their control.

For example, where land acquisition is required for an infrastructure project and the risks associated with any delays are beyond the control of a private sector partner, the Government should be responsible for any cost overruns as a result. On the contrary, the private sector partner should be better placed to manage any costs resulting from labour issues and as such should shoulder that risk.

4. Although there may be an existing reluctance on behalf of superannuation funds to finance or fund greenfield infrastructure due to some well documented toll road failures such as Sydney's Lane Cove & Cross City Tunnels and Brisbane's Airport Link, Governments should be doing more to pilot innovative models which encourage these funds to become more directly involved in getting infrastructure off the ground.

While it might be a case of working with smaller projects to get the right model, and accepting that superannuation funds are better placed as a long term owner rather than developer of infrastructure, there is too significant a pool of funds not to keep trying to engage the superannuation sector to resolve their issues regarding risk allocation.

Fundamentally there is a willingness of superannuation funds to invest in Australia's economic infrastructure but both State and Federal Governments must become smarter about how they engage the sector to provide models which suit the investment characteristics of a superannuation fund.

5. Governments are generally able to identify economic infrastructure requirements, but prioritising these infrastructure needs has becoming increasingly political, particularly in South Australia. For this reason, Business SA has been calling for an independent statutory authority to assess and prioritise South Australia's infrastructure requirements based on cost/benefit analysis. In our recent pre-State election survey of members, 77% of respondents agreed that an independent authority with appropriate expertise should be established to advise the State Government on infrastructure project priorities based on return on investment to the State.
6. Business SA makes the following comments in relation to the impact of existing industrial relations legislation on infrastructure construction costs:
  - The current provisions in the *Fair Work Act 2009* are adding unnecessary costs to businesses commencing new infrastructure projects given the requirement for unions agree to greenfield agreements
  - Businesses should be able to make pre-start agreements for new projects without having to negotiate with a union(s) and be pressured to agree to inflated wage and condition claims
  - The *Fair Work Act 2009* should be amended as per the previous provisions in the *Workplace Relations Act 1996* to allow employers the option of a non-union greenfield agreement that would be tested against the relevant modern award, minimum standards and a 'no disadvantage test'. In this way when workers are employed, they are not disadvantaged.

## **Who We Are**

As South Australia's peak Chamber of Commerce and Industry, Business SA is South Australia's leading business membership organisation. We represent thousands of businesses through direct membership and affiliated industry associations. These businesses come from all industry sectors, ranging in size from micro-business to multi-national companies. Business SA advocates on behalf of business to propose legislative, regulatory and policy reforms and programs for sustainable economic growth in South Australia.

Should you require any further information or have any questions, please contact Rick Cairney, Director of Policy, Business SA on (08) 8300 0060 or [rickc@business-sa.com](mailto:rickc@business-sa.com).

Yours sincerely



**Nigel McBride**  
**Chief Executive Officer**