

133 Darley Road
RANDWICK NSW 2031

17 January 2014

Peter Harris Chairman
Public Infrastructure Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Sir

SUBMISSION ON SCOPE FOR REDUCING THE EXPENDITURE COSTS OF PUBLIC INFRASTRUCTURE

This Submission is in response to the Productivity Commission (PC), undertaking a broad ranging inquiry into funding and financing and reducing costs associated with the provision of economic infrastructure, and seeking public comment. This submission focuses on the scope for generating productivity improvements, the role and objectives for alternative funding and financing, reducing risks to Government and proposing a way to improve decision making and implementation.

Background

In December 2012 Rozelle Air Space Pty Ltd (a company formed by the authors) made an unsolicited proposal to NSW Government to develop the air space, Air Space Development (ASD), above the proposed light rail stabling facility (approx 1.8ha) at Rozelle. The concept was to turn the site from being solely a parking and maintenance depot for light rail carriages into an exceptional community development with sound financial value which would pay for the stabling infrastructure construction. This proposal was in line with the benefits perceived by the NSW Government in its Legislative Assembly Committee for Infrastructure and Transport inquiry into the Utilisation of Rail Corridors - released November 2012, Attachment 1.

In the lead up to the Centenary of Federation in 2001, the development of Federation Square in the Melbourne CBD offered a unique opportunity (the chance to celebrate ideas of 'identity' and 'place') through a much needed civic and cultural space. Over the last two hundred years the site had been home to the city morgue, a fish market, corporate offices and rail yards. Federation Square is the size of a city block, 3.8ha, and is built on top of a working railway. The construction of the deck beneath Federation Square is one of the largest expanses of railway decking ever built in Australia. It took twelve months to complete, with structural work undertaken during breaks in the train timetable in the early hours of the morning.

St Leonards Railway Station located some 5km from the Sydney CBD was the oldest railway station on the North Shore Line opened in 1890. In 1999 the station was moved 400m across the Pacific Highway and the space above the station was developed into the St Leonards Forum. The Forum is built over the railway station and comprises three commercial office buildings, two residential towers (one 38 stories high) containing 782 apartments, a Coles Central mini-supermarket, and 34 food and retail shops. Good public transport attracts people to St Leonards for work. It is a place of interchange between various modes of transport. It functions as an important commercial centre distinct from Crows Nest and the North Sydney Centre.

These are examples of the possibilities of ASD above government owned transport infrastructure in Australia. There are many more International Examples. ASD provides productive enhancement to economic infrastructure.

Specifically ASD provides services to individuals, households and transport users but it is also social infrastructure which satisfies community needs for education, public housing and health. The main feature of ASD is that it would enable unscheduled revenues to be generated providing funding of additional infrastructure projects either as a capital injection from direct private funding or through asset long term lease/concession agreements.

Issues

ASD is an opportunity of national interest. Governments in any jurisdiction can secure optimum utilisation of existing State/Territory owned lazy assets through many types of development over transport corridors predominantly those adjacent to appropriate transport nodes. An example of the amount of funding available to Government through the delivery of ASD is Attachment 2.

Ownership means that governments have a primary role and responsibility for deciding whether or not the infrastructure is provided, the source of revenue stream to pay for the infrastructure and the concession period. This responsibility also enables standard policy and procedures to be developed by governments to facilitate the opportunities and gain maximum public benefit.

It would be wrong for Government to assume that opportunities can only be identified by government agencies. ASD is an ideal way to tap into private sector developer innovation, initiative and inventiveness. To this end Government needs to play the key role in identifying possible sites, providing a competitive and productive market to determine pricing and to take into account the broader public needs. In this regard, PC has the opportunity to encourage jurisdictions to devise incentive schemes, to enable realistic and attainable focus on productivity improvements by the development of otherwise lazy government assets.

Scope for reducing costs to governments

Planning and regulation, fully supported by cost benefit analyses can provide a leading marketing mechanism for ASD. None of these measures are in place at present. In NSW the only mechanism to initiate private investment is through the Unsolicited Proposal procedure. This approach has not been greatly successful in the past because of the conflict of site ownership.

Governments could commission studies to identify ASD opportunities within States and Territories. These could be coordinated by the Federal Government through processes similar to the AusLink studies and the information developed could be shared by all government agencies. The focus would be in identifying likely sites, prioritising their potential and quantifying both the economic and social return on investment to government.

Government agencies should then be set up to assist the management of the delivery on priority projects sanctioned and possibly partially funded by the Federal Government based on their improved productivity and return on investment to the agencies. Delivery by the private sector in partnership with the agencies should be encouraged. The private sector is more likely to identify higher financial returns which will contribute more to the development of a greater amount of public economic infrastructure, whilst the public agencies can ensure social benefits.

Private financing reduces the cost to government and allocates the construction and commercial risks appropriately. Governments can support the private sector through assisting with planning and regulation and the testing of return on such contributors to the development as public housing and relocation of government offices. Government in partnership with the private sector should endeavour to reduce the overall risks to the project and the cost of running its own business.

The role and objectives for alternative funding and financing

The role for funding and financing for ASD differs from the role for direct sale of government owned infrastructure such as Ports or Power Generation and Distribution Systems. Instead of engaging teams of financial advisors whose role is to identify the capital sale value of the asset lock stock and barrel, ASD funding is about identifying both the economic and social benefits of the Development.

An example of an approach to identify the potential revenues from the transfer of ASD rights, is provided at Attachment 2. Relevant input data still to be sourced for Brisbane, Melbourne, Adelaide and Perth. Clearly, the government role is to ascertain how much benefit can be achieved and at what risk through competitive development tendering.

The ASD objectives for funding are about setting floor space ratio and building height limits within acceptable local zoning and social amenity parameters whilst at the same time ensuring sufficient return on investment for the long term leasing of the space. The first objective is to obtain from the agreement to develop, sufficient capital in the form of a down payment or agreement to build, to develop the underlying public infrastructure. For example the development over St Leonards' station paid for the station relocation and construction.

Subsequent objectives may include:

- Private developer funding contribution to the enabling infrastructure for the operation of the public infrastructure e.g., interchanges for bus, taxi and if appropriate ferry connections
- Private developer funding contribution from lease/rental of Child Day Care, Health (medical and dental centres), Retail and Commercial outlets associated with the development
- Private developer fund allocation of part of the residential development as public housing space at unit construction cost excluding deck over development costs.
- Public contribution to the site success through part tenanted commercial or residential space, say for regional transport administration purposes or other government agency accommodation.

The financing objectives for this type of development would be about ensuring cash flow to the private developer and the public infrastructure builder at competitive rates so that the time taken to plan, approve, construction and set up operations is minimised. This may be done through a single Agent bank or financial institution coordinating the contributions from numerous lenders on the basis of their funding role. For example enabling infrastructure finance may be provided by a separate institution to residential and commercial development but because of their dependency may be managed through an agent bank.

An alternate model may be different agents to manage separable financing such as government funding of the underlying infrastructure build/upgrade/operation and management to the over deck construction and developer activity. Under these arrangements there must be a clear delineation so that either provision may proceed without dependence on the other.

Reducing risks to government

The major risks of ASD to government are:

- Forgone capital and return generating development through lost opportunities if ASD is not employed.
- The time delay and hence cost to develop public infrastructure by means other than ASD through the necessity of acquiring land.
- Coordination complications and thus loss of time and money if an ASD organisation which can act with authority and appropriately developed policy and procedures to capture asset utilisation is not established.
- The costs of delivering separable parts of public infrastructure and economic infrastructure at different times (Rozelle is an example)
- Project cost due to coordination failures between government agencies

These risks can be reduced by establishing a State/Territory single agency/organisation with responsibility for ASD. In NSW this agency is supposed to be UrbanGrowth a unit in Department of Planning and Infrastructure (DOPI) however opportunities are generated by TfNSW and this agency has no policy and procedure to handle ASD at present and no incentive to act.

Way to improve decision making and implementation

Government interagency decision making has always been a weak link in governments taking advantage of opportunities particularly related to public infrastructure. ASD will need cooperation between Planning, Transport, Housing, Construction and Regional Development, and social infrastructure agencies which may be involved as well as Treasury Agencies as a minimum. As described above, a single agency is the optimum arrangement for overall control of decision making for ASD with direct access to Premiers/Chief Ministers to approve recommendations and implementation methods.

Conclusions

ASD to utilise lazy state assets is not a new phenomenon and has proven highly successful in the past. It is an unusual delivery method and its potential is not apparently realised nor has it been realistically applied by the Government owners - to extend the leverage of productivity improvements towards infrastructure funding and related economic and social benefit.

ASD can provide an immediate method of improving the productivity of public, predominantly transport related infrastructure, and through encouraging private development, opportunities to enable the funding of that infrastructure whilst at the same time reducing the risks to government.

Government should establish a single agency organisation to identify ASD opportunities, prioritise them and identify possible delivery arrangements. This is needed to encourage the private sector to utilise its initiative, innovation and inventiveness to generate funds for the further development of public infrastructure as well as possible returns from the leasing of the air space development rights available. This will substantially reduce the cost of public infrastructure to government and provide a return which can be utilised to operate and maintain this infrastructure.

The role of ASD is to inject funds immediately into new public infrastructure initiatives and to provide some longer term returns on investments shared with the private sector. ASD does not need to be owned by the private sector but can be leased over a concession period (a 99 year lease is comparable to freehold value).

The private sector is best able to raise its own finances for property development. The public sector can assist by providing some certainty of planning and regulation and a central coordinating unit to ensure government agencies included as stakeholders in ASD are properly managed and are responsive.

There are risks in ASD to government but these can be mitigated by centralising coordination and control in each State/Territory. Single unit responsibility will improve decision making and implementation making a quicker return on investment for governments as well as the private sector encouraging further such developments.

The undersigned would be pleased to assist in the development of policy and procedures for single agency government enterprises for ASD. Our most recent submission to the Treasurer regarding this issue is provided at Attachment 3 and with reference to a recent ASD opportunity at Rozelle - Sydney.

Yours sincerely,



Robert Senior
Director Certain Planning Pty Ltd
Phone: 0419 431 064



John Hopman
Director Hopman Consulting Services Pty Ltd
0418 659 311

Attachments:

1. NSW Legislative Assembly Committee for Infrastructure and Transport inquiry into the Utilisation of Rail Corridors
2. Example to identify the potential revenues from the transfer of ASD rights
3. Submission to the Treasurer and forwarded to the Minister for Infrastructure and Regional Development