



4 April 2014

Mr Peter Harris AO
Chairman
Public Infrastructure Inquiry
Productivity Commission
Locked Bag 2, Collins Street East
MELBOURNE VIC8003

By email: infrastructure@pc.gov.au

Dear Mr Harris,

Thank you for the opportunity to make comment on the Productivity Commission's Draft Report on Public Infrastructure.

The NSW Business Chamber ("the Chamber") is one of Australia's largest business support groups, helping around 30,000 businesses each year. Tracing its heritage back to the Sydney Chamber of Commerce founded in 1825 and the Chamber of Manufactures of NSW founded in 1885, the NSW Business Chamber works with thousands of businesses from owner operators to large corporations, from product-based manufacturers to service provider enterprises. Operating through a network of offices in metropolitan and regional NSW, the NSW Business Chamber represents the needs of business at a local, State and Federal level, advocating on behalf of its members to create a better environment for industry.

Governance

The Chamber recognises the importance of selecting infrastructure projects which are in the best interests of the community. There is always a risk, and a risk of perception, that public infrastructure projects are selected on a political basis and not because they provide good value-for-money if the merits of each and every project is not independently assessed. This is why the Chamber supported the establishment of both Infrastructure Australia (IA) and Infrastructure NSW (INSW) to effectively take the politics out of infrastructure.

The Chamber notes that legislation to make changes to IA is currently under consideration. Any change to IA must ensure that its independence and its transparent decision making is supported and not diminished. Given the Commission has found evidence of poor project selection since the establishment of

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IA, we agree that scope remains to improve the framework around how the Government and IA interact. Complete independence of bodies such as IA and INSW, combined with whole and public transparency of their project analysis and decision-making, would help hold governments more accountable to their project selection process. However, it is not just about the structure of IA but also about how the Government of the day deals with IA's advice. The Commission should consider the viability of implementing a stronger framework around the Government's implementation of IA advice.

The Chamber notes and supports the Commission's Recommendation 7.1 on governance arrangements for the provision and delivery of public infrastructure.

The Chamber also supports having a strong conditional framework around Australian Government funding or assistance provided to other tiers of government for infrastructure projects (Recommendation 7.3). However, the implementation of this framework must ensure these conditions do not place an unnecessary burden on either states/local governments, nor are these conditions used as a tool for political point-scoring – both of which may impact on the efficient delivery of infrastructure projects.

Ownership

The Chamber fully supports Recommendation 2.1 for State and Territory Governments to privatise their government-owned electricity assets and major ports, subject to the existence of a robust regulatory regime for monopoly assets and appropriate processes to ensure value for money.

The NSW Government has recently awarded long-term leases for both Port Botany and the Port of Port Kembla and is currently undertaking the leasing of the Port of Newcastle and sale of electricity generation assets. These leases have demonstrated that there is a private sector appetite for owning and operating infrastructure assets.

The Chamber is also advocating for the NSW Government to sell the electricity network businesses and reinvest the proceeds into new infrastructure. As the PC inquiry report *Electricity Networks Regulatory Frameworks* concluded:

There are strong arguments for privatisation of <state-owned electricity network businesses>. There is no evidence that productivity, reliability, quality or cost performance of private sector electricity network businesses is worse than their public sector equivalents. To the contrary, the evidence in

Australia and internationally suggests that such private sector enterprises are more efficient.¹

Recycling Assets

We note the Commission's comments about 'recycling assets'. We agree that the decision to privatise infrastructure should stand up to scrutiny in its own right and is separate to the decision to invest in new infrastructure projects.

However, it is worth noting that sufficiently large pockets of the community do believe investment in new infrastructure is in their interest, and therefore governments may only receive a mandate to sell infrastructure if they hypothecate the proceeds of that sale into efficient investment in new infrastructure. As long as privatisation and investment decisions are made through a lens which properly evaluates costs and benefits, recycling capital arguments can be a valuable communications tool for governments to use.

Funding

User pays

We support greater discussion on opportunities for user pays models to be used in infrastructure projects. It is clear that governments providing full funding of public infrastructure projects is not efficient nor is it sustainable. While there may be some community opposition, it is important for these discussions to be had so that the community at large becomes more comfortable with the concept.

While it is contentious, a debate about an increased level of user pays for road users is absolutely critical. Currently, user pays is applied to road users in a highly ad-hoc manner. Clearer strategies and initiatives drawing on world's best practice road pricing which promotes efficient use and investment of road infrastructure should be considered.

Lessons from the COAG Road Reform Project should be considered in a discussion concerning light vehicles, and the Chamber believes the following principles should be incorporated in the design of a road pricing scheme:

- Changes to the road pricing regime should be revenue-neutral i.e.

¹Productivity Commission (2013) *Electricity Network Regulatory Frameworks*, p. 25.

corresponding changes to excise charges would need to occur.

- Changes to road charging would need to occur in concert with changes to road funding models, including hypothecation of revenue, to ensure that more efficient investment in road infrastructure occurs.
- There must be a clear policy purpose behind the scheme – policy makers would need to ensure the scheme is designed to increase efficiency of road use charging and funding, rather than to cost environmental externalities for example. The costing of congestion into a road use charging scheme would need to be considered in much more detail.
- Significant consideration of equity issues needs to be reflected.

Value capture

The Chamber fully supports governments considering other funding methods such as looking at adjoining property development and developer levies.

The Chamber sees property development as a valuable way to capture value of infrastructure projects. A clear example of this is utilising the air space above and land adjacent to rail corridors in metropolitan areas. The additional revenue streams from this type of development could offer greater value-for-money for an infrastructure project, which may make the difference between a rail infrastructure project being built, and it not being built at all. There are also additional benefits to such development such as promoting transit-oriented development which can provide both economic and social benefits. However, this is not a method which can be used across all infrastructure projects as its efficacy is dependent on the location and siting of the infrastructure.

Conclusion

Thank you for the opportunity to comment on this Inquiry. Please contact Larissa Cassidy if you have any questions.

Yours sincerely,

Paul Orton
Director, Policy and Advocacy