



Australian Government

Office of the Infrastructure Coordinator

**Office of the National Infrastructure Coordinator**

Submission to the Productivity Commission Inquiry into  
Public Infrastructure

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## 1. Introduction

1. The Office of the National Infrastructure Coordinator ('the Office') welcomes the opportunity to comment on the Productivity Commission's ('the Commission') issues paper on public infrastructure. The Commission has identified a number of major challenges currently affecting the ability of governments to encourage private sector funding and financing of public infrastructure projects, including factors which affect the cost and delivery of such projects. These challenges accord with the Office's own analysis.
2. The Office supports policies and mechanisms aimed at improving the efficiency of infrastructure markets to facilitate private investment. To this end, the Office endorses the consideration of fundamental changes to existing models of infrastructure provision that would see the greater application of beneficiary or user charging. The Office also believes that part of the solution to the funding challenge will be reforms that allow for the prudent sale or long-term lease of government assets to the private sector to assist in bridging the impending fiscal gap confronting Australian governments.
3. Infrastructure funding and financing cannot be reviewed in isolation from broader institutional reforms that are needed to enhance decision-making processes for infrastructure investment. With this in mind, the Office recommends that the Commission adopt a comprehensive approach to investigating reforms that takes into account the need to get the policy settings for long term national planning and prioritisation of infrastructure projects right, in addition to resolving the issues around the funding and financing of those projects.
4. The 2013 National Infrastructure Plan prepared by Infrastructure Australia identified a number of important aspirations and targets that may be useful in guiding infrastructure investment and reform. Contained within the Plan are a clear set of actions that are needed if Australia is to take advantage of the opportunities offered by the growth of the Asian economics over the next half century. The suggestions made in this submission are consistent with the Plan.
5. There is a need to ensure accountability for the performance of infrastructure operated by the public sector as it relates to the cost of provision and quality of service. Public reporting against benchmarks for physical performance and asset condition, for example, could be particularly important for those parts of our infrastructure which do not have adequate user charges or commercial incentives to drive efficient outcomes. Without such reporting, there is a risk of under-provision of services and potential inadequate asset renewal. Conversely, it may also lead to over-investment in some locations, thereby imposing an opportunity cost. Holding public sector decision makers more accountable for performance may be one mechanism for improving outcomes.

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6. Underlying the Commission's inquiry is the reality that governments at all levels face considerable fiscal constraints which impact on their capacity to invest in infrastructure. Projected demographic changes are expected to exacerbate funding challenges, with governments further inhibited by a diminishing taxation to GDP ratio<sup>1</sup> and the need to balance investments in other policy areas.
  7. Against this backdrop the Office believes there are already signs that Australia's infrastructure is under pressure. For example, congestion remains a problem in our cities, access to our ports is constrained in various locations, and water quality in some regional towns fails to meet relevant standards. While estimates of the so-called 'infrastructure deficit' vary, taking the number of unfunded economic infrastructure submissions received by Infrastructure Australia as a starting point the deficit currently stands at over \$80 billion.
  8. Given the critical role the efficient use of economic infrastructure has in promoting national productivity and economic growth, the consequences of not taking action are serious. Infrastructure materially affects Australia's competitiveness and the wellbeing and living standards of all Australians. In this context, the private sector has an increasing part to play in the provision of public infrastructure. The appropriate use of alternative funding and financing models will go some way to attracting much needed additional private investment.
  9. This submission will not respond directly to each question posed in the issues paper but rather will address a number of key themes the Office deems necessary to ensure the effective delivery of infrastructure services over both the short and long term. In structuring this submission to provide the Commission with comments that will usefully assist it in fulfilling the inquiry's Terms of Reference this submission will consider:
    - Infrastructure funding and financing
    - Long-term planning and project selection
    - The cost of infrastructure projects.

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<sup>1</sup> See John Clark and Adam Hollis, 2013, Tax-to-GDP ratio - past and prospective developments, *Australian Treasury Economic Roundup*, Issue 2, pp15-34

## 2. Infrastructure Funding and Financing

10. Major public infrastructure has traditionally been funded by governments. In the current fiscal environment, that model needs to change. Australian governments at all levels face considerable constraints on their ability to invest. A general aversion to government borrowing and attempts at maintaining or achieving AAA credit ratings are two ongoing barriers to government investment – particularly for some local and state governments.<sup>2</sup>
11. There are many possible funding models available and the Office suggests that the Commission could begin by examining, for example, the applicability of landholder levies, tax increment financing and value capture from government land. Any investigation into alternative funding models must necessarily entail a consideration of how the alternative models can be applied on a case-by-case basis to ensure that the unique circumstances of each project are taken into account.
12. In exploring alternative models, the Commission has made an appropriate distinction between funding and financing. Consistent with the view put forward by the Infrastructure Finance Working Group, funding remains a more pertinent obstacle to private sector investment. At the same time, the Office acknowledges that government financing assistance, appropriately tailored to individual projects, may also reduce project financial costs.
13. Improving the functioning of infrastructure capital markets is an important consideration. Following extensive industry consultation, Infrastructure Australia is in the process of finalising a paper that details several options for developing infrastructure debt markets. The Office will forward the final paper to the Commission once it is completed. An overview of key funding and financing issues are explored in the attached speech.

Attachment A: Paul Roe, *Transport funding and financing—addressing the infrastructure deficit*, CEDA Speech, November 2013

14. The following sections discuss the key issues that the Office considers essential to this inquiry and which should form the foundation to funding reform recommendations, including the appropriate allocation of project risks, greater application of efficient pricing mechanisms and further asset transfers to the private sector.

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<sup>2</sup> See Ernst & Young, Australia, *Strong foundations for sustainable local infrastructure: Connecting communities, projects, finance and funds*, June 2012 prepared for the Department of Regional Australia, Local Government, Arts and Sport

## 2.1 Appropriate Allocation of Project Risks

15. Creating an investment environment conducive to attracting the private sector will rely on governments finding the right balance between risk and return for all parties. Underlying this approach should be the basic principle that risks are allocated to the parties who are best placed to manage them. However, some models of government financing support being proposed have the potential to transfer significant risks to the Commonwealth Government.<sup>3</sup>
16. Appropriately de-risking assets in a manner that recognises the different stages of a project's lifecycle is a possible option that may result in lower risk premiums by better matching the differing levels of risk appetite amongst potential investors. While there are some private sector investors who prefer brownfield assets, some see competitive advantage in greenfield assets.
17. A recent example of where this has approach is being trialled is the NSW Government's plan to stage the delivery and the entry of private investment into the WestConnex project. The NSW Government will fund and take on patronage risks in the first instance and once patronage is established, use the revenue flows to attract private investment to finance the next stage of the project.

## 2.2 Increasing the Application of Efficient Pricing Mechanisms

18. Underpinning any consideration of alternative funding models must be a genuine debate about the application of user and beneficiary charges. User charges are critical to enabling projects to be funded and can also contribute to generating the revenues necessary to provide returns to investors. In considering projects and their funding, options for user or beneficiary charging are preferred to those that involve government funding options.
19. User charging is already widespread in a number of sectors including water, telecommunications, energy and, to a more limited extent, transport. It has reduced the call on government funding and led to more efficient management of infrastructure assets. Correctly applied, user charges can help to balance supply and demand and improve the identification of real infrastructure needs as distinct from 'wishes'.
20. Given an objective assessment of such benefits, the consideration of user charging should not be restricted to new infrastructure and should be considered as options to improve the use of existing infrastructure assets. Indeed, as supply-side options in many cities become more limited or prohibitively expensive, demand-side responses will be needed as alternatives to building new infrastructure.

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<sup>3</sup> See, for example, Business Council of Australia, *Securing Investment in Australia's Future: Infrastructure Funding and Financing*, November 2013

21. Such options are also relevant for some non-metropolitan infrastructure. For example, applying some form of tolling to the major east coast road network could readily fund a significant proportion of the projected cost of developing and maintaining these roads. This model would bring forward the date when the remaining sections of these roads are upgraded to an appropriate standard, as well as provide a mixture of brownfield and greenfield assets into which private investment could be directed.
22. More dynamic pricing in the energy sector, for instance, is being considered as part of broader options for demand management as an alternative to building new infrastructure. In the transport sector options that could be considered include introducing tolling on existing stock or cost-reflective, variable pricing in peak and off peak periods. The City of London has successfully implemented these reforms to reduce congestion.


### **Case study: The Need for Road Charging**

By far the largest infrastructure charging or pricing challenge is for roads. Much more is spent on transport each year than on other infrastructure facilities, and road spending is the largest element within transport. Road spending now outstrips road taxes and charges including tolls. This is a major concern for three reasons.

First, some claim that too little is spent on roads and that there is a (growing) maintenance deficit on existing roads. It is also claimed that some expensive road projects should be undertaken or accelerated. If correct, the fiscal impact of gap directly attributable to roads is larger than reported.

Second, there is a strong case that aggregate collections from road use should exceed spending on roads. This is because road use has 'spill-over' or negative externality effects such as congestion, pollution, and impacts on community amenity and the environment. The economic gap exceeds the fiscal gap. The spill-over effects are particularly noticeable in cities which is an issue around the world. To mitigate these negative effects, many governments are looking to financially support public transport, at a further net cost to budgets.


Third, even were the first two matters resolved, the structure of charges and taxes for road use are far from ideal with only limited demand signals for users. It is likely that there are cross-subsidies within the roads sector, between vehicle types, times of day and places. The latter, cross-subsidies between places, would be a concern at particular locations if it potentially undermined other forms of transport, for example buses and railways. A response of 'countervailing' subsidisation leads to replication and oversupply of infrastructure services with economic and budget impacts.

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23. The principal issues with regards to efficient pricing relate to the absence of effective user charges in the transport sector, which not coincidentally, is the sector comprising the vast bulk of submissions to Infrastructure Australia. The Heavy Vehicle Charging and Investment Reform agenda is the current area of most government activity in road charging in Australia. It is considering 'pricing' and 'funding' reform, and there appears to be stronger support for the latter. The argument put is that road owners would be better than governments at spending on roads for heavy vehicles. In the Office's view this argument turns on the commercial influence industry and heavy vehicle operators may have on road owners.
  24. Fundamental reforms based on user charging are needed to bridge the disconnect between the infrastructure we want and the infrastructure we are able to fund from the tax system. In order for efficient user and beneficiary charging in the transport sector to become more widely accepted in the community, and for any commercial influence to eventuate, there will need to be a significant shift in the attitudes of road users. Tackling user attitudes will be challenging as there is a need to overcome an entrenched culture that has been shaped by a history of treating infrastructure as an essentially free public good provided by governments.
  25. As a community we have accepted the need for charging in the energy, communications and water sector, where infrastructure is almost completely funded from user charges. Given congestion on roads and public transport is such a common problem, the approach proven in the other sectors should be given much more attention by governments. In considering these issues the Office believes that the Commission is presented with a real opportunity to take forward the recommendations made in the 2009 review into Australia's future tax system (Henry Review) with regards to road transport charging.
  26. The Office recommends that all projects that are able to provide commercial rates of return underpinned by revenue streams should be funded on that basis. Infrastructure proposals should have demand modelled on the assumption that user charges are applied. However, the Office recognises that each individual government is responsible for the decision about whether or not to apply user charges for roads. This is a significant barrier to the wider application of user charges, as decisions may vary across government boundaries.

### **2.2.1 User Pays – User Says**


27. Beyond just leveraging private sector capital there is much to be said for the role the private sector and users can play in identifying their infrastructure needs. Private sector businesses often independently pursue investment opportunities outside of government processes and they already account for a substantial investment base and influence the provision of infrastructure.



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28. In this respect there is a danger in too heavy a reliance on ‘public infrastructure’ as defined in the Commission’s discussion paper, that is, where government has a primary role and responsibility for infrastructure planning and provision. Such role and responsibility might be seen to minimise industry input and the ability to develop privately financed and funded infrastructure, and obscure the identification of real infrastructure needs.
29. The Office agrees with the view that markets are relatively efficient in determining when new investment is warranted. Therefore, as the private sector plays a greater role in the provision and ownership of infrastructure assets they should rightly become more intimately involved in the identification of new investment. It is important, however, to ensure that where this occurs there is appropriate independent regulatory oversight.

### 2.3 Asset Sales and Capital Recycling

30. Asset transfers to the private sector and capital recycling is an attractive means of meeting Australia’s current and future infrastructure needs. Infrastructure Australia’s analysis conservatively estimated that the value of commercial infrastructure assets held by Australian governments is over \$100 billion, and many of these assets could be transferred to the private sector relatively quickly. Transferring assets to the private sector is likely to generate substantially more capacity for governments to invest in new infrastructure than maintaining those assets in public ownership.
31. The Office believes that there are significant benefits to be gained by governments transferring the assets to the private sector. Transferring existing infrastructure to the private sector is likely to achieve significant broader productivity benefits, for example, by introducing private sector discipline, improving the ability to finance the expansion of infrastructure as required, and improved governance – where the government is no longer both the regulator and the owner of infrastructure assets.
32. Credit rating agencies generally view these transactions favourably as government balance sheets would be free of some assets that would add risk to governments due to long-term spending requirements. Importantly, established infrastructure assets are generally attractive to superannuation funds. Where assets are purchased by such investors it will mean that ownership can be indirectly maintained in the hands of a broad cross-section of Australians.
33. It is important to be cognisant of the need to maximise the broader national economic benefits of any asset transfer process. Governments should continue to ensure that these broader economic benefits are not compromised during the asset transfer process by trading off the correct competition and regulatory settings against increased asset transfer proceeds.

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34. Infrastructure Australia has previously acknowledged that some members of the community have concerns about the private sector owning or controlling infrastructure that has long been in public hands. There is evidence that those concerns can be addressed through appropriate regulatory structures that maintain service levels, provide pricing protection to consumers and preserve environmental standards. In addition, social objectives can be more effectively and transparently provided through community service obligations.
35. Two primary principles must be adhered to if asset sale options are to be taken. First, consideration should be given to ensuring that sales are only undertaken when the proceeds from the asset sales exceed the value of retaining the asset. Second, the net proceeds from the asset sales are reinvested to fund well-conceived and economically robust new infrastructure projects so that the community can see the benefit from the transfer.
36. Ideally, for the process to be sustainable, reinvestment will need to be in projects that can in the future be transferred to the private sector. Effective management of the transfer and communication of the benefits will be crucial to gaining public support.
37. The recent transfer of Port Botany and Port Kembla in NSW for \$5.07 billion is an excellent example of how asset sales can operate. The net proceeds from the sale of around \$4.3 billion are to be invested in the NSW Government's infrastructure fund – Restart NSW – for future projects. By doing so, the NSW Government has effectively managed community expectations about the use of sale proceeds. Notably, the majority of partners in the winning consortium were Australian superannuation funds.
38. As the states and territories are the owners of the majority of assets that would be suitable for transfer, ultimately the decision will rest with the respective jurisdictions. The Office notes the positive developments towards a new infrastructure partnership between the Commonwealth and the states that may lead to further asset transfers and greater certainty around funding responsibilities.

Attachment B: Infrastructure Australia, *Australia's Public Infrastructure: Part of the Answer to Removing the Infrastructure Deficit*, October 2012

Attachment C: Infrastructure Australia, *Australia's Public Infrastructure: Update Paper Balance Sheet Impacts of Sell to Build*, December 2013

### 3. Long-term planning and project selection

39. While funding and financing reform are important issues, the rigorous assessment, selection and prioritisation of projects should always rightly take precedence. Ensuring that scarce resources are allocated to those projects that deliver the highest net public benefits will result in the greatest productivity gains. Therefore, only once such projects are selected should the funding and financing models be applied.
40. Transparent and rigorous evidence-based decision-making using cost-benefit analysis (amongst other analytical techniques) should determine which projects are funded and when. Infrastructure Australia's *Reform and Investment Framework* provides a solid basis for decision-making (see Attachment D). It requires project proponents to demonstrate what purpose will be served by a project and what gap will be filled by that project. Importantly, it also seeks to ensure that the business cases for those projects are fully developed before funding is provided. Thus, the Framework aims to ensure that the best solution to an identified problem is the one that is funded.
41. Infrastructure Australia is currently preparing an evidence-based audit of Australia's current infrastructure asset base and developing a 15 year national infrastructure plan that will go some way to further prioritising Australia's infrastructure needs. Ultimately decisions about infrastructure investment will remain with the Australian Government. The Office suggests that the Commission explore options for explicitly tying Australian Government funding decisions to a process for rigorous project assessment to ensure investment in the highest-productivity projects.
42. Any consideration of Australia's infrastructure needs for the 21<sup>st</sup> Century must acknowledge the relationships and interdependencies between different modal options. Urban transport infrastructure provides the clearest example of this view. An integrated perspective is required that encompasses the roads, railways and interchanges that support passenger and freight transport in our cities.
43. However, there are weaknesses in optimising investment across types of infrastructure, for example, roads and railway lines. This is particularly the case where infrastructure types compete with each other for traffic or where government funds are limited and only one major project can go ahead. Therefore, there is a need for a coordinated and holistic view of national infrastructure networks. National strategies for ports and also for land freight are representative of work in this area.

Attachment D: Infrastructure Australia, *Better Infrastructure Decision-Making: Guidelines for making submissions to Infrastructure Australia's infrastructure planning process, through Infrastructure Australia's Reform and Investment Framework*, December 2013

Attachment E: National Land Freight Strategy, 2012 and related documents.


Attachment F: National Ports Strategy, 2011 and related documents.

### 3.1 Corridor Preservation

44. Demographic pressures are expected to increase the demand for infrastructure. For instance, the Australian Bureau of Statistics has recently projected that Australia's population will double to 46 million people by 2075. The cities are projected to increase their share of national population. On the Bureau's medium projections, the total population of our capital cities will more than double by 2061. Australia's freight task is expected to double by 2030.
45. What our cities and regions will look like and what type of infrastructure will be needed to support these demographic changes may be very different from now. In anticipation of the projected growth and these changes, it is incumbent upon governments to preserve corridors for future infrastructure as part of long term planning processes.
46. Several jurisdictions had effective corridor protection regimes in the past. That is not the case now. The failure by governments to preserve corridors adequately will significantly impact on the ability to respond to infrastructure pressures and substantially increase the cost of future projects, putting in jeopardy the affordability of future infrastructure solutions. The clearest example of this is already occurring. While relativities will vary from case to case, tunnels can be 8-10 times more expensive than broadly comparable surface alternatives.
47. There is evidence that urban land prices have increased in real terms over the last 20 years.<sup>4</sup> This has two consequences:
- Delay in acquiring land can itself increase project costs, i.e. where corridors have not been 'built out';
  - Acquiring land can be a 'no regrets' option. In other words, if, after rigorous consideration, the plans themselves are changed, governments can sell the land (potentially at a profit). Moreover, along the way, the governments are usually able to obtain rental income from the property.

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<sup>4</sup> See, for example, Urbis, *Review of Historic Urban Land Value Growth: East Coast Capital Cities*, prepared for Infrastructure Australia July 2013; Michael Buxton & Elizabeth Taylor (2011): *Urban Land Supply, Governance and the Pricing of Land, Urban Policy and Research*, 29:01, 5-22

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48. By ensuring that much of the land required for a project is secured and acquired in a timely manner, effective corridor protection can also minimise delays in the development and procurement of future projects. In addition, government actions to protect corridors are a clear statement about the direction for infrastructure planning and investment. As such, they offer certainty and minimise risks for the private sector.
49. By reducing projects costs compared to alternatives, corridor protection increases the likelihood that projects can be wholly or substantially funded through user charges. In short, reducing the costs of projects through corridor protection can encourage private investment. Governments are better placed than the private sector to protect corridors, both because of their acquisition powers and their ability to commit funds to long term land holdings. Furthermore, ensuring that land purchases are made at the appropriate time can lead to significant value-capture by governments.
50. For nationally significant corridors, both the Australian Government and relevant jurisdictions share responsibility for corridor protection. With this in mind, the Office suggests that the Australian Government and state and territory governments agree to a corridor protection regime as part of national infrastructure planning. Key elements of an effective corridor protection regime are:
- Robust, intergovernmental and inter-sectoral planning processes;
  - Application of agreed corridor protection measures;
  - Governance arrangements to ensure that governments contribute to and ‘own’ the protection undertakings;
  - Corridor protection funds and stable corridor protection budgets.
51. The last point is critical. Without stable funding regimes, corridor protection is almost always ‘crowded out’ at budget time in order to make ‘room’ for short-term priorities. The successful corridor preservation regimes of the past (and current models such as Metropolitan Region Improvement Tax in Perth) had a modest, stable hypothecated funding regime at their heart. Governments must move beyond short-termism. The Office recommends that the Commission consider appropriate intergovernmental forums to progress this important work on corridor protection.

## 4. The Cost of Infrastructure Projects

52. There are a number of drivers of infrastructure costs. Market concentration is one factor that has driven the costs of infrastructure projects up. In addition, higher requirements for environmental and community impact assessments and the management of health and safety obligations.<sup>5</sup> There has also been a tendency for project proponents to 'gold plate' technical specifications. As alluded to above, the failure to protect corridors has increased land costs associated with infrastructure projects.

53. As noted in the 2011 Infrastructure Australia report to COAG, the timeliness of project construction is affected by the community's willingness to accept short-term disruption to allow projects to be completed more rapidly. Delays caused by limits placed on the hours during which construction can occur or the period when existing networks must be kept open add to project costs. Actual construction time can be as little as 5 to 6 hours per day. These restrictions hinder productivity. There are likely to be significant cost savings available if these limits were relaxed. The community would also gain access to the benefits of the completed infrastructure earlier.

54. Regulatory reforms to procurement and approval processes of building infrastructure can result in major cost savings. Infrastructure Australia identified significant issues in major project approvals in 2009 which may be helpful in identifying possible areas of reform. The Office strongly supports measures that will reduce unnecessary regulatory duplication.

55. The Commission's report into Major Project Development Assessment Processes has proposed a range of reforms. The Office has completed an initial review of the findings and recommendations in the Productivity Commission's recent report on major project development assessment processes. The findings and recommendations appear to be broadly consistent with those from previous reviews, including Infrastructure Australia's 2009 report on similar matters.

56. Given the lack of progress in reforming assessment processes over several years, the key issue is how to incentivise and drive jurisdictions to adopt and implement the recommendations in the Commission's report. The Office believes that the Commission might consider the advantages of:

- financial incentives for jurisdictions (akin to competition policy reform payments) that sign on to complete the reforms in a timely manner (say, not more than two years). Any incentives should be structured so that a significant proportion of any payment is held back until the reform is actually in place;

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<sup>5</sup> See, for example, Business Council of Australia, *Securing Investment in Australia's Future: Report of the Project Costs Task Force*, August 2013

- assigning responsibility to senior officials within the central agencies of each government to drive implementation of the reforms; and
- using the COAG Reform Council as a vehicle for independently monitoring progress in implementing the reforms.

57. There are multiple benefits from reducing project costs, including enhancing the capacity of the construction industry to undertake multiple projects simultaneously and thus increase the amount of capital works in progress. Reducing costs will also free scarce resources for other projects. Reforms that remove barriers to entry of new participants and encourage competition have the potential to further reduce costs.

58. The Commission could usefully compare some Australian projects with similar projects overseas – Gold Coast Rapid Transit and Tours Light Rail (France), Tours to Bordeaux high speed rail (actual cost) and the estimates for the Australian high speed rail, and the Paris A86 toll tunnel with the estimates for the East West Link and WestConnex.

Attachment G: Infrastructure Australia, *Communicating the Imperative for Action*, June 2011

Attachment H: Infrastructure Australia, *Building Australia's Future: A Review of Approval Processes for Major Infrastructure*, June 2009

## 4.1 Project Governance

59. In a report prepared for Infrastructure Australia, the Caravel Group found that, on average, 48 per cent of projects failed to meet their baseline time, cost and quality objectives. Furthermore, despite considerable advancement in project management methods, there has only been a 10 per cent increase in success over the last 20 years. These results point to significant flaws that severely affect the cost and delivery of infrastructure projects.

60. Caravel estimated that based on:

- public and private infrastructure investment of \$215 billion;
- the best case project success rate of 52 per cent; and
- with a conservative average cost overrun of 40 per cent

the potential wastage of capital is in the order of \$30 billion per annum. All else being equal, an increase of just 10 per cent in the success rate can save in the order of \$9 billion per annum.

61. Project governance was identified as a major contributor to project failure. The Office recommends that the Commission identify options for improving project governance as a mechanism for reducing overall infrastructure project costs. The 2013 Infrastructure Australia report to COAG suggested that a bold reform is needed for Australia to “become world leaders in project governance”. Providing a project governance framework would be instrumental in this pursuit.

Attachment I: Caravel Group, *A Review of Project Governance Effectiveness in Australia*, prepared for Infrastructure Australia March 2013.

## 4.2 Public Private Partnerships

62. Public Private Partnerships (PPP) are a mechanism for harnessing private sector innovation in design and construction as well as a means of reducing project costs. PPPs have been proven to allocate project risks better than traditional procurement models. PPPs have also been more effective at sharing risks between parties than alliance contracting as a method of procurement.

63. The development of National PPP Guidelines under the auspices of the National PPP Working Group has provided a degree of consistency in the application of the PPP model across all Australian jurisdictions. The Office refers the Commission to a report prepared by KPMG that will help to understand the benefits of PPPs and issues around the use of PPPs including cost and efficiencies in procurement.

64. The Office also refers the Commission to studies that compare the effectiveness of procurement methods, particularly the University of Melbourne PPP Benchmarking Study and Victorian Treasury Alliancing benchmarking study.

Attachment J: KPMG, *PPP Procurement: Review of Barriers to Competition and Efficiency in the Procurement of PPP Projects*, May 2010

Attachment K: University of Melbourne, *National PPP Forum – Benchmarking Study, Phase II: Report on the performance of PPP projects in Australia when compared with a representative sample of traditionally procured infrastructure projects*, December 2008

Attachment L: Department of Treasury and Finance, Victoria, *In Pursuit of Additional Value: A benchmarking study into alliancing in the Australian Public Sector*, October 2009



### 4.3 Build the Capacity of the Public Sector

65. The Office has concerns about the capacity, skills, attention and drive of the public sector. The Office has observed practices which are far from ideal and which, if prevalent, present real challenges to any infrastructure reform agenda. There are deficiencies evident at all parts of the 'infrastructure chain' – planning, problem identification, policy development, option identification, modelling, project identification, approvals and contracting.
66. National level planning is deficient, and at times there appears to be little understanding of historical development and economic forces and less sense of proportion about issues. The omission of major arterials in the National Land Transport Network is indicative of this problem. Given that any stable pipeline of investment opportunities ought to arise from national planning efforts, this is a serious concern. Of at least equal concern is the tardiness or inertia of the public sector in responding to calls to better planning such as the National Ports Strategy. The national infrastructure audit provides a fresh opportunity for improvement in this area.
67. Governments have not had a good track record of enforcing the risk allocation of design and construct contracts. Much of the necessary commercial expertise does not currently exist in the public sector to analyse and negotiate complex infrastructure transactions. Indeed, as highlighted by the Caravel Group, project governance team members often do not have the skills and capabilities to perform their roles.
68. The Commission could usefully examine how to build the capacity of the public sector to oversee complex funding and financing models, including making choices about when they should be applied. Attracting and retaining staff qualified to manage probity processes and monitor projects will reduce the cost of projects.
69. There are also apparent challenges in coordination within the public sector. A leading example is the case of a previous proposal to expand the M5 motorway. The part of the NSW submission drafted by the roads agency argued that the heavy vehicle requirement for this road reflected Port Botany dealing with 3.2 million twenty foot equivalent containers. Part of the same submission drafted by other agencies including the then government owner/operator of Port Botany, Sydney Ports Corporation, argued that the port would need to deal with over 8.6 million similar containers.

70. The Commission may also want to consider how accountability for the performance of project implementation is undertaken. Holding the public service, including senior public servants, accountable for the use funds invested in infrastructure would be a key feature of such a performance management framework. The design of performance indicators against which the performance of project managers is assessed may be an appropriate accountability tool. For example, this could include conducting direct surveys of road user satisfaction in major cities.

### **Case study: Addressing Implementation Challenges**

While reform 'design' for transport is considered difficult, much greater challenges arise in implementing reforms. To be successful, reform design will need to address such challenges conclusively. Reform designs that overlook implementation issues may fail.

Among the challenges are cultural and experience factors. Generally, larger agencies appear averse and inexperienced in timely implementation of initiatives identified by others or initiatives aimed at improving the climate for private investment into road infrastructure.

In 2012, the Office commenced pilot studies of potential trials of commercial investments for heavy vehicle use of roads. This followed two reviews of 'incremental pricing trials' which effectively disputed the bona fides of the scheme overseen by Commonwealth and state transport agencies. Notwithstanding those reviews, there have been no further incremental pricing trials and virtually no pilot projects other than those undertaken by the Office. The pilot studies are for Chullora, Hume Highway and a national roads portfolio manager.

The simple case of bringing up to standard a short section of road to Sydney's main rail terminal at Chullora has taken around eighteen months to resolve. Some nine months since a joint announcement by the Commonwealth and NSW Ministers, agreed funding (less than a million dollars in total) is yet to be delivered to the relevant local authority.

Despite the delays, the Chullora pilot will soon be concluded, and the Office will publish its findings. Among issues likely to be noted are agency concerns about 'precedents' which suggest either misunderstandings about freight and land use, or knowledge of similar cases

At the time of writing, some fifteen months after identification by Infrastructure Australia as a national priority, potential industry participants are yet to be advised of the timing or possible outline of a trial of high productivity vehicles on the Hume Highway.

It is possible that some trial of high productivity vehicles may be undertaken in 2014. To achieve this, government agencies will need to negotiate some issues and costs with industry.

## 5. Conclusion and Next Steps

71. The Australian Government is committed to investing in infrastructure and that the recommendations which will flow from this inquiry will assist in the Government to meet its commitments.
72. The inquiry should encompass regulatory reforms that will improve the delivery of projects and that go beyond funding and financing. There is also a pressing need to ensure that the right projects are selected.
73. The Office also agrees with the observations of the Commission in 2005 about the imperative for action so as to avoid the need for 'big bang' policy interventions later. It shares the Commission's concern that some eight years later time is running out.
74. The Commission is encouraged to look towards how implementation of its recommendations can be incorporated into its final report. As has been proven over the last decade or more, reform processes that do not adequately consider implementation are likely to fail. Following this review, Infrastructure Australia could assist jurisdictions in the implementation of recommendations made by the Commission where it is appropriate to do so.
75. Implementing the reforms outlined in this submission will go some way to creating the necessary pipeline of projects and deal flow that will get the projects we need built. As the Australian economy transitions from the resources boom, there is a need to ensure that any impediments to improving productivity are removed. The efficient and effective selection, delivery and operation of economic infrastructure are critical to national productivity and economic growth. It is hoped that the issues outlined in this submission will assist the Commission in undertaking its inquiry and recommend necessary reforms.

## 6. List of Attachments

Attachment A: Paul Roe, *Transport funding and financing—addressing the infrastructure deficit*, CEDA Speech, November 2013

Attachment B: Infrastructure Australia, *Australia's Public Infrastructure: Part of the Answer to Removing the Infrastructure Deficit*, October 2012

Attachment C: Infrastructure Australia, *Australia's Public Infrastructure: Update Paper Balance Sheet Impacts of Sell to Build*, December 2013

Attachment D: Infrastructure Australia, *Better Infrastructure Decision-Making: Guidelines for making submissions to Infrastructure Australia's infrastructure planning process, through Infrastructure Australia's Reform and Investment Framework*, December 2013

Attachment E: National Land Freight Strategy and related documents.

- National Land Freight Strategy Update, June 2012
- National Land Freight Strategy Discussion Paper, February 2011
- National Freight Strategy: Roads: 2010-2060. A discussion paper for Infrastructure Australia, June 2010
- Developing a National Freight Network Strategy: Perspectives of freight network customers, May 2010
- National Freight Network Strategy Background Paper, February 2010

Attachment F: National Ports Strategy and related documents.

- National Ports Strategy, 2011
- National Ports Strategy Background Paper, December 2010

Attachment G: Infrastructure Australia, *Communicating the Imperative for Action*, June 2011

Attachment H: Infrastructure Australia, *Building Australia's Future: A Review of Approval Processes for Major Infrastructure*, June 2009

Attachment I: Caravel Group, *A Review of Project Governance Effectiveness in Australia*, prepared for Infrastructure Australia March 2013.

Attachment J: KPMG, *PPP Procurement: Review of Barriers to Competition and Efficiency in the Procurement of PPP Projects*, May 2010

Attachment K: University of Melbourne, *National PPP Forum – Benchmarking Study, Phase II: Report on the performance of PPP projects in Australia when compared with a representative sample of traditionally procured infrastructure projects*, December 2008

Attachment L: Department of Treasury and Finance, Victoria, *In Pursuit of Additional Value: A benchmarking study into alliancing in the Australian Public Sector*, October 2009

## 6.1 List of Additional References

Infrastructure Australia, *2013 State of Play Report: Australia's Key Economic Infrastructure Sectors*, December 2013

Infrastructure Australia, *National Infrastructure Plan*, June 2013

Infrastructure Australia, Submission to the National Productivity Commission Inquiry into the National Access Regime, March 2013

National Transport Commission Review, 2012

Alex Li-Kim-Mui, *Public Goods Pricing Roads and Technology*, Discussion Paper

Australia's road infrastructure is in a crisis, a report from Juturna Consulting

Economic reform of Australia's road sector, a report from Juturna Consulting, February 2012

COAG Road Freight Incremental Pricing Trials, a report by Juturna Consulting, August 2011

Phase 1 Final Report: The Business Case for Dedicated Truck Lanes, prepared for the Missouri, Illinois and Ohio Departments of Transportation and the US Federal Highway Administration, June 2010

The Allen Consulting Group, *Road Access Improvement Regime: Issues Paper*, report for Infrastructure Australia, September 2010

The Allen Consulting Group, *Options for improving the integration of road governance in Australia: The role of local government*, report for Infrastructure Australia, August 2009