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CONSULT AUSTRALIA

Driving business success for consulting firms in the built and natural environment

28 January 2015

Senator Sam Dastyari
Chair
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator Dastyari,

Consult Australia welcomes the opportunity to make a brief submission to the Senate Standing Committee on Economics' Inquiry into *Privatisation of State and Territory Assets and New Infrastructure*.

Consult Australia is the industry association representing the business interests of consulting firms operating in the built and natural environment. These services include design, engineering, architecture, technology, surveying, legal and management solutions for individual consumers through to major companies in the private and public sector including local, state and federal governments.

We represent an industry comprising some 48,000 firms across Australia, ranging from sole practitioners through to some of Australia's top 500 firms with combined revenue exceeding $40 billion a year.

Approximately 40 percent of our industry's work is undertaken for public sector clients, and our member firms have played vital roles in the creation of some of Australia's iconic public infrastructure, including road, rail, hospital, airport, educational facilities, water and energy utilities, justice, aged care, sports stadia, and urban renewal projects.

Accordingly, this inquiry and its terms of reference are of crucial importance to Consult Australia and our membership. Our expertise and experience covers a range of matters relating to infrastructure finance, and our industry heavily relies on a strong pipeline of public infrastructure projects.

This submission will touch on the broader question of infrastructure finance, but will focus on the issue of asset recycling. For further information about the range of funding and finance options, we encourage you to read the range of reports available on our website outlining these options[1].

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[1] See https://www.consultaustralia.com.au/Home/Advocacy/Infrastructure

Declining Infrastructure Provision

Infrastructure provision has lagged population growth in Australia for three decades. If we are to seize an advantage in what is the fastest growing region of the world's economy, obstacles to the development and delivery of infrastructure must be overcome.

Since 2004, Australia's strong economy, supported by the mining boom and AusLink investments, together with an increase in private financing has seen some improvements in the delivery of infrastructure projects that have helped to manage congestion costs and supply constraints. The benefits of this investment to our productivity are clear, as is the growth in a world-class domestic professional services sector supporting these developments. However, while positive, these improvements are against a growing infrastructure deficit that puts at risk our ability to maintain economic prosperity in the longer term. Alongside this, a more recent decline in state and territory government investment in infrastructure has seen significant redundancies across those industries that support the delivery of major projects. Without a sustained baseline of infrastructure investment by every sphere of government, we risk losing the best part of an industry fifteen years in the making, and the envy of advanced economies across the world.[2] In any event, it is well established that the development of public infrastructure delivers economic benefits to the community, including job creation, productivity growth, and additional tax revenues for government.

A key challenge for policy-makers, therefore, is to resolve how to fund and finance the provision of vital public infrastructure.

Options for Funding and Financing

Consult Australia's 2010 Report *Transporting Australia's Future* canvases a range of infrastructure funding and financing mechanisms emerging around the world that can provide sound and proven revenue streams to support infrastructure delivery. The six broad options for funding and finance cited in that report are[3]:

- ***Better use of existing assets and resources*** through higher density city development, government asset sales, better use of lazy government assets, greater use of Information Technology Systems (ITS) applications, and integrated planning and governance.

- ***Phased introduction of user-pays charging and full cost recovery***, including the introduction of real prices to cover all operating, social and environmental costs, and a move away from a declining fuel tax regime.

- ***Transport pricing*** including congestion pricing and network-wide distance-based user charges.

- ***Hypothecation*** of new transport revenue to fund public transport improvements and freight movement.

[2] Consult Australia. 2013. *Queensland Services Industry in Crisis*. See www.consultaustralia.com.au

[3] Consult Australia (2010). *Transporting Australia's Future*. See http://www.consultaustralia.com.au/docs/default-source/infrastructure/Transporting_Australia_s_Future_report.pdf?Status=Temp&sfvrsn=0

• ***New Private Sector Finance arrangements*** with governments sharing future traffic and revenue risk and uncertainty with private financial institutions investing in transport infrastructure.

• ***New Public Finance arrangements*** including the introduction and application of Value Capture to fund urban growth and higher density development[4]; the development at Green Transport Banks and carbon trading by state and Federal governments investing with superannuation funds in green infrastructure.

It should be noted that these options raise differing levels of funds, with some paying for the provision of infrastructure in full, while others offer partial funding. In addition to these newer options, traditional public finance in the form of taxation and/ or debt remain an option to governments to finance vital public infrastructure.

As has been noted in previous inquiries into the provision of public infrastructure[5], though not always well articulated in broader public debate, infrastructure will either be funded through public finance (taxes/debt), or user charges. This might be supported by asset sales, or asset sweating, but ultimately it is the tax-payer that foots the bill in either scenario. Alongside effective funding streams, innovative financing mechanisms should be structured to support infrastructure projects and to deliver more equitable, value-for-money outcomes for governments. Public Private Partnerships, including for example value capture and bond banks, provide new opportunities to leverage greater private sector investment across a range of projects. Consult Australia does not consider any single financing or funding policy will by itself provide a stand-alone solution to the substantial challenge for governments, however all options should be considered as important opportunities for reform.

Recycling Capital and Supporting Hypothecation: Asset Sales

Consult Australia has long argued for asset sales to release government funds for new infrastructure investment. Asset sales do this through the proceeds of the sale, as well as re-allocating responsibility for future maintenance payments to the buyer of the asset. The economic benefits of the additional infrastructure investment asset sales would allow are significant, and outweigh any perceived downsides to the transaction.

We strongly support the proposal by the Commonwealth Government to provide tax incentives to support assets sales by state governments as a means to encourage asset recycling. The creation of Restart NSW from funds hypothecated from the lease of Port Botany and Port Kembla is an important model that can be replicated across jurisdictions, and indeed we note that the newly elected Victorian Government has adopted this model in their Project 10,000 transport infrastructure plan. The NSW ports transaction received a premium price, well beyond the value that might have been achieved through dividends[6], and Consult Australia has publicly

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[4] For a comprehensive discussion of Value Capture, please see https://www.consultaustralia.com.au/docs/default-source/cities-urban-development/Capturing_Value.pdf?sfvrsn=2

[5] See for example, the Productivity Commission Report into Public Infrastructure (2014), at http://www.pc.gov.au/inquiries/completed/infrastructure

[6] See Fact Sheet at http://www.consultaustralia.com.au/docs/default-source/infrastructure/143609-energy-fact-sheet_print2.pdf?sfvrsn=2

committed to support the sale of publicly owned electricity distributors (also referred to as "poles and wires").

While traditionally treasuries have not been in favour of hypothecation, it is clear that where public assets are concerned this is an important tool through which projects can be delivered with broad public support. The subsequent model for capital recycling through the delivery of the Westconnex projects continues this principal which should be encouraged as governments access some of the more than $100 billion sitting on their balance sheets (as identified by Infrastructure Australia in 2012).

Conclusion

The development of vital public infrastructure is important for the continued growth of our Australian economy. In recent times, however, a challenge has been presented through the question of how to pay for that infrastructure.

Consult Australia supports asset recycling as a means to finance this much needed infrastructure. Selling public assets unlocks their value for the benefit of the public, by freeing up funds already on the government balance sheet to be spent on important infrastructure developments. The only other alternatives to finance such developments involve either using the public balance sheet, through debt or taxes, or alternative mechanisms such as user charges and value capture.

Already, governments around Australia have demonstrated a willingness to involve the private sector in running public infrastructure, through the use of Public-Private Partnership developments.

While it may be appropriate for guidelines to be developed to ascertain which assets are appropriate for sale, they should be part of a complete framework governing the process for asset sales, including the requirement that they finance further infrastructure development, rather than fall back to consolidated revenue.

We would be pleased to further discuss this issue in greater detail, should you wish to do so.

If you would like to further discuss any issue raised in this submission, please contact our Senior Advisor, Policy & Government Relations, Robin Schuck,

Yours sincerely,

Megan Motto
Chief Executive Officer