

*Infrastructure Partnerships
Australia leads the national
infrastructure debate by
bringing together both the
public and private sectors
to promote partnerships in
infrastructure provision.*



Infrastructure Partnerships Australia

Submission to the Senate Select Committee on Economics Inquiry into the *Nation Building Funds Bill 2008*

November 2008

Contact

Brendan Lyon

Executive Director

Infrastructure Partnerships Australia

P | 02 9240 2050

E | brendan.lyon@infrastructure.org.au



BUILDING AUSTRALIA TOGETHER

INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

Infrastructure Partnerships Australia (IPA) is the nation's peak infrastructure body. Our mission is to advocate the best solutions to Australia's infrastructure challenges, equipping the nation with the assets and services we need to secure enduring and strong economic growth and importantly, to meet national social objectives.

Infrastructure is about more than balance sheets and building sites. Infrastructure is the key to how we do business, how we meet the needs of a prosperous economy and growing population and how we sustain a cohesive and inclusive society.

Infrastructure Partnerships Australia seeks to ensure governments have the maximum choice of options to procure key infrastructure. We believe that the use of public or private finance should be assessed on a case-by-case basis. IPA also recognises the enhanced innovation and cost discipline that private sector project management and finance can deliver, especially with large and complex projects.

Our Membership is comprised of the most senior industry leaders across the spectrum of the infrastructure sector, including financiers, constructors, operators and advisors. Importantly, a significant portion of our Membership is comprised of government agencies.

Infrastructure Partnerships Australia draws together the public and private sectors in a genuine partnership to debate the policies and priority projects that will build Australia for the challenges ahead.

1. Introduction

Infrastructure Partnerships Australia welcomes the opportunity to make a submission to the Senate Select Committee on Economics for its Inquiry into the *Nation-building Funds Bill 2008*, *Nation-building Funds (Consequential Amendments) Bill 2008*, and the *COAG Reform Fund Bill 2008* (“the Bills”).

As the nation’s peak infrastructure body, Infrastructure Partnerships Australia supports the move toward greater national coordination in the way that we identify, fund and procure infrastructure. We endorse the commitment of the Executive and the Parliament to provide policy leadership - and significant Commonwealth capital investments - to deliver key economic and social infrastructure.

2. Commentary on the Bills:

The Nation-Building Funds Bill will establish the framework that will allow Government to direct and manage appropriate, timely and coordinated investment in infrastructure across the nation.

Infrastructure Partnerships Australia (IPA) supports the establishment of the three nation-building funds (the ‘Funds’) outlined in the legislation; namely

- I. The Building Australia Fund;
- II. the Education Investment Fund; and
- III. Health and Hospitals Fund.

These Funds will provide the vehicle to deliver targeted investment in transport, communications, energy, water, education and health infrastructure.

Infrastructure Partnerships Australia supports moves to appropriately ‘fast track’ the delivery of the nation-building agenda. Expediting the establishment of the Funds – and bringing forward the ultimate investment of these monies into critical infrastructure – represents an important measure to deliver responsible economic stimulus and long-run productivity gains.

IPA welcomes the provision for transitional arrangements to accelerate funding initiatives, along with the COAG Reform Fund to channel new incentive payments in the form of National Partnership Payments from the Commonwealth to the States and Territories.

This Bill represents the next practical step to deliver long-awaited infrastructure market reforms.

Key areas of interest:

Infrastructure Partnerships Australia is particularly interested in the establishment and operation of the *Building Australia Fund* which will invest in infrastructure projects across transport, communications, energy and water projects.

IPA is also interested in the opportunities to restore, reform and renew Australia's education and health infrastructure through the other two above-mentioned Funds. However, this submission largely limits commentary and analysis of the Building Australia Fund (BAF) infrastructure investments. Most comments made in relation to the BAF would equally apply to the social infrastructure project investment provisions related to the Education Investment Fund (EIF) and the Health and Hospitals Fund (HHF).

Structural Framework, Responsibility and Accountability:

Infrastructure Partnerships Australia agrees with the proposed structure for the three nation-building Funds.

The proposed structure presents a sound framework to allow for Commonwealth leadership and investment in infrastructure. The acceleration of the creation of the subject Funds and consequential processes including the infrastructure audit and prioritisation process will allow for a sound fiscal management response to address a significantly changed finance and investment circumstance for public sector infrastructure in the short term.

Consideration should be given to further enlargement of the scope for the Funds' advisory bodies (including Infrastructure Australia) to be more proactive in providing responsible strategic advice toward identifying, anticipating, planning and providing for future infrastructure needs.

IPA supports utilising the investment framework set up for the Future Fund and applying it to the management of investments for the three Funds. In terms of the financing of projects in the States and Territories, we support the Future Fund Board taking responsibility for the distribution of funds and charged with managing the investment of each Fund's monies.

We welcome the Bill's mandate for the Future Fund Board and the Future Fund Management Agency to act as investment manager for the Funds; and to discharge the Investment Mandate of each Fund (as directed by the responsible Ministers), at arm's length from Government. Consideration should be given to ensure that the Future Fund has adequately skilled human capital to effectively acquit the specified tasks on behalf of the subject Funds.

We support the provisions for the respective Fund's Advisory Boards to play a central role in advising on responsible efficient infrastructure investment allocation. We contend that the BAF/Infrastructure Australia, EIF and HHF advisory boards will bring independence and rigour to the project and funding analysis and evaluation by providing arms-length advice and direction to the responsible Minister.

For consistency, we hope that the advisory boards refer to and adopt the same process and methodology as Infrastructure Australia has applied in formulating its infrastructure prioritisation and audit work; particularly in terms of a rigorous application of benefit-cost analysis to project evaluation.

IPA encourages the respective portfolio Ministers to properly utilise the advisory board for each Fund – ensuring a rigorous and consistent practice in the assessment of investment allocation, risk/return, infrastructure support and procurement options.

IPA agrees with the Bills provisions which see the Finance Minister granted authority for the oversight and allocation of the BAF, EIF and HHF grants. The structure of these provisions mean that the portfolio Minister does not make the investment decision, adding an additional layer of accountability to the decisions which are made.

COAG Reform Fund Bill:

Infrastructure Partnerships Australia supports the *COAG Reform Fund Bill 2008*; particularly in light of the COAG agreement to set up a new framework for federal-state financial relations and provide new incentive payments to the States to drive much-needed reforms.

IPA supports introducing the COAG Reform Fund as a mechanism to disburse payments from the three nation-building funds to the States and Territories through an established Special Account and establishment of the COAG Reform Council as an independent non-statutory body charged with the task to report on performance information against Special Purpose Payment (SPP) outcomes, and assess whether pre-determined performance benchmarks have been achieved under the new National Partnership Payment (NPP) agreements.

We support the Bill's approach to overhauling Federal tied funding to the States. The proposed provisions seem to provide a simple, effective and more streamlined solution in reducing the number and complexity of current SPP arrangements, removing conditionality requirements and specifying agreed objectives, expected outputs and outcomes, performance measures, clearer role and responsibility definition and enhanced accountability areas.

We endorse the special appropriation and introduction of the new National Partnership Payments (NPPs) and its framework of Project Payments (for funding delivery of specific infrastructure projects); Facilitation Payments (for bringing about key reforms in service delivery); and Reward Payments as incentives for encouraging the States to undertake and deliver nationally significant reforms and achieve performance benchmarks.

IPA is hopeful that the requirement for NPP written agreements – which will set out the terms for financial assistance grants to the States and provide for the COAG Reform Council to independently assess the achievement of performance benchmarks - will provide a more scrutable processes than current arrangements.

Rigorous monitoring of the use of NPP grants will be required to ensure that the funding levels and reform incentive payments are properly applied to achieve national policy objectives. Further detail will be required to ensure that the States can approach the determination of reward payment levels and allocations with certainty.

Future Budget Allocations:

The dwindling revenues to the Federal Budget are of concern, given the stipulation that future allocations (beyond the initial contribution) will be made "as Budget circumstances permit". We appreciate that future surplus to top up the three funds is expected to be lower in amount, given the substantial impact of current financial upheaval and capital market volatility. (Already, prior to start-up, the 2008/09 surplus has been cut from initial May 2008 Federal Budget projections).

We hope that these funds prove to be long-term investment vehicles, not ones which will fall away after the initial endowment from the 2007/2008 Budget surplus. While a fund's investment operations must be responsive and relevant to the prevailing conditions, they must also provide certainty to the infrastructure development market and be ongoing and properly funded into the future.

Although initial funding has been appropriated from this year's realised Budget surplus, we have practical concerns about delivering a surplus for coming years.

The Need for Transparency:

In general, we urge that on implementation, there must be a transparent process to assess the respective Funds' operations, allocations, risk management, project performance benchmarks and investment management performance against its Investment Mandate.

IPA would like to see the funds set up to have the greatest transparency possible, while making allowances for commercial-in-confidence, privacy and intellectual property considerations in disclosure requirements.

IPA supports written agreements between the Commonwealth and the recipient of funds, setting out the terms and conditions upon which financial assistance is granted. We also support...

It is of fundamental importance that the investment decisions and priorities of the respective Funds are transparent. If the nation-building funds were to be allocated and invested for reasons outside policy, we believe that support and appetite for much-needed Federal infrastructure investment and policy leadership would be imperilled.

Infrastructure investments must be determined and managed through a thorough, consistent and rigorous process to ensure that funds are invested productively. It is important that these nation-building funding initiatives are invested wisely, applying objective analysis and assessment to the project selection process.

We urge the Government to subject all infrastructure proposals and potential project investment contributions to rigorous scrutiny, with the overriding objective to ensure timely delivery of those critical infrastructure projects that best promote, support and permit long-term growth and competitiveness and deliver efficiency, productivity and value-for-money outcomes.

We hope the regulations will provide further detail on what practical mechanisms, processes and checks and balances are required to be applied for each Fund to ensure responsible, consistent and transparent decision-making and funding allocation to the most critical, needed and worthwhile projects across transport, communications, energy, water, education and health sectors.

Conclusion:

IPA congratulates the Federal Government on proposing a legislative package that will build confidence in the Australian economy. We believe the Bills provide a sound investment mechanism for channelling the respective Fund's capital contributions and earnings into much-needed infrastructure.

Establishing the Funds framework will go a long way towards facilitating better identification, funding allocation and delivery of key nation-building infrastructure, as earmarked by the Infrastructure Priority List being formulated by *Infrastructure Australia*, and responsible use of available surplus revenue to finance capital investment projects and stimulate the economy in changing global financial climate.

The Bills offer a timely response to meeting the infrastructure investment challenge.

Now more than ever, Australian business and industry need to stay competitive and improve productivity. Investment in large-scale "nation-building" infrastructure projects is critical, particularly in those areas and sectors where there has been significant under-investment in developing or upgrading infrastructure over the last decade.

Raising private finance for major infrastructure projects will become more challenging in the wake of the economic downturn; this means that it is crucial that Australia has the right policy and regulatory settings in place to encourage and secure investment in transport, energy, water, and communication infrastructure.

We support enactment of the *Nation-building Funds Bill 2008* along with its associated *Consequential Amendments Bill* and the *COAG Reform Fund Bill* to fast-track the nation-building agenda, enable interim arrangements to be implemented and get the infrastructure funding operations schemes underway.

Should you require further information on this Submission, please contact Ms Julie Burke, National Manager, Policy on (02) 9240 2050.



Infrastructure Partnerships Australia
8th Floor, 8-10 Loftus Street, Sydney NSW 2000
www.infrastructure.org.au

T 02 9240 2005
F 02 9240 2055
E [contact@infrastructure.org.a](mailto:contact@infrastructure.org.au)