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**Publications enquiries:**

Media and Publications

Productivity Commission

Locked Bag 2 Collins Street East

Melbourne VIC 8003

Tel: (03) 9653 2244

Fax: (03) 9653 2303  
Email: maps@pc.gov.au

**General enquiries:**

Tel: (03) 9653 2100 or (02) 6240 3200

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The Productivity Commission

The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission’s independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

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| 27 May 2014 | | | ***Melbourne Office***  Level 12, 530 Collins Street  Melbourne VIC 3000  Locked Bag 2 Collins Street East  Melbourne VIC 8003  Telephone 03 9653 2100  Facsimile 03 9653 2199  ***Canberra Office***  Telephone 02 6240 3200  www.pc.gov.au |

The Hon Joe Hockey MP  
Treasurer

Parliament House

CANBERRA ACT 2600

Dear Treasurer

In accordance with Section 11 of the *Productivity Commission Act 1998*, we have pleasure in submitting to you the Commission’s final report into Public Infrastructure.

Yours sincerely

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Peter Harris AO Presiding Commissioner | Dr Warren Mundy  Commissioner | Paul Lindwall Associate Commissioner |

# Terms of reference

### Public Infrastructure: Provision, Funding, Financing and Costs

I, Joseph Benedict Hockey, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission (Commission) undertake an inquiry into ways to encourage private financing and funding for major infrastructure projects, including issues relating to the high cost and the long lead times associated with these projects.

Through this inquiry, the Commission is to conduct a broad ranging investigation into costs, competitiveness and productivity in the provision of nationally significant economic infrastructure and examine ways to: reduce infrastructure construction costs; address any barriers to private sector financing, including assessing the role and efficacy of alternative infrastructure funding and financing mechanisms, and recommending mechanisms and operating principles that may be applied to overcome these barriers; and, without limiting the generality of this reference, outline options to reduce construction costs.

### Background

Efficient public infrastructure plays a key role in a competitive and productive economy and the ongoing funding and financing of infrastructure development in Australia is therefore of critical importance.

The capacity of government to meet expectations for improved infrastructure services is always limited, and the use of financing options involving the private sector can reduce the call on government resources, allowing scarce public funds to be targeted in a more effective manner.

While alternative financing and funding models offer opportunities to reduce the immediate call on governments, it should be noted that the application of new models is not a panacea. Ultimately infrastructure can only be funded through taxation, borrowings or direct user charges. There are difficult trade‑offs to consider given increasing demand and competing priorities.

### Scope of the inquiry

In reporting on funding and financing and the scope for reducing costs for public infrastructure projects, the Commission is to analyse and develop findings on the following:

1. How infrastructure is currently funded and financed in Australia, including by the Commonwealth, the States and the private sector.
2. The rationale, role and objectives of alternative funding and financing mechanisms, including:
3. the full range of costs and benefits of different models
4. the issues and costs associated with the allocation of project risks, availability of finance, contracting arrangements and delivery models for construction projects
5. the disincentives to private sector investment
6. broad principles for the use of these funding and financing mechanisms
7. the roles of the Australian Government, the States and Territories, Local Government and the Private Sector in the implementation of these mechanisms, and the relationship between each of the parties
8. creation of revenue streams to attract private sector finance; for example, through user charging, availability payments etc.
9. Consider the financial risks to the Commonwealth posed by alternative funding and financing mechanisms, as well as their possible impact on the Budget and fiscal consolidation goals.
10. Examine the cost structure of major infrastructure projects in Australia, including where infrastructure project costs have increased considerably, compared with other countries.
11. Provide advice on ways to improve decision‑making and implementation processes to facilitate a reduction in the cost of public infrastructure projects, including in relation to:
12. measures to improve flexibility and reduce complexity, costs and time for all parties
13. access to the market for domestic and international constructors, including barriers to entry, and what effect this has on construction costs
14. ‘greenfield’ infrastructure projects.
15. Comment on other relevant policy measures, including any non‑legislative approaches, which would help ensure effective delivery of infrastructure services over both the short and long term.

### Process

In undertaking this inquiry, the Commission should take into account the work being led by the National Commission of Audit to examine the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure.

The Commission is to undertake an appropriate public consultation process including holding hearings and inviting public submissions. It will consult with the State and Territory Governments in undertaking this inquiry.

The Commission should release a draft report in March 2014.

The final report should be provided within six months of the receipt of these terms of reference.

The Government will consider the Commission’s recommendations, and the Government’s response will be announced as soon as possible after the receipt of the Commission’s final report.

J. B. HOCKEY  
Treasurer

[Received 13 November 2013]

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The Commission’s report is in two volumes. **This volume 2 contains chapters 9 to 16 and appendices A to J and volume 2 references.** Volume 1 contains the Overview, recommendations and findings, chapters 1 to 8 and volume 1 references. Below is the table of contents for both volumes.

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# Abbreviations and explanations

Abbreviations

ABCC Australian Building and Construction Commission

ABS Australian Bureau of Statistics

ADI Authorised Deposit-Taking Institutions

ALC Australian Logistics Council

APAC Australian Pacific Airports Corporation

APRA Australian Prudential Regulation Authority

ARTC Australian Rail Track Corporation

ATO Australian Taxation Office

BIM Building Information Modelling

BIT Building Industry Taskforce

BITRE Bureau of Infrastructure, Transport and Regional Economics

BOO Build-Own-Operate

BOOT Build-Own-Operate-Transfer

COAG Council of Australian Governments

CRRP COAG Road Reform Plan

CSO Community Service Obligation

DBFM Designs, Builds, Finances and Maintains

DBFO Designs, Builds, Finances and Operates

FWBC Fair Work Building and Construction

GDP Gross domestic product

GFC Global Financial Crisis

GNSS Global Navigation Satellite System

GTE Government trading enterprise

HVCI Heavy Vehicle Charging and Investment

IA Infrastructure Australia

IAC Industries Assistance Commission

IAP Intelligent Access Program

IBTO Infrastructure Borrowings Tax Offset

IC Industry Commission

IDA Infrastructure Debt Authority

IE Independent Economics

IGA Intergovernmental Agreement on Federal Financial Relations

IFWG Infrastructure Finance Working Group

IPART Independent Pricing and Regulatory Tribunal

IR Industrial relations

IRR Internal rate of return

LRMC Long-run marginal cost

LTNZ Land Transport New Zealand

MFP Multifactor Productivity

MRA Metropolitan Redevelopment Authority

NICS National Infrastructure Construction Schedule

NPP National Partnership Payment

NPV Net present value

NTC National Transport Commission

OECD Organisation for Economic Co-operation and Development

PAYGO Pay-as-you-go

PC Productivity Commission

PFI Private Finance Initiative

PPP Public private partnership

PSC Public Sector Comparator

RAB Regulated Asset Base

RBA Reserve Bank of Australia

RUC Road user charge

SCOTI Standing Council on Transport and Infrastructure

SDP Sydney Desalination Plant

SPP Specific Purpose Payment

SPV special purpose vehicle

SRMC Short-run marginal cost

TCA Transport Certification Australia

TIF Tax increment financing

TIFIA Transportation Infrastructure Finance and Innovation Act (US)

TOR Terms of reference

WHS Work health and safety

Explanations

|  |  |
| --- | --- |
| Billion | The convention used for a billion is a thousand million (109). |
| Findings | *Findings in the body of the report are paragraphs high­lighted using italics, as this is.* |
| Recommendations | ***Recommendations in the body of the report are high­lighted using bold italics, as this is.*** |
|  |  |