Business Council of Australia

Submission to the Productivity Commission Review of Public Infrastructure

DECEMBER 2013

Contents

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

This submission is to the Productivity Commission Inquiry into Public Infrastructure. The inquiry has two core components:

- The provision, funding and financing of major public infrastructure.
- The scope for reducing the costs associated with such infrastructure.

The BCA agrees these are important economic and policy issues for Australia. The BCA has itself undertaken inquiries on these matters in 2013.

This submission highlights the findings and policy recommendations arising from those inquiries and attaches the final reports of the inquiries as the BCA's substantive contribution to the Productivity Commission's review. The submission then provides comments on some of the questions raised in the issues paper released in November to support this review.

Key points

- Australia has a significant challenge ahead to provide the economic infrastructure needed in the transport, energy, water and communications sectors to keep pace with growth and lift productivity and standards of living.
- Australia's population is expected to grow from 23 million to 38 million by 2050 and our cities are set to almost double in size. Our freight task will double by 2030. Productivity growth of at least 1.6 per cent a year will be needed to maintain solid growth in national income.
- We will need to both invest in new infrastructure capacity and make more efficient use of our existing infrastructure to meet the challenge.
- While private and public investment in infrastructure have risen to historically high levels of about 4 per cent of GDP in the past decade, we will probably need to at least maintain this spending rate for the next 10 years at a cost of at least $760 billion. We may need more.
- With budgets constrained, Australia's governments face a significant challenge to pay for future public infrastructure investment. We will need to continue the trend towards private investment in infrastructure and more user-pays and capital recycling to fund projects.
- There is no shortage of private capital to achieve this; the challenge is to create an environment for private investment in infrastructure, including designing every public infrastructure project for private investment either upfront or over time.
- Governments will need to redefine and better coordinate their roles. They will need to prioritise better infrastructure planning, regulation and innovative funding and financing models that attract private investment over direct infrastructure ownership and provision. They will, however, need to retain an important role to directly fund and develop public infrastructure that is beneficial to the community but is not feasible for the private sector to do so alone.
- Infrastructure planning and prioritisation systems will need to be improved to ensure that public investment is going into the new investment that's needed. An independent, rigorous and unfettered Infrastructure Australia will be important for advising governments on the projects with the highest value to the community and for supporting economic growth.
- We also need to get more out of our existing infrastructure – infrastructure plans of governments should include recommendations for removing regulatory barriers to efficient infrastructure use.

- Containing projects costs will deliver better value for money. Three key areas for industry and government to prioritise their efforts are in better project management, more efficient project approvals processes and more productive workplaces.

1. Recommendations on infrastructure funding and financing

The BCA's recommendations on infrastructure funding and financing in this section are taken from a report titled *Securing Australia's Investment Future: Infrastructure Funding and Financing* that we released in November 2013, supported by a report provided to the BCA by PwC. Further detail can be found in the full report in Attachment 1.

The BCA's principles on infrastructure, ownership and pricing in Exhibit 1 shape the BCA recommendations on infrastructure funding and financing in this submission. The principles were first published in our *Pipeline or Pipe Dream* report (2012).

Exhibit 1: BCA principles on infrastructure ownership, regulation and pricing

The following criteria should determine whether an asset is owned privately or by governments, and how that asset should be operated:

- Governments should sell infrastructure assets where the private sector already owns other like assets and provides other like services (this effectively demonstrates adequate policies are already in place to protect consumers).
- Private ownership should be preferred where appropriate arrangements can be established for the infrastructure service in any of these three ways:
  - There is a market price set by an effective and contestable market for the infrastructure service.
  - There is a regulated price that allows an adequate return on an efficient investment while also protecting the interests of consumers.
  - There is an implicit contract price that a government agrees with the owner of the infrastructure on behalf of public users (includes community service obligations).
- Government ownership should only be preferred where it can be demonstrated that it is necessary for achieving the community's objectives with respect to infrastructure provision e.g. demand risk on some new greenfield projects.
  - These businesses should be sold once the project has matured.
  - Government owned infrastructure should outsource delivery and operations based on competitive long-term contracts.

Recommendation 1: Produce a consistent pipeline of high-quality public infrastructure projects initiated by governments

Governments need to speed up and prioritise the planning and prioritisation of high-value public infrastructure projects that can be brought to market. To do this requires:

1.1 States to provide well-constructed business cases to the Commonwealth based on standardised formats.

1.2 Infrastructure Australia to both evaluate state projects for Commonwealth funding and also take an active role in identifying, analysing and prioritising nationally significant projects. All evaluation and prioritisation to be supported by transparent cost-benefit analysis.

1.3 Infrastructure Australia to give preference to opportunities to optimise and upgrade existing infrastructure where that is the more cost-effective option.

1.4 State governments to produce 15-year prioritised investment programs.

1.5 Adopt the New South Wales practice of considering unsolicited bids from the private sector if value-for-money is expected.

1.6 Reduce the time taken to assess the suitability of projects for delivery and bring them to market.

1.7 Streamline the planning approvals process for infrastructure projects within and across governments to reduce delay and cost.

1.8 Governments should de-risk projects where appropriate to facilitate private involvement.

Recommendation 2: Implement a program to recycle funds and obtain operational efficiencies from privatising infrastructure assets

Commonwealth, state and territory governments should commit to privatising those infrastructure assets for which feasible private sector ownership options exist.

2.1 Funds from the sale or lease of state-owned assets should be hypothecated towards new infrastructure investment.

2.2 National Partnership payments to states should be scaled back if there is no progress on privatisation.

2.3 Re-examine legislation that mandates retention of legacy labour provisions post-privatisation.

2.4 Private sector participation needs to be accompanied by an appropriate regulatory regime and/or contracting arrangements.

Recommendation 3: Develop and define the funding roles of the federal and state governments

Define the roles of the Commonwealth and state governments to facilitate a greater Commonwealth funding role. This requires:

3.1 Conclude a long-term intergovernmental infrastructure funding agreement to set out the amount and terms of Commonwealth support for infrastructure projects, including that user-pays and value-capture options are prioritised.

3.2 Heads of Treasuries to request the Productivity Commission to review state and Commonwealth roles in the strategic management and funding of infrastructure.

3.3 Nominate a minimum target level of Commonwealth spending on infrastructure as a percentage of the Commonwealth Budget.

3.4 Commonwealth spending through contributions to the Building Australia Fund to be evaluated and prioritised according to the advice of Infrastructure Australia.

3.5 Consider Commonwealth borrowing and other measures that use its balance sheet strength to fund high benefit-cost ratio infrastructure projects.

3.6 Capture the value of infrastructure investments and use it to pay for projects.

3.7 Develop new co-funding models between the Commonwealth and the states.

Recommendation 4: Match the funding and financing model to the project

Ensure the funding and financing model matches the project objectives by:

4.1 Building the capability in the public sector to design funding and financing models suitable for each project and be flexible to avoid a one-size-fits-all approach.

4.2 Leveraging value by choosing the most appropriate investment amounts and funding options in consultation with Infrastructure Australia.

4.3 Improving risk allocation through appropriate government de-risking strategies.

4.4 Where major infrastructure investment is through new or existing Commonwealth (or state) Government Business Enterprises it should be subject to constraints.

4.5 Governments should adopt more diverse options for funding and financing infrastructure, with all options on the table before determining the best approach for an individual project.

Recommendation 5: Improve and make greater use of public-private partnerships (PPPs)

Improve and make greater use of PPPs through:

5.1 Consider the suitability of PPPs for every major infrastructure project.

5.2 Reduce the costs of delivering PPPs and continue to develop the PPP model to allow it to be used in more sectors.

Recommendation 6: Develop capital markets by growing demand for project debt

Support the development of markets to expand the ways private investors can invest in infrastructure through:

6.1 Supporting further investigations into facilitating the increased funding of infrastructure projects through both the professionally managed and self-managed super funds.

6.2 Promoting privatisation to develop demand for longer-term debt, and improve liquidity in the Australian bond market.

6.3 Exploring issuing Commonwealth bonds with a 30 to 50-year tenor to encourage and underpin a longer-term debt market.

Recommendation 7: Address the taxation treatment of long-lived infrastructure investments

Promote taxation reform that can counteract the existing bias against long-term savings and investment in infrastructure. Specifically:

7.1 Support the current infrastructure tax loss incentive scheme.

7.2 Allow infrastructure investments to be treated as eligible investments for flow-through trust taxation.

7.3 Allow unit trusts to utilise carry forward tax losses on the same basis as companies.

7.4 Exempt interest and dividends from taxation for Australian superannuation funds in the same manner as foreign exempt pension funds.

7.5 Cut the company income tax rate to a more globally competitive 25 per cent as soon as fiscal circumstances permit.

Recommendation 8: Develop markets, private investment and adopting user-pays

Continue to develop sustainable markets for transport, communications, energy and water based on the principles of user-pays and private investment and applying economic regulation where needed. Specifically:

8.1 Transport – accelerate reform of road pricing and review transport subsidies.

8.2 Energy – complete reforms enabling efficient generation capacity and full retail contestability.

8.3 Rural water – complete pricing reforms in the rural water sector.

8.4 Urban water – extend full and independent economic regulation to all urban water utilities.

8.5 Draw on evidence to communicate the benefits of private ownership and user-pays funding to the community and to state governments.

2. Recommendations on infrastructure project costs

The following recommendations on project costs are from the Report of the BCA Project Costs Task Force, released in August 2013. The full report is in Attachment 2.

Overall comment

With investment set to play an increasing role in our economy, Australia needs to get its regulatory, workplace and skills settings right in order to avoid big boom and big bust cycles. The goal needs to be to get Australia's local workforce that has worked on the most recent boom on to a well managed next wave of projects – securing the knowledge learned from the most recent boom. To do this Australia's regulatory environment must be stable and effective and our cost competitiveness, compared to the rest of the world, must be improved.

Four key areas were identified for reform in order to reduce Australian costs to remain globally competitive:

1. Improving access to a skilled workforce.
2. Improving government approvals processes.
3. A workplace relations environment that is focussed on productivity.
4. Alleviating impacts of remoteness.

In each area, there are actions that can be taken at the industry level – by relevant companies acting collaboratively – and at each level of government. As noted earlier in the report, individual companies will also be able to identify a number of actions that will reduce costs and improve productivity.

For its part, industry is continuously working to capture the lessons of completed major projects to improve its ability for project management, engineering and execution.

Recent industry initiatives include working with the higher education sector and professional bodies to achieve:

- better oversight and governance over project plans and schedules to correct for optimism bias and narrow considerations of risk
- collaborative engagement with internal and external stakeholders including government, the workforce and the broader community
- leadership practices that communicate strategy effectively and develop the specialist skills and capabilities of individual project team members.

Improving access to a skilled workforce

Findings

The capital project investment boom has led to unprecedented demand for project managers, engineers and other skilled professionals, as well as skilled trades.

To meet this demand, companies have had to rely on overseas professionals and trades people, and professionals who previously had no direct experience in the mining and oil and gas sectors.

Demand for these skills has inflated the cost of labour, and efforts to train professionals from other sectors may have contributed to poor indirect productivity and increased costs in the construction phase.

A flexible, cost effective skilled migration program will remain an essential element in meeting peaks in demand for skill labour.

Reforms

Australia must ensure its migration and immigration settings allow companies to meet the cyclical demands for labour generated by mega projects. This demand for labour cannot be met by increased domestic training or retraining alone attempts to develop a domestic workforce to handle an investment peak would be economically inefficient and socially irresponsible as it would result in poor skills utilisation and underemployment in times of more moderate demand. It is more efficient and economical to bring in skilled workers and managers to meet peak demand and then return them when demand falls to a level which can be met by local supply.

A flexible and efficient temporary skilled migration program must be put in place.

Notwithstanding that there will remain a need for skilled temporary migration, the size and nature of the investment pipeline means that Australia must train more quality project managers, planners and engineers.

Industry, governments and unions all have a role in this regard:

1. The Commonwealth and state governments need to work together to better measure the forward investment pipeline and capture data on the costs of delivering public infrastructure projects. Such a task could be overseen by the Bureau of Infrastructure, Transport and Regional Economics, and would be complementary to the role of the Bureau of Resource and Energy Economic in collecting resources and energy related data.
2. The Commonwealth Government should ensure project proponents have access to the skilled workforce that is needed to deliver major projects competitively. This means ensuring Australia remains open to skilled migration to meet peaks in demand, taking steps to remove barriers to labour mobility, support the education and training system to improve the skills of the labour force, supporting industry to train their workforce.
3. The construction and resources sectors should take steps to support the development of centres of excellence to capture the engineering and project management lessons from the first phase of the resources boom. This could be done in partnership with the John Grill Centre for Project Leadership at the University of Sydney. The focus should be on:
   - 3.1 better oversight and governance over project plans and schedules to correct for optimism bias and narrow considerations of risk
   - 3.2 collaborative engagement with internal and external stakeholders including government, the workforce and the broader community
   - 3.3 leadership practices that communicate strategy effectively and develop the specialist skills and capabilities of individual project team members.
4. The Commonwealth Government should implement the National Science, Technology, Engineering and Mathematics (STEM) Strategy called for by the Chief Scientist of Australia. This will enable a whole-of-government approach to coordinating STEM policies, prioritising public investment and adopting an incentive structure that encourages growth in business investment.
5. All governments and relevant agencies should use future workforce estimates to better target training and migration programs to alleviate skills shortages.

Improving government approvals processes

Findings

The planning and environmental approvals processes associated with major capital projects has increased costs, delays and uncertainty. This has materially impacted on the cost competitiveness of Australian capital projects and has caused the deferment of investment at the cost of jobs and productivity.

Reforms

The efficiency and effectiveness of environmental regulation in Australia can be improved without cost to the environment by shifting the Commonwealth Government's role away from assessing and approving individual projects to one of strategic and regional assessment/management and systems stewardship.

1. The quality of regulation making should be lifted by making the preparation of Regulation Impact Statements a statutory requirement for all new regulations with a significant impact, with exemptions strictly limited to issues of national security and emergency.

Environmental regulation

2. The Commonwealth should negotiate bilateral agreements under the *Environment Protection and Biodiversity Conservation Act* (the EPBC Act) to accredit state government environmental approvals, initially for low-risk, low-impact projects in environmentally well understood areas.
3. The EPBC Act should be amended to remove the 'water resources' trigger as this directly duplicates existing processes for no environmental gain.
4. The Commonwealth should accelerate strategic environmental assessments in areas where major developments and projects are likely to occur. These assessments should provide for subsequent developments to be deemed complying developments having been tested against a set of criteria established in the strategic assessment.

Major project approvals

5. COAG should reform development assessment systems by removing duplication between the Commonwealth and states (including through bilateral agreements for states to approve proposals under the EPBC Act, initially for low- risk, low-impact proposals in environmentally well-understood areas), establish single approvals authorities and move to deemed approvals for complying developments.
6. The federal government should make productivity payments conditional on states agreeing to reform their development assessment and approval processes to make greater use of zoning and complying development, consistent with long-term integrated strategic plans. It should systematically measure the cost of multiple regulatory approvals processes on individual projects and report publicly.
7. State governments should adopt improved best practice arrangements for assessment of major economic, infrastructure and resource projects. This includes a single agency to deal with major project approvals and removing the concurrence powers of other state government agencies.
8. State governments should:
    - 8.1 undertake regional planning (as well as capital city planning) and in collaboration with the Commonwealth and local governments, where appropriate, to identify major land uses and associated infrastructure requirements
    - 8.2 use planning instruments which allow all policy matters to be brought forward into rezoning decisions, and which provide for subsequent developments to be deemed complying development and tested against a set of performance standards
    - 8.3 reserve areas for designated activity as part of strategic planning and where possible deem permissible activity as complying, for example, resources exploration.

A workplace relations environment that is focussed on productivity

Findings

Workplace relations laws have resulted in greenfields projects being delayed and costs driven up without commensurate improvements in labour productivity. Further, the *Fair Work Act* has resulted in a differential between the cost of labour under union enterprise bargaining agreement (EBAs) and non-union subcontractors that cannot be sustained without improvements in labour productivity.

The scope of matters that can be included in EBAs has reduced project managers ability to take decisions to lift productivity and manage costs. This has reduced the flexibility required to deliver projects on time and within budget.

Reforms

The *Fair Work Act* should be reformed to create the institutional, policy and regulatory environment in which businesses can respond effectively to competitive pressures. These settings will largely apply across the economy. Settings will need to foster productivity through:

- supporting direct engagement between employers and employees at the enterprise level
- creating an environment that reduces unnecessary uncertainty and risk
- giving managers full discretion over management issues
- creating incentives for collaboration and minimising industrial conflict
- delivering fair remuneration outcomes that reward effort
- promoting healthy and safe workplaces.

1. Specifically, the *Fair Work Act* should be amended to:
   - 1.1 ensure good faith bargaining and provides access to employer-only greenfield agreements
   - 1.2 reduce the scope for adverse actions with the aim of removing opportunities for vexatious claims
   - 1.3 limit access to protected action where there has been unreasonable or capricious use of access to protected action
   - 1.4 make illegal clauses which exclude the engagement of contractors or labour hire companies
   - 1.5 modify the ‘better overall outcome test’ to provide for a broadening of scope of what is included in the test
   - 1.6 improve the capacity for the use of individual flexibility agreements
   - 1.7 modify clauses in relation to majority support determinations to ensure they are on the basis of secret ballot, open to both employers and employee bargaining representatives and provide for ballots during protracted bargaining periods.
2. There should be no return to compulsory arbitration. The *Fair Work Act* should include capacity for the head contractor facing excessive demands to seek the review of the proposed agreement by the Fair Work Commission against a set of criteria including the relevant award, national employment standards and better off overall test. Subject to the agreement meeting these criteria the Fair Work Commission should then have the power to issue a greenfields determination for the duration of the project.
3. Any provisions relating to rights of entry should be redrafted to reflect the arrangements that were previously in place i.e. a union has a right to enter a workplace where:
   - 3.1 the union is covered by an enterprise agreement that covers the site or be attempting to reach one

 3.2 the union can demonstrate that it has members on that site

 3.3 those members have requested the union's presence.

4. The building and construction sector benefited from the previous regulatory environment prior to the abolition of the Australian Building and Construction Commission (ABCC). The benefits of this regulatory environment need to be restored by reintroducing the ABCC.
5. The Productivity Commission should be tasked to conduct a wide-ranging inquiry into the best form for modern workplace relations regulation in order to improve competitiveness and productivity without compromising worker pay and conditions. An interim report making recommendations on the most pressing workplace relations issues should be provided within three months.
6. The Commonwealth should ensure that the same behavioural standards apply to all parties in each workplace negotiation – employers, employees, managers and unions by inviting the Australian Council of Trade Unions to consider developing a voluntary code of conduct for its members.

Alleviating impacts of remoteness

Findings

The remote environment in which many major capital projects are being constructed increase the cost base and exacerbate other drivers of cost – such as a shortage of skilled professionals. While only limited policy options are available to governments in this regard, there are measures that could be pursued.

Reforms

All governments need to ensure their development policies and infrastructure priorities support the 'normalisation', to the greatest extent possible, of the economic and social infrastructure of remote regions that will experience sustained capital investment.

1. State governments should establish special development authorities for regional growth areas to expedite land approvals and the development of social and economic infrastructure.
2. Regional development plans around major resource projects should be carried out by state governments, including provision of housing and economic and social infrastructure. Special development zones should be established to expedite approvals of land use.
3. All governments should support efforts to increase geographic mobility by:
   - 3.1 nationally recognising trade licences regardless of the jurisdiction in which they are obtained
   - 3.2 reducing or removing transactional taxes on property transfer (house sale) in favour of less distortionary tax bases
   - 3.3 working towards a common school starting age and national curriculum
   - 3.4 maintaining policy settings that minimise costs to employers who have staff on fly-in/fly-out work arrangement.
4. The Commonwealth and states should review the efficiency and suitability of current transport links from ports through to major capital projects in remote regions.
5. Commonwealth and state governments must make improving the efficiency of ports and airports a priority.

3. Comment on questions raised in the public infrastructure issues paper

This section comments on some sections of the 'public infrastructure' issues paper released in November, for this review.

Definition of public infrastructure

The issues paper defines 'public' infrastructure as "infrastructure where government has a primary role and responsibility for deciding on whether infrastructure is provided, and/or the source of the revenue streams to pay for the infrastructure".

This definition suitably describes 'publically provided infrastructure', however for this review it may be too limiting if it does not sufficiently allow for consideration of 'public infrastructure' that is privately provided. For instance, privately provided infrastructure that is subject to economic regulation by governments.

An alternative approach would be to define 'public infrastructure' by the function it serves in the economy, that is, it provides a utility service to the public. A key defining element of 'public infrastructure' therefore might be that the services provided are available to any member of the public who wishes to access the service (noting a fee may be charged) as opposed to infrastructure that is only available for private use or where the owner restricts who can access it.

This is important because a key purpose of the review should be to examine alternative options for the provision of 'public infrastructure' by the private sector and the policy frameworks needed to achieve this in a way that serves the national interest. In many cases this will mean government's primary role will be as a regulator of the private provider (eg infrastructure pricing, where appropriate) rather than a provider itself.

The issues paper also asks about the types of nationally significant economic infrastructure that should be in scope. Our view is that all of the main categories of economic infrastructure should be in scope – transport, water, energy and communications infrastructure – whether it is provided publically or privately. The reason for including private investment is for the reasons discussed above but also because government policies can have a significant impact on efficient private infrastructure provision and use.

Trends in infrastructure delivery

The discussion in the issues paper about trends in infrastructure delivery is centred on work done for the public sector. For completeness the final report should also look at trends in private investment to provide the full picture of the shift that has occurred from public to private investment over time, and to reflect that private investment on its own is now around 50 per cent of all infrastructure investment. Not all of this private investment is resource-related, some of it is in infrastructure that is 'public' in nature and so should be within the scope of this review.

The issues paper then asks a highly pertinent question 'what information is available to show trends in public infrastructure investment? As a general observation there is a need for improved collection and publication of consistent data on infrastructure investment, infrastructure ownership and how infrastructure is paid for to better inform the national infrastructure debate.

Two variables are at times used as a proxy for infrastructure investment – 'engineering construction' and 'gross fixed capital formation'. Engineering construction is for instance used by Bureau of Infrastructure, Transport and Regional Economics for its annual infrastructure handbook. Depending on the purpose, engineering construction is probably a better measure of infrastructure investment as it leaves out other project-related investments in equipment, software etc.

However, the engineering construction data is not readily available by the source of the original investment – whether from private sources, public corporations, federal government, state government or local government. The provision of this information would be useful for providing more detail on how Australia's investment in infrastructure is funded and financed.

Another issue is data on the forward infrastructure pipeline. As the issues paper says (and the BCA has also pointed out) the cyclical nature of investment can impact on input costs. So when there are many projects competing for a relatively fixed pool of scarce labour, land and capital resources the cost of projects inputs can rise which in turn threatens the viability of the projects. To the extent that policy makers can manage this problem they first need to have a clear picture of the forward infrastructure investment pipeline.

The most comprehensive set of data on future investment across the economy, including infrastructure investment, is provided in the Deloitte Access Economics Investment Monitor. The Bureau of Resources Energy Economics collects and publishes data on the forward pipeline of resources investment and resources-related infrastructure investment. There is no equivalent government publication on the economy-wide forward pipeline of investments in economic infrastructure. The recently established National Infrastructure Construction Schedule only lists projects to be tendered by governments. The adequacy of information on the national infrastructure pipeline and the need for this information is worth further exploration in this review.

Models for the provision of public infrastructure

Additional models to the approaches listed on page 9 of the issues paper are:

- the payment of subsidies e.g. to fund a universal service obligation by a third party
- the use of competitive tendering.

Coordination issues between federal and state governments and the private sector (p.10)

The issues paper asks about coordination issues between the major participants in the infrastructure sector. It is clear that coordination problems do occur, such as disagreements over project prioritisation and funding between governments, or difficulties experienced in the tendering processes for PPPs that raise the cost and risk to bidders.

Coordination problems were less of a problem in the past when most infrastructure was provided by state governments. Now, with the federal government and the private sector playing increasingly important roles alongside state governments in infrastructure provision it is not surprising that coordination problems among parties exist. This is why the BCA in our *Action Plan for Enduring Prosperity* recommended that the federal government should develop a national infrastructure policy that recognises the changes in the way infrastructure is provided in Australia today and spells out the key roles and responsibilities for infrastructure provision among the private and public sectors. An important component of a national infrastructure policy would be to promote infrastructure development models where the private and public sectors can each play to their strengths and work more effectively together.

Infrastructure funding is a key area of policy requiring better coordination. We have recommended a new intergovernmental agreement on infrastructure funding be agreed between the Federal and state governments that defines the funding commitments of each level of government and provides an opportunity for the federal government to play a greater role given its greater capacity to source funds efficiently.

Decision-making and institutional arrangements

The issues paper raises the importance of good decision making. It is vital that Infrastructure Australia is given an unfettered function to evaluate and propose infrastructure projects that it considers to be of importance to the national interest . Governments can make their own decisions about whether to accept or reject Infrastructure Australia’s advice, but what is important is that IA is able to undertake the rigorous, transparent and independent analysis needed to inform governments and the community of the infrastructure priorities for growing productivity and wealth.

Funding and financing mechanisms

Our attached report has our findings and recommendations for the use of funding and financing mechanisms by governments. User pays and capital recycling should be prioritised to fund projects.

An overarching comment is that flexibility and capability are keys to success. Flexibility is needed so that all funding and financing options can be considered with the best mechanism chosen to suit the particular project. Governments will need to continue to develop their capacity for designing innovative infrastructure funding and financing models to support this flexible approach. While the level of capacity across governments is somewhat mixed, it is also recognised that some jurisdictions have highly capable officials performing leading edge infrastructure funding and financing design and implementation. Jurisdictions should continue to engage and share their experiences and learning to help grow capability across the entire country.

The issue paper asks a question about the value of private financing measures. While public borrowing may incur a lower financing cost than private borrowing, the offsetting benefits that private financing can bring comes from the greater discipline on capital and operating cost management as well as the innovation in infrastructure design, development and operation that adds value.

Superannuation funds are emerging as major investors in infrastructure and should be a key focus of the review especially given Australian superannuation funds under management is set to grow from $1.6 trillion to over $6 trillion by the mid-2030s. Their role in the future provision of public infrastructure needs to be fully explored, including assessing barriers to investing in infrastructure debt and equity by the largest and fastest growing segment, the self-managed superannuation funds.

The impact of taxation should be included in the scope of the review and its impact on attracting private financing into long-lived public infrastructure, especially taxes on the returns to corporate income . Ideally infrastructure taxation would be evaluated as part of a wider consideration of the importance of tax reform for attracting long-term investment and growing the economy.

Financial risks to the Commonwealth (p.17)

This part of the review needs to explore and make recommendations on the appropriate use of contingent liabilities, both quantifiable and unquantifiable, to provide financial support for new infrastructure investment and how adequate safeguards can be put in place to ensure they are consistent with long-term fiscal and economic growth strategies.

Project costs

We agree with the Productivity Commission's assessment that the collection and publication of data on public infrastructure project costs is lacking in Australia. In evaluating infrastructure costs, the Productivity Commission will need to refer to both the available Australian Bureau of Statistics data and also individual project cost data. It would be helpful for the Productivity Commission to make recommendations to improve institutional data collection and publication of public infrastructure project costs.

Workforce Issues

Recommendations for industrial relations policy reform were set out in the earlier section on the BCA report of the Project Costs Task Force.

It is important that this part of the review however explore not only the opportunities for industrial relations policy reform but also what role the different stakeholders can play to improve the productivity of Australia's workplaces. For instance the BCA has identified the need for companies to continue to improve project management performance on major projects.

Also, in referring to industrial relations matters, the review should not limit itself to construction but also the impact of industrial relations policies on the operational environment.

Skills shortages and cost pressures

Skills shortages are a major challenge for efficient delivery of public infrastructure. A flexible, demand driven temporary skilled migration is critical. The recent introduction of labour market testing for 457 visas should be reversed immediately as it imposes an unnecessary red tape burden on businesses and wastes resources for no discernible benefit. No evidence of systemic problems with 457 visas was provided to justify labour market testing and the policy was not subjected to a Regulatory Impact Statement.

Market structure and behaviours

It should be recognised that achieving a competitive market for public infrastructure provision will require governments to run efficient tender processes that do not impose excessively high costs on bidders, particularly losing bidders.

Procurement and project management

Recent policy changes requiring Australian Industry Participation Plans, referred to on page 35, for all private projects should be scrapped and the creation of the Australian Industry Participation Authority abandoned. This policy imposes unnecessary red tape and a costly compliance obligation on investors when there are just as effective non-regulatory mechanisms that can be used to grow opportunities for Australian industry participation in major investments.

Attachment 1

Securing Investment in Australia's Future: Infrastructure Funding and Financing

Attachment 2

Securing Investment in Australia's Future: Report of the Project Costs Task Force

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