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Wednesday, 2 August 2006

Mr Stephen Boyd
Secretary
House Standing Committee on Economics, Finance & Public Administration
Parliament House
CANBERRA ACT 2600

Dear Mr Boyd,

Please find enclosed Infrastructure Partnerships Australia's submission to the Economics, Finance & Public Administration Committee's inquiry into the current and future directions of Australia's export services sector.

This submission is made on behalf of Infrastructure Partnerships Australia (IPA), the new peak body representing the infrastructure industry in Australia.

Please note that a copy of this submission has been forwarded to the Chairman, the Hon Bruce Baird MP, under separate cover.

I hope that the Committee will find our submission helpful to their inquiry.

Kind regards

GARRY BOWDITCH
Executive Director

Inquiry into Australia's Export Services Sector

“Underwriting a New Wave of Services Export Growth, through Infrastructure Reform & Financing”

Infrastructure Partnerships Australia (IPA) is the national peak industry forum, established to lead the national debate on Australia's infrastructure needs. Infrastructure forms a critical part of Australia's social and economic framework and its planning and delivery relies on strong and genuine relationships between government and the private sector. IPA provides a unique vehicle for the formation of these relationships, by bringing government and the private sector together in the same organisation.

Australia pioneered the Public-Private Partnership (PPP) model as a method of infrastructure procurement and Australia's success in exporting this model around the globe is recognition of the depth of expertise and experience that Australian's have to offer. The appetite for innovation and improvement of PPP procurement models in export markets is immense and will form an important and growing component of services exports, especially in terms of advanced business services.

This submission endeavours to set the scene for the committee to draw on the link that exists both directly and indirectly of the importance of public-private partnerships in the context of the terms of inquiry, both in the provision of physical and social infrastructure; and the inevitable intellectual property that results and the appetite for these skills and knowledge in service export markets.

Introduction

Australia has established itself as a global leader in the financing, construction and operation of infrastructure. The benefits to the economy from best practice delivery of infrastructure have been profound both in terms of local economy and its ability to export the innovation and human capital across the globe.

The context of this submission is that Australia has benefited from its investment in microeconomic reform, innovative regulatory regimes (including for example competition policy, third party access, and CLERP), financial market deregulation and floating of the exchange rate. Collectively these changes have had an enduring impact on the Australian economy that unleashed a wave of economic growth and formation of new and vibrant sectors that have changed the economic landscape.

Innovative Public Policy Reform – An Underlying Driver of Service Exports

The task ahead in financing, constructing and managing Australia's infrastructure is bigger than the capacities of any single government. The timely provision of infrastructure delivered and operated on a 'best practice' model is the key to meeting the challenges ahead. This will only be achieved with the strong participation of the private sector working in partnership with government by developing more options for financing and maintaining new roads, schools, public hospitals and water facilities.

The task ahead is to ensure that the engagement model between the public and private sector continues to develop in infrastructure, that will not only serve Australia well locally, but the skills and intellectual property will augur well for broadening and deepening the export of services.

PPP's represent one among many forms of procurement for infrastructure which has served governments well. It is important to recognize that Australia has pioneered the PPP model particularly with toll roads and successfully exported it to the world. This is a testimony to the quality and depth of expertise and innovation in Australia and should be a basis for governments in Australia to engage the industry more robustly.

Despite the global success of the PPP model pioneered in Australia, there is a move to further refine the model in the spirit of continuous improvement. While there is more to be done, the track record of PPPs has been overwhelmingly successful.

Privately financed infrastructure has delivered tangible benefits for Australians, with PPPs providing much-needed facilities, excellent value for money and much faster delivery than would have occurred if traditional procurement methods had been used. The confirmation of PPPs as a highly effective method of procurement comes from independent analysts, government auditors and most important of all the very people who use the infrastructure. For example,

- Victoria's major PPP projects were reviewed in 2004 by Peter Fitzgerald and his official report found "credible evidence of benefits, including innovation, timeliness, certainty of price and a whole-of-life approach to maintenance".
- A comprehensive U.K. National Audit Office report found that privately financed projects reduced the total cost of infrastructure provision and brought "significant benefits to the central government in terms of delivering built assets on time".
- The NSW Auditor General's Office and NSW Treasury have also provided guidance, most recently in the reviews of the PPP for new government schools in western Sydney. Their reports endorsed the State's decision to use private finance, finding that:
 - the nine schools were delivered two years earlier than if traditional public sector procurement was used;
 - innovation was advanced, like child care centers and on-site maintenance managers; and
 - the savings using PPP delivery were retained by the Education Department, with \$7m of capital savings used for other school projects.

PPPs may not always be the right mechanism but funding and delivery models must be assessed on a case-by-case basis. Experience in Australia and abroad demonstrates that PPPs often provide the most compelling option, especially for large complex projects without any loss of control or transparency.

The partnership allows government to step back and develop strategic policy objectives that will endure for decades ahead and to set a sanction mechanism should they not be achieved. It is in these circumstances where the private sector has clearly articulated objectives and sanctions that it can work most effectively with government and manage the risks in design, construction and operation.

Any balanced analysis of initiatives as diverse as Melbourne's City Link project, Sydney's M7 Westlink, the Victorian County Court have delivered superior value for money than traditional public works. In such cases the competitive pressures of the PPP bidding process, linked with a whole-of-life management approach lead to innovative engineering and service delivery outcomes that are simply better than any alternative. This is why partnership models in infrastructure must be championed and further developed to ensure there are positive options a government can choose to deliver infrastructure and services.

The appetite for this innovation in export markets is immense and the task for government is to maintain the deal flow of new projects that imposes heavily on the private sector to innovate and develop new solutions to financing and operation of infrastructure to the ultimate benefit of the export markets. These skills and expertise will only develop when there are sufficient new projects that allow the private sector to engage and add value to government objectives.

Identification of policy opportunities

Engaging the innovation of the private sector is a fundamental part of growth in the economy. There is no exception to this in any sector including the export of services.

Another compelling reason for Australia to form stronger partnerships between government and the private sector in the delivery and operation of infrastructure is the imperative to accommodate superannuation savings with quality projects.

Superannuation investment in sound public infrastructure projects is a hand-in-glove fit given the long life of the assets and the liability profile of superannuation funds and life companies. Championing these investments with a strong pipeline of projects, and encouraging funds to take more active and upfront roles, possibly even as a partner in the special purpose vehicles. This will underpin deeper links with the community that the private sector is a worthy partner and better connect private investment potential in building a nation.

The task of creating more investment projects to accommodate the 'wall of money' from superannuation in Australia is also closely linked to the broader debate concerning services exports. This is because the policy framework to engage the private sector in infrastructure projects will need to be the type of investment that will sustain Australia's productivity performance in coming years, ensuring we continue to improve our standard of living.

One such area relates to the provision of economic infrastructure. This is an area where the level of private sector involvement has increased. As mentioned, there has been

significant private investment in the development of major tollways, which have had important benefits in terms of reducing congestion, as well as investment in communications – the information highways - electricity infrastructure, airports and maritime facilities.

There is no doubt that the experience of the past decade has also shown that well developed capital markets play an important role in facilitating the private sector funding of such infrastructure investments. The liquidity and depth of the Australian equity market enables financial engineers to structure investments in long term assets in a package that is highly liquid.

The opportunities to do more are enormous. The construction of major toll roads to alleviate congestion, and there is a strong case for the upgrading of public transport infrastructure, particularly in those rapidly expanding edges of the major urban areas. Education is an area where further investment would undoubtedly generate significant productivity. Tertiary education has also been a sector that has grown strongly – a sector that also potentially has a requirement for additional capital expenditure to enable it to expand the provision of high quality services. The need to ensure that the workforce's skills keep pace with the changing demands of the economy and technology mean that work related training will remain a significant area of business even as growth in the workforce slows and the expansion of the retirees dependant on the public sector gathers pace.

Conclusion

The public sector still has an important role to play in the provision of economic and social infrastructure. There are tremendous opportunities for public-private partnerships both in the provision of physical infrastructure and social infrastructure. Tackling these issues will be the key to building the skills and capabilities to address fundamental challenges in Australia and in doing so underwrite the next wave of services export growth.

Yours sincerely,

GARRY BOWDITCH
Executive Director