Submission No 17

INQUIRY INTO IMPACT OF PORT OF NEWCASTLE SALE ARRANGEMENTS ON PUBLIC WORKS EXPENDITURE IN NEW SOUTH WALES

Organisation: Infrastructure Partnerships Australia

Date Received: 15 January 2019

INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

14 January 2018

Public Works Committee
6 Macquarie Street
Parliament of NSW
Sydney NSW 2000

Dear Committee Chair,

RE: INQUIRY INTO THE IMPACT OF PORT OF NEWCASTLE SALE ARRANGEMENTS ON PUBLIC WORKS EXPENDITURE IN NEW SOUTH WALES

Infrastructure Partnerships Australia welcomes the opportunity to submit to the Public Works Committee's inquiry into the impacts of the sale arrangements of the Port of Newcastle on public works expenditure in NSW.

Infrastructure Partnerships Australia is the nation's peak industry body for infrastructure, providing independent policy and research focused on excellence in social and economic infrastructure. As such, we are keen to contribute to the inquiry as this issue relates to two contemporary issues in Australian infrastructure – asset recycling and investor certainty.

The NSW Government has over recent years shown national leadership in these areas, leading to record funding levels and strong appetite to invest in the State. In relation to the present inquiry, we submit the following for consideration:

- asset recycling is delivering enduring benefits through more efficient services and catalysing the NSW Government's record infrastructure investment program. Asset recycling should remain a core part of the funding mix moving forward.
- there is a range of emerging risks eroding investor confidence at the national level, including changes to taxation, regulatory structures and policy uncertainty. Given the national risks, the NSW Government has a key role to play in maintaining the wider stability of the State's infrastructure market – by honouring the commercial integrity of contracts and conducting any negotiations to vary those contracts on a reasonable basis, and.
- the ACCC's proceedings in the Federal Court against NSW Ports risk escalating the already high levels of investor uncertainty emerging in the Australian infrastructure market, regardless of the Court's decision.

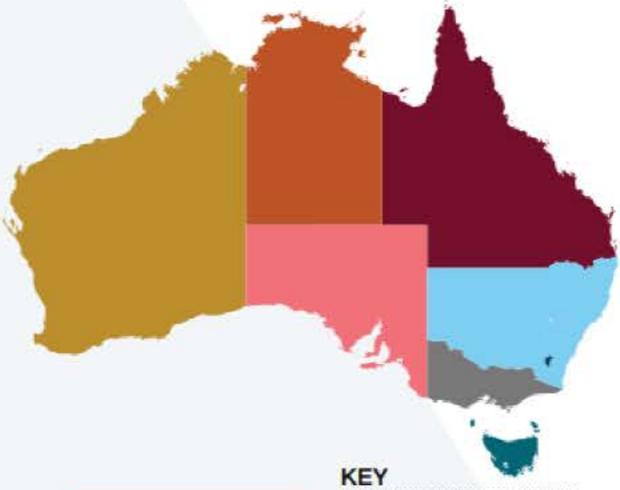
Asset recycling has underpinned NSW's leading position in Australian infrastructure

Since the decline of the capital investment phase of the mining sector in FY2013-14, public infrastructure investment has emerged as one of the key drivers of growth in the Australian economy. Victoria and NSW have significantly increased their infrastructure funding levels over the past five years. This increase in infrastructure funding has been necessary to accommodate Australia's growing population, particularly in Melbourne and Sydney, and to make up for underinvestment in infrastructure over previous decades.

The NSW Government's strong infrastructure program has been underpinned by the State's asset recycling program. The long-term lease of Port Botany and Port Kembla released $4.25 billion, and Port of Newcastle $1.5 billion in net proceeds which has proved critical in delivering infrastructure projects across the State. The divestment of these legacy assets into private ownership has also improved their long-term operating efficiency, helping to place downward pressure on the cost of goods and services to NSW households and businesses.

The NSW Government has received over $24 billion of net proceeds from asset recycling, not including the sale of 51 per cent of Sydney Motorway Corporation or NSW's share in Snowy Hydro. This has lifted the State's investment levels (see Figure 1) which shows that infrastructure funding as a percentage of total expenditure places NSW as the leader for infrastructure investment nationally. In the 2005-06 NSW Budget, an average of just nine per cent of expenditure was allocated to infrastructure over the four budget years, a stark contrast to the 17.65 per cent average of expenditure allocated to infrastructure over the four budget years in the 2018-19 NSW Budget.

Figure 1: 2018-19 Australian infrastructure funding levels, ranked by share of budget expenditure



Rank/Jurisdiction	Share	Total	Change
1st NSW	17.65%	$65.71b	+$16.06b
2nd VIC	11.77%	$33.65b	+$806m
3rd QLD	11.57%	$29.11b	+$2.38b
4th NT	11.39%	$3.03b	+$185m
5th ACT	10.76%	$2.76b	+$285m
6th SA	10.17%	$8.56b	+$1.47b
7th TAS	9.89%	$2.56b	+$518m
8th WA	6.16%	$7.72b	-$1.14b
Commonwealth*	1.04%	$21.47b	-$2.02b

KEY

Rank/Jurisdiction
Share of budget expenditure on infrastructure funding
Total infrastructure funding (over forward estimates)
Change to infrastructure funding programme

Source: Australian Infrastructure Budget Monitor, 2018

The long-term leasing of assets and consequential surge in investment will ensure NSW receives high quality and efficient social and economic infrastructure services in both urban and regional areas. As such, the NSW Government should ensure asset recycling remains a core feature of the funding mix over future budget cycles.

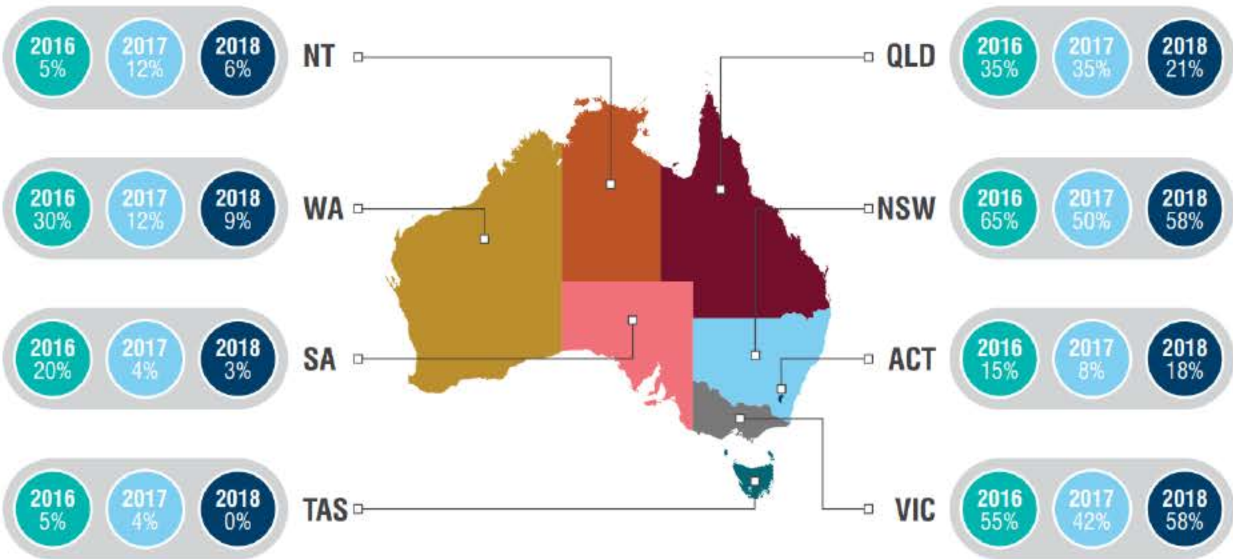
The NSW Government should continue to promote a robust and stable infrastructure investment environment

The NSW Government has consistently led the nation as the preferred destination for infrastructure investment because it continues to support the long-term stability of the investment environment in the State.

The strength of NSW as preferred investment destination is evidenced in Infrastructure Partnerships Australia annual report on infrastructure investor sentiment, titled the *Australian Infrastructure Investment Report*. The report captures the views of international and Australian investors who collectively own or manage approximately $380 billion of infrastructure assets across the globe.

NSW has maintained its leading position as preferred investment destination since the report commenced in 2016, as seen in Figure 2 below. Victoria, the other strong performer, has suffered from major contract cancellations such as East-West Link. However, Victoria's tie for first place in 2018 with NSW is in part due to the State's growing transport infrastructure investment program – funded by the successful lease of the Port of Melbourne and other divestments.

Figure 2: Preference to invest on a state by state basis

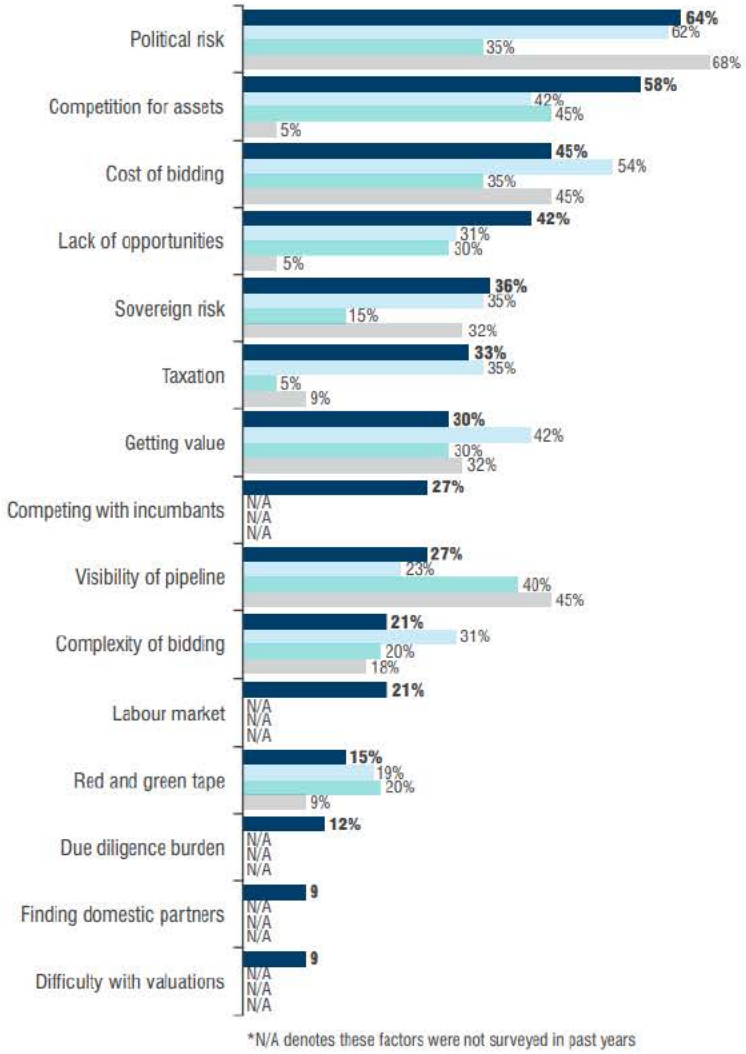


Source: Australian Infrastructure Investment Report, 2018

The 2018 report found that while Australia remains an attractive infrastructure investment destination, our hard-won reputation is increasingly vulnerable. Survey participants raised concerns over the growing uncertainty from the changing political, regulatory and taxation environments.

For the first time, Europe and North America have overtaken Australia as a preferred region for investment. Australia has declined 13 percentage points as preferred destination to invest, since 2017. This decline can, in part, be attributed to emerging challenges in the Australian market. Notably, political risk has emerged as the most significant challenge to investing in Australian infrastructure in 2018, as seen in Figure 3 below.

Figure 3: Most significant challenges to investing in Australian infrastructure (2018)



Source: Australian Infrastructure Investment Report, 2018

Many of the emerging uncertainties cited by investors are under the purview of the Commonwealth Government. These include foreign investment policy, taxation, energy policy and successive inquiries and market interventions.

In the context of the current inquiry, the ACCC's proceedings in the Federal Court against NSW Ports could risk escalating the already high levels of investor uncertainty in the Australian infrastructure market, regardless of the Court's decision. The proceedings could also lead to prolonged and further legal action against taxpayers and investors.

For this reason, the NSW Government plays a critical role in limiting, not compounding, the growing levels of investor anxiety in the Australian infrastructure market. The NSW Government should continue to honour existing commercial contracts and leases, while maintaining a flexible approach that allows for good faith negotiation to respond to potential changing circumstances.

Thank you for your consideration of this submission, if you require further information please contact , Director of Economics and Policy,

Yours sincerely,

ADRIAN DWYER
Chief Executive Officer

Suite 3.03 Level 3, 95 Pitt Street, Sydney NSW 2000
PO Box R1771, Royal Exchange NSW 1225
T +61 2 9152 6000 **F** +61 2 9152 6005 **E** contact@infrastructure.org.au **www.infrastructure.org.au**