



26 September 2014

Rebuilding NSW  
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NSW Business Chamber  
incorporates

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Dear Sir/Madam,

Thank you for the opportunity to comment on the Rebuilding NSW discussion paper.

The NSW Business Chamber is one of Australia's largest business support groups, helping around 30,000 businesses each year. Tracing its heritage to the Sydney Chamber of Commerce founded in 1825, and the Chamber of Manufactures of NSW founded in 1885, the Chamber works with thousands of businesses from owner operators to large corporations, from product-based manufacturers to service provider enterprises.

Operating through a network of offices in metropolitan and regional NSW, the Chamber represents the needs of business at a local, State and Federal level, advocating on behalf of its members to create a better environment for industry.

The proposal to recycle electricity network assets into new infrastructure investment is sensible and long overdue. With limited capacity to borrow within the AAA rating and with the state facing a \$30 billion infrastructure backlog, leasing the electricity network to unlock funding to address the State's critical transport, roads, water and social infrastructure needs is the right approach.

*Rebuilding NSW* presents a once in a generation opportunity to address the state's growing list of infrastructure challenges, however we cannot simply expect that increasing funding in and of itself will redress all the mistakes of the past. To maximise benefit and value, we need to ensure that there is a robust framework in place for project assessment, procurement and delivery.

Additionally, as the Queensland Government is now proposing to also lease its electricity network assets, it's essential that the proposal and process put forward by NSW is attractive from an investment standpoint while protecting the needs of electricity consumers.

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In summary, the Chamber recommends that:

- the NSW Government notes that businesses need certainty and confidence to plan for new opportunities arising out of infrastructure investment;
- regional NSW deserves its share of Rebuilding NSW and therefore should be provided with more time to advance its proposals;
- the NSW Government should minimise projects costs and look to utilise alternative funding strategies such as user charges; and
- the NSW Government should proceed with its proposal to lease 49% of the network assets to the private sector as this will benefit NSW's electricity consumers.

**a) How can the Government help communities and businesses better plan for the opportunities made available as a result of new infrastructure investment?**

For both business and the community at large, an environment of certainty around government decision-making provides the best chance to both maximise opportunities and minimise risk. NSW's State Infrastructure Strategy (SIS) and Long Term Transport Master Plan were developed through detailed community consultation and should form the foundation for any discussion on investment in new infrastructure within NSW. Obviously, any new asset does need to be assessed on its merits and in light of its capacity to enhance the community's social and environmental capital but this should never be done in a vacuum from the longer term strategies that have been identified within these plans.

While the Chamber is broadly supportive of the findings of the SIS and the Transport Master Plan, both were developed in the absence of the Metropolitan Strategy and its associated regional growth plans. As former Chairman of Infrastructure NSW, Nick Greiner, stated following the release of the SIS:

*"The land use plan should have come first...there's no point having Transport do its long-term masterplan ... if you haven't worked out where jobs are and where people are, and so on...So the metro plan was meant to happen along with our SIS and the transport masterplan, and it didn't for whatever reason ... so clearly that's a bit arse-about."<sup>1</sup>*

Ensuring that any infrastructure investment is based on both present and projected needs is vital in building the long term confidence of the community. Any

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<sup>1</sup> <http://www.smh.com.au/nsw/sydney-transport-plan-arseabout--greiner-20130205-2dwiv.html>

assessment of projects and strategies under the SIS and Transport Master Plan should therefore be reconsidered once the final Metropolitan Strategy is released.

Business can directly benefit from infrastructure investment through participating in project delivery. Ensuring that the procurement process maximises these opportunities will have flow on benefits to the community. To encourage business participation, the NSW Government should:

*1. Seek to minimise procurement costs for both the Government and tenderers.*

Industry continually cites procurement costs as a deterrent for investment in NSW. In 2011, Ernst & Young prepared a report for the NSW Government, finding that:

- road construction costs averaged \$6 million/km in NSW compared with \$5million/km in the rest of Australia; and
- rail construction costs averaged \$48 million/km in NSW compared with \$27million/km elsewhere in Australia.<sup>2</sup>

The Productivity Commission (PC) cites some limitations with this study based on the limited available data to allow benchmarking, but concludes that it provides some indication that NSW infrastructure projects are likely to cost more in NSW.<sup>3</sup>

Bidding for projects can incur significant costs for industry participants, with the PC finding that these costs can comprise up to one per cent of the project value. The PC found that these costs are driven by the level of preparatory work required to be undertaken by prospective bidders and recommended that it would be more efficient if more of the initial design work was undertaken by the client (in this case, the NSW Government) before offering a tender to prospective constructors.<sup>4</sup> The Chamber supports this recommendation.

*2. Further encourage the Unsolicited Proposal process.*

The introduction of the unsolicited bid process is one of the most important initiatives of the current NSW Government and offers one of the best opportunities to maximise the development of new assets. Industry should be encouraged to submit ideas and innovative solutions to address NSW's infrastructure needs. Sufficient flexibility in the procurement process through mechanisms such as

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<sup>2</sup> Ernst & Young (2011) *Infrastructure – Project Cost Benchmarking Study*.

<sup>3</sup> Productivity Commission (2014) *Public Infrastructure* p. 372.

<sup>4</sup> Productivity Commission (2014) *Public Infrastructure* p. 26.

unsolicited bids allows good opportunities that would otherwise be missed, such as NorthConnex, to be considered and pursued.

3. *Encourage local participation where cost effective to do so.*

As indicated above, the Chamber believes there is further scope for Governments to maximise opportunities for competitive local suppliers to participate in infrastructure projects. Applying a 'whole of life' costing approach to guide decision making rather than utilising cheapest initial purchase price would ensure that a more balanced view of the costs and benefits of using local suppliers is achieved. Capable and competitive local suppliers should be encouraged to participate in tender processes, and prime contractors should be encouraged to include initiatives to boost local industry participation in their responses to tenders.

*Community Involvement*

To help address the challenge of youth unemployment and to increase opportunities for apprenticeships, the Chamber supports minimum apprenticeship requirements being applied on a project by project basis. This aligns with the Premier's recent announcement that contractors bidding on major NSW government infrastructure projects will have to employ a set number of apprentices<sup>5</sup>.

**b) Which potential projects would create the greatest benefit in terms of economic growth, productivity and quality of life?**

Infrastructure projects need to be assessed on their own merits but also need to complement broader public policies. For example, the construction of new rail lines should be accompanied by surrounding land use planning that supports higher density development to utilise the improvements in transport capacity and connectivity.

While there are detailed and developed plans for infrastructure projects within Sydney, outside the metropolitan area it is often the case that infrastructure planning is far less developed. Our submission touches on some current proposals in regional NSW but we would strongly encourage the Government to allow more time for detailed plans to be provided for regional NSW.

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<sup>5</sup> <https://www.nsw.gov.au/media-releases-premier/1000-new-apprentices-help-deliver-infrastructure-program>

In addition, we note that within regional areas smaller scale projects can have a very significant positive impact in terms of economic growth, productivity and quality of life. Where regional projects cannot be identified immediately, the Government must remain resolute in retaining the \$6 billion allocation for regional infrastructure.

To this end, we strongly support local communities co-ordinated by RDAs, Regional Organisation of Councils (ROCs) and Chambers of Commerce coming forward with a package of projects for their region which support economic growth, productivity and quality of life that simply cannot be delivered under current funding arrangements. We note that some ROCs, RDAs and Chambers have already undertaken this.

We also support detailed discussion with major employers within regional areas (especially those with freight requirements) to see where co-investment opportunities in regional infrastructure might exist.

We are conscious that a number of regions are still developing infrastructure proposals in response to the Rebuilding NSW request for submissions. Regional projects mentioned here are cited for the purpose of providing examples and should not be considered a complete 'list'.

The Sydney Business Chamber, a division of NSW Business Chamber, has made a separate submission which includes comment on potential projects for the Sydney basin.

#### *Utility connections to promote business location*

When a business looks to establish itself on a greenfield site without utility connections, the business has to pay for the connection. This makes it difficult to encourage new businesses to regional areas, especially in circumstances where other states have serviced greenfield sites and are actively encouraging business to relocate. For example, the Chamber has heard that one business looking to set up new operations found it would have to front the costs for electricity connections in the Murray Riverina region but not in Victoria, just over the border.

Through *Rebuilding NSW* the Government should consider how it could better assist in funding utility infrastructure.

### *Roads to support passenger and freight movements*

In regional NSW, over 90 per cent of passenger travel is made by car and 63 per cent of freight movements by volume are by road.<sup>6</sup> This reliance on road transport and limited financial capacity of local government means that despite demand, many councils struggle with the cost of upgrading or maintaining local roads. This is apparent even in circumstances where the NSW Government is making significant investment in new road infrastructure.

The upgrade of the Pacific Highway is absolutely critical to NSW and will help improve road safety while increasing the efficiency of freight movements. However, as the upgrade is encouraging growth in truck movements this increase in use is leading to further pressure and increased maintenance and investment on surrounding local roads. The NSW Government, in partnership with local councils, should develop and implement a program of local, regional and state road “pinch point” upgrades to address these issues is strongly encouraged.

### *Rail to support freight movements*

Thirty-three per cent of freight movements in regional NSW are by rail. This is a significantly higher proportion than in metropolitan Sydney; therefore investment in rail infrastructure to support the efficient movement of freight should be a key part of infrastructure investment. The Chamber recommends that the NSW Government work with other relevant agencies to develop and implement a targeted program of rail upgrades to support the efficient movement of freight in regional NSW.

### *Infrastructure to support tourism, business and residential growth*

Lack of integrated public transport has been cited as a key impediment to regional growth, in terms of both tourism and residential growth. The Government should consider whether investment in such infrastructure may be a more efficient spend than other current schemes targeted at attracting tourists and residents to regional areas. For example, in the Northern Rivers there is a lack of integrated public transport solutions which affects the tourism experience as well as reducing quality of life for residents. The Casino-Murwillumbah Rail Trail is one proposal which could help to improve public transport in the region.

Regional airports continue to play an important role for tourism and freight in NSW. With the development of Badgerys Creek, regions will have additional access to Sydney which will support the role of aviation in regional NSW. The NSW Government should continue to work with local councils and other airport owners

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<sup>6</sup> Infrastructure NSW (2012) *State Infrastructure Strategy*, p.130.

to provide funding for airport upgrades where appropriate. Additionally, looking at new airport opportunities, such as a regional airport on the Central Coast, would provide a catalyst for business activity, jobs and infrastructure investment both within the region and across the state.

The development of entertainment precincts, such as that proposed for the Gosford Waterfront, will serve to both attract visitors to the region while also providing local jobs and cultural offerings for residents.

In Coffs Harbour there is the opportunity to increase tourism and freight movements to the region by transforming the harbour into a working port and cruise ship terminal. The Chamber has written to the Minister for Roads and Freight to establish a Port Authority to oversee the development of this proposal.

#### *Social infrastructure*

With many areas of NSW experiencing significant skills shortages, more needs to be done to make regions great places to both live and work. Feedback from NSW Business Chamber members is that many potential employees are reluctant to move into a regional area due to the lack of social infrastructure and services. Social infrastructure, such as hospital upgrades and cultural offerings are important mechanisms to attract families and businesses to regional NSW. Through *Rebuilding NSW*, the Government should look towards investing further in social infrastructure within regions to ensure they can support a growing and healthy community.

**c) Are there other ways to leverage NSW Government investment to expand infrastructure services across the State (e.g. deliver more infrastructure for the same amount of Government funding)?**

#### *Funding mechanisms*

Most economic infrastructure is funded by user charges. However, with the exception of some toll roads, most roads are funded from general public revenue. The PC concluded that well-designed user charges for road use could provide an efficient long term and sustainable funding base to improve road provision to all Australians. The PC also recommended that governments undertake revenue-neutral direct user charging for cars and light vehicles.<sup>7</sup> The Chamber supports this recommendation.

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<sup>7</sup> Productivity Commission (2014) *Public Infrastructure*, p. 12.

Value capture can also be an effective tool to fund infrastructure projects. There can be challenges for quantifying the value and identifying beneficiaries, but both the PC and INSW supported governments looking for opportunities to use value capture to fund infrastructure where appropriate.<sup>8</sup>

#### *Public Private Partnerships*

The private sector should be involved in public infrastructure projects where it can deliver and operate the project more efficiently than the public sector. However, these partnerships need to be designed appropriately so that there is appropriate risk apportionment. PPPs need to be designed so that each party only takes on risk which it is responsible for managing. There is no one size fits all risk apportionment model for PPPs so the Chamber proposes that Government consults with industry about risk apportionment for individual projects.

#### *Minimising project costs*

As identified in our response to (a), procurement incurs significant costs for both industry and government. Minimising procurement costs would free up private and public capital for more infrastructure investment.

In addition, INSW's *State Infrastructure Strategy* identified NSW's 'P90' approach to contingency costs as a key driver of project costs: "This approach provides little incentive on the project deliverer to underspend, and often the contingency is absorbed within the project or the delivery agency".<sup>9</sup> INSW recommended more transparent management of contingencies to prevent escalation of contingency costs and the Chamber supports this approach.

#### *Franchising public transport*

The Chamber recommends franchising the operation of public transport service to the private sector. The NSW Government has successfully achieved this with Sydney Ferries and should consider franchising other modes of public transport such as Sydney Trains and Sydney Buses.

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<sup>8</sup> INSW (2012), p. 202 and Productivity Commission (2014), p. 165.

<sup>9</sup> INSW (2012), p. 205.



Infrastructure Partnerships Australia (IPA), in its report, *Franchising Passenger Rail Services in NSW: Options for Reform*, argued that using “franchise delivery models removes the current inconsistency where the public sector acts as both the regulator and sole service provider”.<sup>10</sup> IPA stated that while competitive franchising of public transport is not a silver bullet and still requires substantial taxpayer investment, it has much to offer in terms of increased accountability, efficiency and quality.<sup>11</sup>

**d) In addition to asset recycling, what other avenues are available to the Government to bring forward significant capital expenditure on infrastructure? Any proposal should discuss the consequences on State finances.**

The Chamber supports the retention of the AAA rating for the NSW Government. The Chamber proposes that the Government examines opportunities for greater use of user charging and value capture, as identified in our response to (c).

We also note and support the Government’s Fit for the Future local government reform proposal to provide cheaper finance via T-Corp to assist local government investment in new local infrastructure. We note the Government’s estimates that this mechanism will potentially save councils \$600 million in funding costs, opening up more opportunities to invest in local infrastructure.

**e) Please provide examples of specific infrastructure projects in regional NSW that would contribute to the productive capacity of the economy.**

See response to (b).

**f) How can regional communities share in the benefits of Rebuilding NSW, including economic productivity and jobs creation?**

With youth unemployment in some areas of NSW at or above 16%, utilising investment in infrastructure to address unemployment and support training initiatives is a sensible approach. Having targets within infrastructure projects to support youth and indigenous employment can ensure that the local region shares the benefits of the infrastructure construction. This will improve the local labour

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<sup>10</sup> Infrastructure Partnerships Australia (2012) *Franchising Passenger Rail Services in NSW: Options for Reform* p. 8.

<sup>11</sup> IPA (2012), p.10.

force participation, create training opportunities and improve the future job prospects of these segments of the labour market.

**g) How much scope is there for consumers to benefit from greater efficiency in NSW electricity networks?**

There is significant scope for consumers to benefit from greater efficiency in NSW electricity networks. The Chamber supports the recycling of electricity assets not only because it creates additional infrastructure investment, but primarily because private ownership of network assets will lead to more efficient investment decisions which will lead to benefits for consumers. Given electricity costs are a significant input for many businesses, lower costs is an important and necessary outcome of this transaction.

There is sufficient evidence from a number of studies which demonstrate that private ownership of network assets has resulted in more efficient investment decisions, and therefore lower network prices, for consumers in Victoria and South Australia.<sup>12</sup> The PC has also stated that “the rationale for government ownership of electricity network businesses no longer holds”.<sup>13</sup>

Unfortunately, much of the overinvestment has already occurred so consumers may not see clear benefits immediately. However, over time consumers will benefit from the increased efficiency in investment decisions that will accompany private ownership.

**k) What is the appropriate balance between providing security to employees in the transition and keeping downward pressure on the cost of providing network services?**

Providing security to employees must be balanced with keeping downward pressure on network costs. The PC found that available data indicated that in comparison to private operators, state-owned networks have higher wages and more overtime, higher operational spending even when controlling for customer density and more staff per customer.<sup>14</sup>

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<sup>12</sup> See Productivity Commission (2013) *Electricity Network Regulatory Frameworks* and Mountain (2011) *Australia’s Rising Electricity Prices and Declining Productivity: the Contribution of its Electricity Distributors*.

<sup>13</sup> Productivity Commission (2013) *Electricity Network Regulatory Frameworks*, p. 263.

<sup>14</sup> Productivity Commission (2013) *Electricity Network Regulatory Frameworks*, Chapter 6.

The new network owners should have the capacity to align its operating costs with other private operators where it is efficient to do so. The PC stated that:

*it seems likely that significant changes to governance or privatisation would lift the performance of the New South Wales businesses. However, to achieve this, it is important not to enshrine the current arrangements through long-term commitments that constrain the ability of new owners to operate the businesses efficiently.<sup>15</sup>*

## Conclusion

Thank you for the opportunity to comment on the *Rebuilding NSW* discussion paper. Please contact Larissa Cassidy ([Larissa.Cassidy@nswbc.com.au](mailto:Larissa.Cassidy@nswbc.com.au) or 9458 7359) if you would like any further clarification on any of the issues discussed above.

Yours sincerely,

A handwritten signature in black ink that reads "Paul Orton".

Paul Orton  
Director, Policy and Advocacy

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<sup>15</sup> Productivity Commission (2013) *Electricity Network Regulatory Frameworks*, p. 280.