Uncovering critical influences on private infrastructure investment in Queensland

Recommendations

October 2018

Introduction

The Queensland Government has a trade and investment strategy to 2022 that seeks to position the state as Australia's most innovative and dynamic trading economy – a magnet for global investment. On paper the strategy is a very good one, with four key objectives to identify key opportunities, facilitate export growth, attract job creating investment and strengthen our regions.

With an insatiable demand for new and better infrastructure fuelled by population growth and an ageing population, investment required to meet this demand cannot be solely met by the public sector. Private sector investment and expertise needs to be utilised where appropriate. Attracting private infrastructure investment therefore has a unique place in the trade and investment strategy, as it supports economic growth and serves the state's dispersed regional population.

But to succeed, this priority needs to be supported by practical measures, efficient approval processes and a 'go get em' attitude. If these fundamentals don't exist, private investors and companies will vote with their feet and take their ideas and finance elsewhere.

The private sector also has a key role to play in educating the community as to the benefits of private sector investment in a way they can genuinely understand and relate to. Partnership proposals to government also have to be brought forward in a way that support government priorities and meet community expectations for environmental protection and unlock local employment.

The IAQ's research *Uncovering critical influences on private investment in Queensland* confirms that private infrastructure investors believe in Queensland and its amazing potential. But there is clearly room for improvement if Queensland is to meet its priority to promote private sector investment in infrastructure. Private sector project proponents exposed to Queensland over the past decades now lament that recent increases in green and red tape have added up to two years to their major project approvals. This adds significant business transaction costs and acts as a barrier to job creating investment.

Our resulting recommendations have been carefully developed with the intent to better unlock Queensland's potential. They are both practical and actionable and provide opportunity for a whole of government and private sector response – a 'Team Queensland' approach. If this approach is adopted, we believe the sweet spot of investor appetite, government need and community acceptance can be quickly realised and expanded.

Thank you to our IAQ Funders Taskforce and research partner, the Phillips Group for compiling this thoughtful research. We look forward to working through our recommendations with all of our stakeholders to create a stronger Queensland for our future generations.

Steve Abson

CEO, IAQ

Recommendations

The current Queensland Plan – Queenslander's 30 Year Vision has a goal that Infrastructure is funded in a variety of ways, requiring an increase in private investment. In describing future success, the plan states that new funding models continually increase the level of private investment in infrastructure, making Queensland a world leader in innovative investment.

Informed by IAQ's research into critical influences on private investment in infrastructure, these recommendations are provided to assist Queensland in meeting the infrastructure goals set out by the Queensland Plan and it's supporting trade and investment strategy.

Queensland political parties need to be open to mixed funding sources

It's not all about privatising Queensland's electricity generators and poles and wires

The State Government and Opposition understandably retain a cautious and conservative approach to any calls for privatisation of electricity assets. However, this should not come at the expense of meaningful public debate into the benefits of liberating capital from sale or lease of other state-owned infrastructure assets that may be suitable, such as ports. When these proceeds are used to build a new port, or some other piece of income-generating infrastructure, there can be inter-generational benefits for Queenslanders.

Political parties should avoid making election commitments that stifle or eliminate the prospects of future public discourse

Meaningful public discourse into the potential benefits available to government, taxpayers and consumers from private sector ownership and investment in mature income-generating assets has been lost in Queensland over the past few years through heavy politicisation of "electricity asset sales". Political parties must avoid making sweeping commitments that effectively lock-out debate private sector involvement in public use infrastructure, or which restricts innovative Public Private Partnerships (PPP).

Queenslanders need to hear more about the types of partnership between the public and private sectors that can fund more infrastructure

Start educating people about the benefits of mixed funding sources

Our politicians have a key role in communicating the growing infrastructure investment gap between available public funding and the infrastructure needed to keep pace with growth and increase productivity. The public needs to know that the private sector already plays a strong role in meeting infrastructure demand and this can be a solid foundation for further involvement (refer to Attachment 1).

Engage the public through opinion surveys and community meetings

Detailed independent research released by IAQ in January 2017 indicated that the Queensland public's awareness of asset recycling to fund new projects is low. However, once asset recycling is explained as a way to fund future income generating infrastructure, it has the strongest support – with more tax and more debt strongly negative.

Rather than treat asset recycling as a politically 'taboo' subject, the State Government should adopt a more collaborative process with the Queensland community which could considerably reduce opposition and build support. This would also confirm whether there is genuine distrust from the majority of Queensland's population and highlight any potential measures that can be implemented to build further trust.

Recommendations...

Private sector investors could engage in more sophisticated engagement to alert people to the benefits of private infrastructure investment and create a stronger social licence

There is a successful history of infrastructure asset privatisation in Queensland. In 1997, as part of the privatisation of numerous Australian airports, Brisbane Airport was acquired for $1.4 billion from the Federal Airports Corporation by Brisbane Airport Corporation (BAC) under a 50-year lease. Since that time, BAC has assumed ultimate responsibility for the operations of Brisbane Airport including all airport infrastructure investment with no government funding. In 2010, the Queensland Government sold the Port of Brisbane to a consortium called Q Port Holdings for $2.3 billion. In 2014, the state's major tollway network, Queensland Motorways, was sold to a private consortium for more than $7 billion having previously transferred the business to QIC for $3 billion in 2011.

In all three examples, the private asset owners are now focused on delivering quality long-term customer outcomes and are opening up new pathways for enhanced economic performance and social impact.

Example - *the current BHP 'Think-Big' campaign, which communicates the crucial role that BHP plays in addressing global challenges through the supply of essential resources.*

Work smarter to find the sweet spot of investor appetite, government need and community acceptance

Develop a targeted investor engagement campaign

Priority No. 7 of the Queensland Trade and Investment Strategy 2017–2022 is to 'promote investment in infrastructure', which sits under the headline objective of 'Attracting job-creating investment'. Trade and Investment Queensland (TIQ) could give this priority increased focus through a specific communications campaign supported by an infrastructure specific prospectus. Rather than just include reference to PPP and market-led proposals (MLP), the prospectus needs to examine any infrastructure opportunities where there is investor appetite, government need and community acceptance (refer to Attachment 2).

Increase visibility of the Infrastructure Investment Pipeline

Publicising infrastructure that is ideally suited to private investment could help match potential investors with projects. Identification of early stage infrastructure projects could help unlock billions of dollars from private investors (refer to Attachment 3).

As part of a sustained TIQ communications campaign, Part B of the *Building Queensland (BQ) Pipeline and State Infrastructure Plan* needs to be regularly consolidated and distributed to infrastructure investors in a prospectus, along with specific guidance identifying where the State Government is seeking private sector interest.

Routine contribution to the ANZIP Pipeline

As part of a sustained TIQ communications campaign, infrastructure activity that meets the relevant criteria should be routinely issued to Infrastructure Partnerships Australia for inclusion and update of the Australia & New Zealand Infrastructure Pipeline (ANZIP). ANZIP is a dynamic on-line tool that provides a forward view of public infrastructure activity across Australia and New Zealand, providing certainty of the forward work programme to investors, constructors, governments and other agencies.

Continue to foster a supportive environment for market-led ideas and innovative investment approaches

The MLP initiative is not strongly meeting its objective to create jobs and stimulate the economy. The Department of State Development, Manufacturing, Infrastructure and Planning should continue to develop the MLP Framework with the objective of encouraging greater interest and introduce more efficient processes. To encourage the type of infrastructure that government would like to see built, overarching priorities that influence preferences should be clearly and regularly articulated to the market.

Recommendations...

Streamline and update infrastructure planning processes

Publish a national benchmark report to help drive quicker environmental approvals

The current Bilateral Agreement between Queensland and the Commonwealth for dealing with matters under the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) came into effect on 18 December 2014. But there is no evidence available to support the published objective that this Bilateral Agreement ensures an efficient, timely and effective process for environmental assessment and approval of actions. Research participants suggested that Queensland has recently become much slower than other Australian jurisdictions having similar bilateral agreements.

The Commonwealth Minister for Environment and Energy needs to publish an annual benchmarking report of the specific project Environmental Impact Statement (EIS) approval timeframes across all Australian States and Territories and make this public. This should be benchmarked over at least the last 10 years.

Reduce uncertainty in the post-approval process

Queensland should maintain a robust approval process for all projects, but ensure it is more streamlined. The State and Commonwealth governments also need to ensure that resource projects developed by private sector proponents are not held up in the courts for multiple years in the post-approval process. This is now a highly uncertain aspect of the for any new resource development in Queensland.

There are improvements to the Land Court's processes that can be made to further enhance timeliness, fairness, efficiency and access to justice.

Routinely examine whether new infrastructure initiatives could be better led, or supported, by the private sector

Part 6 of the *Building Queensland Strategic Business Case Guidance and Template* requires BQ to align any initiatives (including projects) that result from the identified service need with the State Infrastructure Plan Priority Model. This model provides a hierarchy that ranks non-asset reforms and initiatives above new assets.

However, BQ is not required to examine whether any initiatives would be better led or supported by the private sector, until it assesses a PPP as a potential delivery model later in the business case process.

The Board of Building Queensland needs to endorse an updated *Strategic Business Case Guidance and Template* that requires BQ to test each initiative much earlier to ascertain if there are any characteristics suitable to private sector risk/return investment profiles (refer to Attachment 4).

Recommendations...

Provide greater certainty to renewable energy investors

There is strong investor appetite for investment in electricity infrastructure (both generation and transmission) subject to supportive power purchase arrangements and/or regulatory frameworks. Under the Queensland Renewable Energy Target (QRET), policy settings have facilitated private sector-led development of about 2150 megawatts of renewable energy to come on stream by mid-2019.

But Queensland has recently announced new a state-owned energy company CleanCo to develop, construct, own and maintain renewable energy generation, which could cut out development opportunities for the private sector.

Rather than crowd out the private sector, the State Energy Minister should consider how to best partner with them (i.e. through co-investment, risk sharing mechanisms etc.) to accelerate the deployment of capital in this space. This would involve working with private sector investors as well as other financing entities such as the Clean Energy Finance Corporation and Northern Australia Infrastructure Facility. For example, Clean Co could consider sourcing third party debt and equity capital to co-invest.

Reduce the cost of bidding PPPs

Consistent with the New South Wales Government's 10-point commitment to the construction sector, the State Government through Queensland Treasury should initiate a detailed review of PPP transactions with the objective of reducing bid costs. Initiatives should include:

- Minimise the design requirements imposed on bidders before the selection of a preferred tenderer
- Reduce documentary requirements, for instance by mandating electronic lodgement of bid documents, and embracing innovative approaches such as Building Information Modelling as a standard feature of major project procurement
- Minimise the number of project-specific plans bidders are required to generate and submit prior to the selection of preferred tenderer
- Ensure, where possible, that tender evaluation criteria give bidders a clear understanding of the government's real priorities (for instance in relation to urban design), enabling the market to focus on those priorities with a minimum of wasted effort.

ATTACHMENT 1:

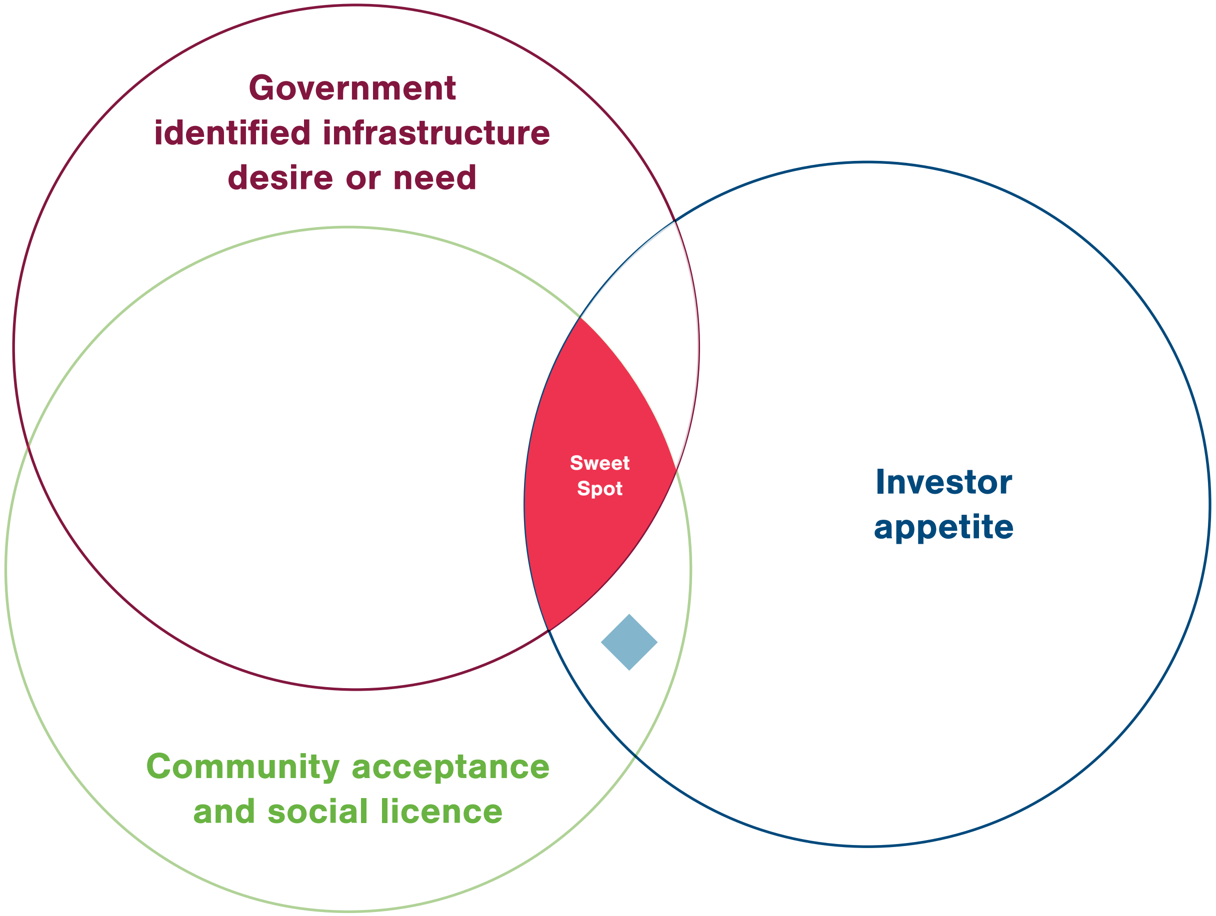
Public Use Infrastructure – Queensland financing and funding models (excluding Local Government controlled Statutory Authorities)

		Asset classes					
	Financing	**Energy**	**Ports/Airports**	**Transport**	**Waste**	**Water**	**Funding**
INVESTMENT MADE BY PUBLIC CAPITAL	Government Owned Corporation capital procurement (Note 1)	State Generators e.g. CS Energy, CleanCo Powerlink Energy Qld Group	State Owned Ports e.g. Gladstone, Townsville			Bulk water services e.g. SunWater (Note 2)	Paid for by taxpayer (Note 3)
	State Government capital procurement			Most major roads, passenger rail, some freight Rail (Note 1)			Paid for by taxpayer
SOME UPFRONT INVESTMENT MADE BY PRIVATE CAPITAL	Availability PPP			Some roads & rail e.g. Toowoomba Second Range Crossing, Cross River Rail Tunnel, Stations and Development Package			Government contribution paid for by taxpayer
	PPP			Some roads e.g. Airport Link			Government contribution paid for by taxpayer
INVESTMENT MADE BY PRIVATE CAPITAL	Economically regulated private sector	Energy generation and renewable energy (Note 4)	Privately owned ports e.g. Port of Brisbane	Privately owner toll roads e.g. Transurban (Note 5)			Paid for by user
	Other private sector		Private owned airport e.g. Brisbane Airport Corporation, Sunshine Coast Airport	Freight rail e.g. Aurizon	Facility development or expansion (Note 6)		Paid for by user

Notes: 1 - Infrastructure on the National Land Transport Network typically jointly funded by the Commonwealth, provided there is a positive business case
2 - Some nationally significant water infrastructure jointly funded by the Commonwealth (e.g. dams), provided there is a positive business case
3 - Government Owned Corporation's typically deliver an annual dividend to State Government
4 - Some renewable energy infrastructure can be eligible for the Clean Energy Finance Corporation (CEFC) to deliver project finance and corporate loans, while Australian Renewable Energy Agency (ARENA)issues grants according to priority areas and funding criteria
5 - Governments set toll prices and the regulatory regime through the concession agreements with the toll road operator
6 - A $100 million Queensland Government 'Resource Recovery Infrastructure Development Fund' has been established as an incentive for private sector investment in waste recovery projects

ATTACHMENT 2:

Finding the sweet spot of investor appetite, government need and community acceptance



- **Sweet Spot -** Renewable energy, waste services, MLPs, PPPs, NAIF projects, toll-road augmentation, global tourism hubs, land re-purposing
- **Some Government-owned infrastructure assets e.g. Ports**

  Asset recycling of government-owned infrastructure is currently perceived by both the ALP State Government and the LNP Opposition to be outside the ‘sweet spot’ – but is this based on genuine distrust from the majority of Queensland’s population - or populist policy reflecting Queensland’s short electoral cycle?

  Detailed independent research released by IAQ in January 2017, indicated that the Queensland public’s of ‘asset recycling’ to fund new income generating projects is quite low. However, once asset recycling is explained, it has the strongest support – with the sentiment for more tax and more debt strongly negative.

ATTACHMENT 3:

Consolidating an Investment Pipeline for public infrastructure activity in Queensland

International and on-shore research regularly identifies that the investment required to meet a public infrastructure gap cannot be solely met by the public sector. Private sector investment and expertise needs to be utilised where appropriate.

Publicising infrastructure that is ideally suited to private investment can help match potential investors with projects. Examples include identification of early stage infrastructure projects and any suitable privatisation activity (e.g. an asset recycling program of ports, utilities and energy), both of which could help potentially unlock billions of dollars from private investors.

Internationally, this need is being addressed by the Global Infrastructure Hub which has been tasked by the G20 leaders to ensure there is a comprehensive, open source project pipeline database, connected to national and multilateral development bank (MDB) databases, to help match potential investors with projects[1].

After transitioning certain assets from government to private ownership, the United Kingdom has developed a mixed model to fund and finance its infrastructure, using both public and private investment to deliver infrastructure as efficiently as possible. More than 45% of their *National and Construction Pipeline* to 2020/21 is funded and delivered by the private sector, of which the vast majority is in the regulated sectors of utilities and energy[2].

In Australia, the Commonwealth Government sometimes establishes a government-owned company and injects equity in order to build a greenfield infrastructure asset, such as the Western Sydney Airport in New South Wales (NSW). Once a proven brownfield project, the infrastructure can be privatised with a return on equity generated. The Commonwealth Government also independently funds, or funds in partnership with the States and Territories, PPP projects published by *Infrastructure Australia*. The Australian Rail Track Corporation (ATRC) Inland Rail package from Gowrie to Kagaru is a Commonwealth-led PPP project proposed in Queensland

Each State and Territory is also responsible for curation of private sector investment, matched to their specific infrastructure programs and asset ownership policy settings.

In NSW, which has the nation's strongest infrastructure spend, the state's expert organisation Infrastructure NSW is taking responsibility for developing a 'whole of government' project pipeline of state-led infrastructure[3]. The NSW asset recycling program is planned and managed through NSW Treasury. The proceeds from asset recycling are placed into the Restart NSW Fund and used for projects within the Rebuilding NSW 10 year investment programme. Projects that use Restart NSW funds are assessed and recommended by *Infrastructure NSW*.

As the Queensland Government has opted to retain ownership of its major infrastructure assets, public-use infrastructure suitable for private investment is typically limited to greenfield projects utilising the PPP delivery model or MLPs. Visibility into State-led PPP projects is provided through project listings in public documents such as the Part B of the *State Infrastructure Plan, Building Queensland Pipeline* and annual Budget Papers. Examples include the Toowoomba Second Range Crossing (in construction) and Cross River Rail Tunnel Stations and Development (in procurement) projects.

1 - GIHub : www.gihub.org/blog/infrastructure-pipeline-closing-investment-gap/

2 - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/665332/Analysis_of_National_Infrastructure_and_Construction_Pipeline_2017.pdf

3 - www.infrastructure.nsw.gov.au/media/1649/10-point-commitment-to-the-construction-industry-final-002.pdf

ATTACHMENT 4:

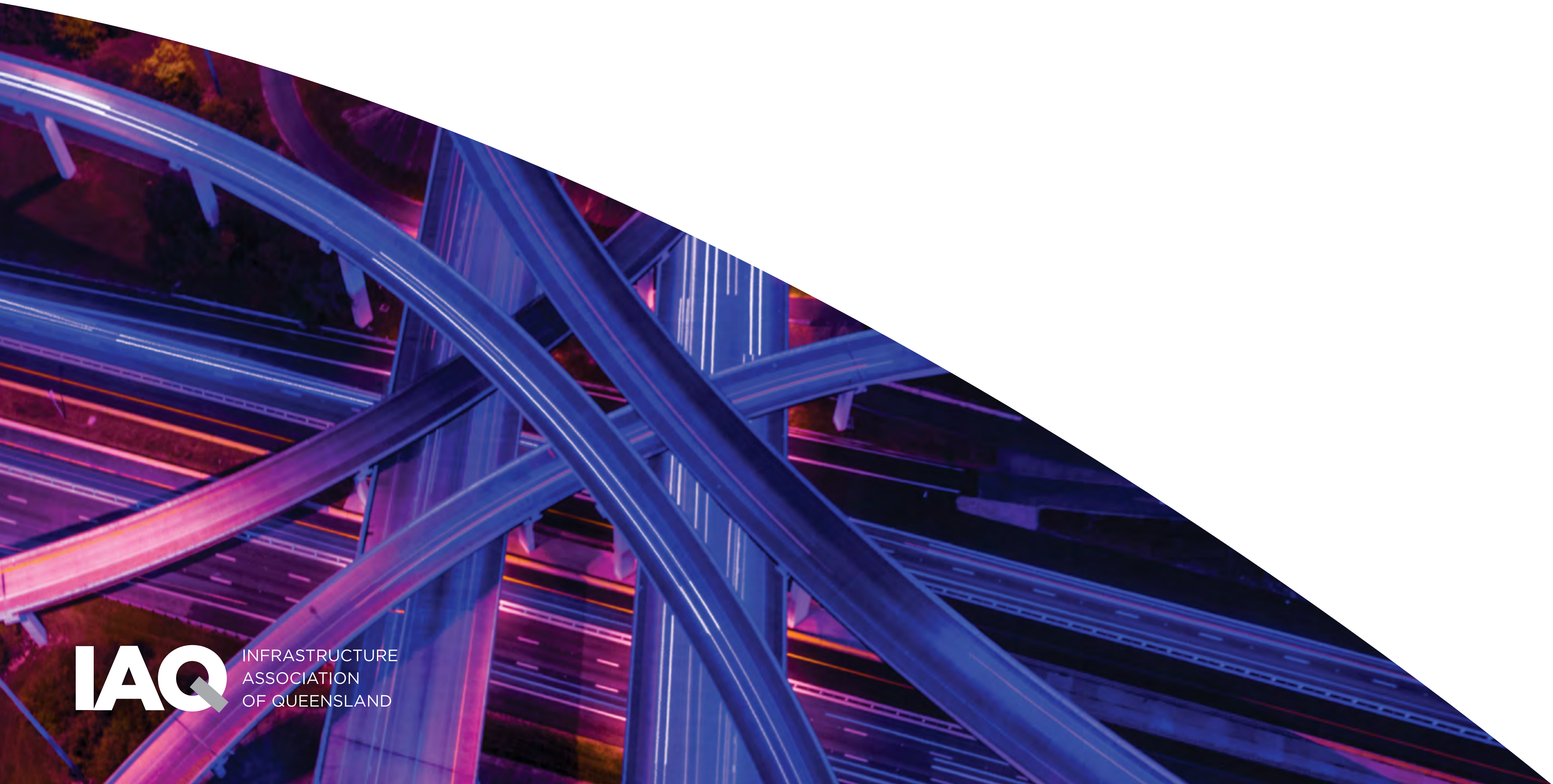
Typical infrastructure risk and return profiles

Higher risk/ return

	CHARACTERISTICS	EXAMPLES
PRIVATE OWNERSHIP (MARKET RISKS)	• Competitive markets, although high barriers to new entrants • Exposure to market/volume risks • Investor requires higher returns reflecting greater cash flow volatility	• Ports and airports • Cable and mobile phone networks
PRIVATE OWNERSHIP WITH TARGETED SUPPORT	• Business operates in private sector but under strong government-led market framework • Competitive but high barriers to entry	• Electricity generation
PUBLIC CONTRACT/ CONCESSION FOR SERVICE DELIVERY	• Procured by public sector • Can be social infrastructure or economic/transport infrastructure • Public-sector revenue stream – limited market risks • Active secondary market for mature operating assets	• Projects delivered as PPPs (e.g. Sunshine Coast University Hospital, Toowoomba Second Range Crossing)
REGULATED PRIVATE OWNERSHIP	• Monopoly businesses providing essential services • Independent regulation of return and duty to ensure stability for customers and investors	• Freight rail networks
PRIVATE OWNERSHIP WITH REGULATED CASH FLOWS AND GOVERNMENT SUPPORT (SEMI-GILT)	• Strong government support • Financing raised in capital markets atnear gilt	• Overseas – Transport for London

Lower risk/ return

Acknowledgement: Investing in UK Infrastructure, UK Trade & Investment, July 2014



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