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11 September 2015

Port of Melbourne Select Committee
Parliament House, Spring Street
East Melbourne VIC 3002

Dear Sir/Madam,

It is our pleasure to provide a submission to the Port of Melbourne Select Committee's inquiry into the *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015* (the Bill).

Key points

- The Committee believes that, when done correctly, the privatisation of former state-owned businesses is an appropriate way of optimising benefits to the community, provided the proceeds are in turn invested in the implementation of productive new economic infrastructure.
- In the case of assets with significant market power, including monopoly assets, this will require best-practice regulations.
- The Committee supports the implementation of a holistic long-term plan for the State's infrastructure needs, so that the process of unlocking and leveraging the value in our State's assets kick-starts further long-term economic growth through productivity-raising infrastructure investments.

The Committee for Melbourne (Committee) has long held the remit to enhance the future prospects of Melbourne. Founded 30 years ago, the Committee is an apolitical, not-for-profit member network that unites a cross-section of our city's leaders and organisations to work together to enhance Melbourne's economic, social and environmental future.

Our members represent over 120 organisations drawn from the city's major companies, academic institutions and civic organisations across a broad range of industries. We represent no single interest and seek to challenge conventional thinking and develop innovative policy that continues to enhance the 'World's Most Liveable City.'

With a Gross Domestic Product of approx. $275 billion, Melbourne represents around 18 per cent of the national economy[1] and having absorbed almost 100,000 new residents, Greater Melbourne saw the largest growth of any Australian city in 2013-14. Its 4.4 million residents represent 76 per cent of Victoria's population,[2] as well as over 80 per cent of the state's economy.[3]

However, despite Melbourne's prominence, this is certainly no time to rest on our laurels. The economic success of Victoria, and the status of Melbourne as one of the world's most liveable cities, heavily depends on our ability to effectively handle our freight and transport infrastructure challenges. In addition to rapid population growth, increasing financial, economic and social pressures are all forecast to provide a significantly more challenging context. As such, for Melbourne to continue to have an open, modern, and competitive economy we need an efficient port infrastructure servicing Melbourne and Victoria.

The Committee's long held remit to enhance the future prospects of Melbourne underpins this submission and as such it primarily addresses section f of the Select Committee's Terms of Reference; *how the proposed lease balances the short-term objective of maximising the proceeds of the lease with the longer-term objective of maximising the economic benefits to Victoria of container trade*.

Leasing state-owned assets

In Australia, the transfer of state-owned assets to private ownership has been part of a general 'microeconomic reform' that has included the corporatisation of government business enterprises, the competitive tendering and contracting-out of a variety of formerly government-provided services, and the reform of utility industries, such as telecommunications, energy, water and transport.[4]

The views on privatisation in Australia have gone through an evolution; the dominant policy trend of the 20th century was not privatisation, but nationalisation. It was only during the 1980s and 1990s that a sustained attempt to roll back the growth of government occurred in Australia.[5]

The general consensus is that privatised businesses in a competitive environment provide the best way of organising production and distribution throughout society. However, government ownership needs to be considered if there is a conflict between profit-maximising behaviour and social welfare.[6] Furthermore, when a government-owned business has significant market

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1 SGS Economics & Planning, *Australian Cities Accounts 2013-14*, November 2014.
2 Australian Bureau of Statistics, *Regional Population Growth 2013-14*, March 2015.
3 SGS Economics & Planning, *Australian Cities Accounts 2013-14*, November 2014.
4 Committee for Economic Development of Australia, *Why Privatisation? Lessons from Australia*, December 2002.
5 Committee for Economic Development of Australia, *Privatisation and nationalisation in the 21st century*, December 2002.
6 Committee for Economic Development of Australia, *Why Privatisation? Lessons from Australia*, December 2002.

power, there is a well-established need for appropriate regulation when the business is privatised.

Not all privatisations in Australia have been successful; a number of privatised services and assets have moved back under government control, for example the Deer Park correctional facility and the ambulance dispatch service in Victoria, while in other instances privatised firms have either been in dispute with government-appointed regulators or have sought explicit government assistance.[7]

However, when the right mix of ownership, competition and regulation is found, in the long-term, by and large, privatisation projects deliver efficiency and financial gains resulting in better outcomes for the community. A case in point is the experience in Victoria where the State government privatised its electricity businesses in 1995. According to the Director of the Grattan Institute's Energy Program, Tony Wood, "*there was no material increase in consumer prices in Victoria following this decision as shown by detailed information published by the Australian Bureau of Statistics. Network prices make up about half of the price paid by households and they vary significantly across the various Australian businesses. In a recent report, Ernst and Young noted that while typical network bills in Victoria increased by 62 per cent from 1996 to 2013, they increased in NSW and Queensland, where the businesses are government-owned, by 212 per cent and 285 per cent respectively*."[8]

Furthermore, in its latest annual Benchmarking Report, the Australian Energy Regulator (AER) found that the privatised South Australian and Victorian distribution businesses were the most productive when compared to the state-owned business in New South Wales, Queensland and Tasmania.[9]

Taking the evidence into consideration, the Committee believes that, when done correctly, the privatisation of former state-owned businesses is an appropriate way of optimising benefits to the community.

It is important however to emphasise the need for the process and transaction to be set up and executed correctly; for example, when monopoly businesses are privatised, the public applies strict accountability tests and appropriate regulatory controls to manage price and service provision levels need to be enacted.

<u>Long-term plan</u>

The State Government's infrastructure capital investment program requires significant long-term funding, which is projected to be sourced from a combination of revenues, including

[7] Committee for Economic Development of Australia, *Why Privatisation? Lessons from Australia*, December 2002.
[8] Grattan Institute, *Ignore the scare campaign about privatisation*, March 2015.
[9] Australian Energy Regulator, *Electricity distribution network service providers; Annual benchmarking report*, November 2014.

proceeds from the recycling of existing assets.[10] The State Government intends to direct the proceeds from the lease of the Port of Melbourne to the Victorian Transport Fund (VTF), which is to be established under the Bill and will require the use of proceeds in the VTF to fund the Level Crossing Removal Program and other infrastructure investments.[11]

While various commercial and legal factors play a role in the decision of private enterprises to invest in the Port of Melbourne through a 50-year lease, one key consideration determining the size of the transaction is the level of confidence bidders have in predicting the long-term competitive environment of the port.

At this point in time, there is significant uncertainty around the reality of a second port. The inability of investors to understand how a potential second port will complement, and/or compete with, the Port of Melbourne will be reflected in the price that the lease transaction is able to command from investors who will seek to manage their longer-term risk profile. The Committee acknowledges the Government's proposal to deal with this significant issue through the inclusion of a Port Growth Regime, which will seek to give investors the ability to more efficiently price this uncertainty, thereby more fully reflecting the inherent value of the Port of Melbourne.[12]

The Committee is also encouraged by the current Government's efforts to establish Infrastructure Victoria, which will provide the community and the private sector a better degree of certainty about our infrastructure needs and the Government's intention to deliver them.[13] Infrastructure Victoria's first task will be to develop and release a 30-year Infrastructure Strategy on the state's infrastructure needs and priorities, to which the Government will be required to respond by outlining its infrastructure priorities, including a five-year Infrastructure Plan.

Productivity enhancing investments

As mentioned above, the State Government intends to direct the proceeds from the lease of the Port of Melbourne to a newly established Victorian Transport Fund, which will be used to invest in productive economic infrastructure. Furthermore, through this transaction, Victoria will potentially also be eligible for a 15 per cent payment on net proceeds from the Commonwealth Government's Asset Recycling Initiative.[14]

The Committee believes this to be an excellent example of unlocking and leveraging the value in our State's assets and kick-starting further long-term economic growth through productivity-raising infrastructure investments.

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[10] State Government of Victoria, *Victorian Budget 15|16, State Capital Program, Budget Paper No. 4*, May 2015.
[11] State Government of Victoria, *Port of Melbourne Select Committee Inquiry Submission*, September 2015.
[12] Ibid.
[13] State Government of Victoria, *Infrastructure Victoria*, June 2015.
[14] State Government of Victoria, *The Port of Melbourne Lease Transaction*, May 2015.

In conclusion

Great cities do not happen by chance – they grow and develop through visionary thinking and long-term planning. As our city moves towards eight million people, our infrastructure arrangements, including our ports, are becoming increasingly important if we are to maintain our State's extraordinary standard of living.

The Committee is encouraged by – and supportive of – the Government's intention to unlock and leverage the value in our State's assets and to subsequently direct these funds towards productivity-enhancing infrastructure investments.

Please do not hesitate to contact the Committee to expand on any of the points touched on in this submission.

Regards,

[redacted]

Kate Roffey
Chief Executive Officer
Committee for Melbourne