



Inquiry into Microeconomic Reform in Western Australia

Infrastructure in Western Australia

ISSUE

Public infrastructure, such as buildings, roads and electricity networks, is essential for an economy to function effectively.

Public infrastructure enables productivity growth by increasing the capacity of the economy and supporting businesses and individuals in their work.

The State Government only has limited resources to fund infrastructure. As such, it is important that this spending is optimised to achieve the best results for the Western Australian economy.

The ERA examined how the State can increase the productivity gains from infrastructure spending through:

- better decision making;
- leveraging off the private sector, including potentially divesting some public assets to the private sector; and
- providing incentives to use infrastructure efficiently through user charges.

Poor project evaluation contributed to cost overruns of \$2.95 billion in a sample of major infrastructure projects examined by the Office of the Auditor General.

BETTER DECISION MAKING

Project evaluation: given the size of the State's infrastructure program, reforms to infrastructure planning and evaluation have the potential to significantly increase economic efficiency.

There are a number of issues with current project evaluation practices in Western Australia.

The ERA considers that this could be improved by ensuring that evaluation processes, including cost-benefit analysis, are applied more rigorously to all major infrastructure projects and election commitments, and that the outcomes of these evaluations are published.

Recently, the MAX Light Rail project was delayed and the Ellenbrook Bus Rapid Transit project cancelled with no lower cost alternatives to be constructed.

ROYALTIES FOR REGIONS

As a result of the mining boom, the Royalties for Regions fund grew considerably, with its size and the impact it has on budget flexibility of particular concern.

However, the \$1 billion annual expenditure cap introduced in the 2014-15 State Budget has addressed a number of the concerns raised by the ERA.

The ERA endorses this measure and recommends that the expenditure cap is proactively managed and that the governance measures surrounding the fund are periodically reviewed.

FIT-FOR-PURPOSE INFRASTRUCTURE

The strong economic performance of Western Australia in recent times has led to an expectation of the provision of world-class infrastructure. Giving greater consideration to lower-cost alternatives can result in benefits being realised more quickly.

LEVERAGING OFF THE PRIVATE SECTOR

The private sector is typically able to adopt a more flexible and innovative approach to doing business that can lead to significant gains in efficiency.

Public Private Partnerships (PPPs) and unsolicited proposals¹ are measures that could increase the involvement of the private sector in infrastructure investment, maximising the associated efficiencies.

The ERA recommends the expanded use of PPPs and the development of a process and guidelines for considering unsolicited proposals from the private sector.

The ERA also examined the merits of government ownership of assets. This issue is covered in the fact sheet on *Divestment of Government Assets*.

¹ An unsolicited proposal is an unrequested approach to government from the private sector to build and/or finance infrastructure.

USER CHARGES FOR INFRASTRUCTURE

Infrastructure charges could result in more equitable outcomes and more efficient use of infrastructure (reducing the need for capital expenditure).

The ERA recommends implementing user charges to fund and maintain infrastructure in place of general government funding as it enables a more equitable outcome by charging only the people who use that infrastructure.

Additionally, the increased use of developer charges could benefit Western Australia. It is reasonable that the developers and individuals that benefit most from the infrastructure should incur all or part of the cost of its provision.

Charging structures can be utilised to incentivise the efficient use of infrastructure. Congestion charging is one such example which has proven effective in reducing costly traffic congestion in many locations internationally. This Issue is covered in more detail in the fact sheet on *Congestion Charging*.

Another example is electricity charging. Currently, electricity users pay a constant charge at all times of the day that is below the cost of supplying electricity.

The ERA recommends that electricity charging progress towards cost reflectivity and that charging varies according to time-of-use to give consumers an incentive to consume less electricity at peak times.

The total cost of providing electricity is heavily dependent on the peak capacity requirement of the network. Reductions in peak period use reduce the capacity requirement, potentially decreasing total cost and prices.

This fact sheet is part of a series on the ERA's 2014 Inquiry into Microeconomic Reform in Western Australia

The full report and additional fact sheets are available at erawa.com.au

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