Review of the National Partnership Agreement on Asset Recycling

January 2019

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# Contents

[Executive Summary 1](#_Toc527465913)

[Introduction 2](#_Toc527465914)

[Background on asset sales in Australia 2](#_Toc527465915)

[The Asset Recycling Initiative 2](#_Toc527465916)

[Review process 3](#_Toc527465917)

[Structure of the NPA 4](#_Toc527465918)

[Governance, roles and responsibilities 4](#_Toc527465919)

[Participant scope 4](#_Toc527465920)

[Eligibility criteria 4](#_Toc527465921)

[Economic infrastructure 7](#_Toc527465922)

[Payment design 7](#_Toc527465923)

[Was 15 per cent right? 9](#_Toc527465924)

[Timeframes 10](#_Toc527465925)

[What was the reason for non-participation? 11](#_Toc527465926)

[Outcomes 12](#_Toc527465927)

[Did the NPA reduce funding constraints for additional infrastructure investment? 12](#_Toc527465928)

[Did the NPA increase economic activity, employment and improve living standards? 12](#_Toc527465929)

[Did the NPA enhance the productive capacity of the economy? 13](#_Toc527465930)

[Appendix A: Terms of Reference 15](#_Toc527465931)

[Review of the National Partnership Agreement on Asset Recycling 15](#_Toc527465932)

[Appendix B: Summary of participation 16](#_Toc527465933)

[Appendix C: EY Report 17](#_Toc527465934)

# Executive Summary

In 2014, the Council of Australian Governments (COAG) agreed the National Partnership Agreement on Asset Recycling (NPA). The NPA was a key feature of the Commonwealth Government’s Infrastructure Growth Package, announced in the 2014–15 Budget.

The objective of the NPA was to unlock funds from existing state-owned assets to invest in additional infrastructure. Asset recycling supports investment in additional infrastructure that will support economic growth and enhance productivity.

Clause 36 of the NPA states that a review must be completed by the Commonwealth approximately 12 months prior to its expiry (30 June 2019). In June 2018, a review of the NPA (the Review) was commissioned by the then Commonwealth Treasurer, the Hon Scott Morrison MP, to assess the degree to which the NPA objective and outcomes have been achieved and inform decisions regarding the appropriate treatment following its expiry.

Consultation with the states, territories and other stakeholders revealed that the NPA did assist in reducing infrastructure funding constraints for the jurisdictions that participated and were able to agree schedules with the Commonwealth before 30 June 2016 (New South Wales, the Australian Capital Territory and the Northern Territory).

The NPA was influential in bringing forward assets for divestment. Commonwealth support for transactions meant that a reform package that included additional Commonwealth funding played a role in garnering additional community support. Further, the NPA provided an impetus for government decisions to be made.

By the time the NPA expires, in June 2019, the initiative is expected to provide $2.3 billion in funding to the participating jurisdictions and unlocked over $15 billion in additional economic infrastructure. The investment in additional infrastructure supported an increase in economic activity through increased construction activity and employment demand.

The NPA also had a role in bringing forward the timing of infrastructure investments. For some jurisdictions, the additional balance sheet capacity as a result of asset divestment allowed for investment in projects earlier than previously planned.

While it is too early to determine the precise impact on the productive capacity of the economy of the additional infrastructure, participants expressed a view that it had a positive influence on productive capacity.

The review identified a number of technical issues in the way the NPA was structured. Primarily, some definitions caused confusion when trying to apply them during implementation of the NPA. For example, the definition of ‘additional’ infrastructure had various interpretations.

The consultations with states and territories found that the timeframes in the NPA were seen as a barrier by some jurisdictions. It was suggested that the NPA timeframe effectively precluded projects where preliminary analysis had not previously been undertaken. However, most stakeholders agreed that the timeframes in the NPA provided an incentive for jurisdictions to make decisions about asset divestment and reinvestment. In particular, the “first come, first serve” approach to funding meant that jurisdictions had an incentive to make decisions and it maintained the momentum of the NPA.

Despite only three jurisdictions agreeing schedules with the Commonwealth, all jurisdictions (except Queensland who chose not to participate in the review), reported that they would be willing to consider a future NPA for Asset Recycling if it was judged appropriate by the Commonwealth Government.

The NPA link to asset divestment was the main cause of non-participation.

# Introduction

## Background on asset sales in Australia

Since the 1990s, both Commonwealth and state governments have divested public assets. Assets sold include both trading enterprises and property and capital assets. High-profile divestments have included Victorian electricity assets (1992–1997), the Commonwealth Bank (1991–1996), Qantas (1993–1997), major airports (1997–2003), Telstra (1997–2006), South Australian electricity assets (1999), and Medibank Private (2014).

Governments in Australia have generally focussed on the efficiency benefits of privatisation and divestment proceeds have typically been used to reduce public debt. One exception is that in 2014, the Government committed to invest the Medibank Private sale proceeds in nationally significant productivity enhancing economic infrastructure.[[1]](#footnote-2) Prior to the Asset Recycling Initiative (ARI), the Australian Government had not provided incentives to the states and territories to privatise assets or to reinvest the proceeds of asset sales.

## The Asset Recycling Initiative

Asset recycling involves the monetisation of existing public assets through sale or lease to the private sector, with all funds received being reinvested in new infrastructure. Asset recycling offers the opportunity to provide newly needed infrastructure without adding to public debt, all while maintaining or potentially improving existing infrastructure service delivery.

In May 2014, the Commonwealth, states and territories (the states) signed a five-year NPA on Asset Recycling which sets out a joint commitment to work together to unlock funds from existing state-owned assets to invest in additional infrastructure that will support economic growth and enhance productivity.

To meet the objective, the National Partnership Agreement on Asset Recycling (NPA) included three desired outcomes:

* 1. reduced funding constraints for additional infrastructure investment;
  2. increased economic activity, employment and improved living standards; and
  3. enhanced productive capacity of the economy.

Another objective was to encourage state asset sales in the context of the public contention that surrounds privatisation. The NPA incentive payment effectively inflated asset sale proceeds, strengthening states’ justification for divestment. In addition, the condition that sale proceeds were to be reinvested in economic infrastructure linked privatisation to tangible projects.

Under the terms of the NPA, states had up to two years from commencement to finalise an agreement with the Commonwealth, meeting the criteria outlined in the NPA, in order to receive a share of the funding.

To be eligible, infrastructure projects had to:

* 1. demonstrate a clear net positive benefit;
  2. enhance long-term productive capacity of the economy; and
  3. where possible, provide for enhanced private sector involvement in both the funding and financing of the infrastructure.

Three states were able to reach asset recycling agreements with the Commonwealth; New South Wales (NSW), the Australian Capital Territory (ACT) and the Northern Territory (NT), with payments equating to 15 per cent of the proceeds from the sale of assets multiplied by the proportion of the proceeds reinvested in additional infrastructure investment. By the time the NPA expires, in June 2019, the initiative is expected to provide $2.3 billion in funding to the participating jurisdictions and unlocked over $15 billion in additional economic infrastructure.

Table 1: Timeline of events

| Date | Event |
| --- | --- |
| 2 May 2014 | Commonwealth and the states sign the NPA with funding available up to $5 billion |
| February 2015 | ACT agrees schedule with the Commonwealth ($60 million) |
| March 2015 | NSW agrees schedule with the Commonwealth ($2 billion) |
| May 2016 | NT agrees schedule with the Commonwealth ($40 million) |
| 30 June 2016 | Cut off for states to agree schedules with the Commonwealth |
| 30 June 2019 | Sales must be completed and infrastructure projects commenced |

## Review process

This review was established to assess the objective and outcomes of the NPA and in doing so has examined the extent to which they have been met. Terms of Reference for the review can be found at [Appendix A](#_Appendix_A:_Terms).

The Commonwealth engaged Ernst & Young (EY) to conduct independent consultations with the states and other stakeholders to gain insight into the application and operation of the NPA.

Individual consultations were arranged and attended by EY and a representative from the Commonwealth Treasury with official-level representatives from all states except Queensland, who chose not to participate. EY also met with key stakeholders from the Department of Infrastructure, Regional Development and Cities (DIRDaC), Infrastructure Australia (IA) and Infrastructure Partnerships Australia (IPA).

EY’s role was to collect information to support the review and provide a report on findings. EY identified a number of findings that go to the structure of the NPA itself, the administration of the NPA and opportunities for improvement. A copy of EY’s report is at [Appendix C](#_Appendix_C:_EY).

The review also considers the effectiveness, efficiency and appropriateness of the NPA, reporting on findings through the consultation process.

# Structure of the NPA

## Governance, roles and responsibilities

The NPA was shaped by COAG governance arrangements with the Commonwealth Treasurer authorised to agree and amend any Schedules, and certify performance milestones so that payments can be made. State Treasurers are authorised to agree and amend any relevant Schedules to the NPA.

Clauses 11–13 of the NPA outline the roles and responsibilities of the Commonwealth and the states, administered by the respective Treasury departments.

The main accountability for the states was to deliver asset sales and reinvest in additional infrastructure. The primary role of the Commonwealth was to assess and determine eligibility for payments to the states (in accordance with the eligibility criteria outlined in the NPA), and subsequently make payment when all criteria had been met.

The states were also responsible for selecting the assets they considered appropriate to be sold in order to participate in the initiative as well as the projects that they want to reinvest in.

Governance arrangements worked well between state Treasuries and the Commonwealth Treasury. Implementation Guidelines were developed and proved a useful support. They provided additional clarification on the operation of the NPA and helped states prepare proposals and submit payment requests to the Commonwealth for consideration.

During consultation it was suggested that the process could have been made more efficient by having a single point of contact in each jurisdiction and the Commonwealth, rather than having a number of different agencies involved in the communication and evaluation process (e.g. DIRDaC, IA, state transport departments, etc.).

Any future NPA should provide greater clarity on roles and responsibilities of specific agencies or institutions.

## Participant scope

The NPA was an agreement between the Commonwealth and the states. During consultations there was some discussion as to whether this could have been broadened to include local governments. However, it was acknowledged that the capacity of local governments to undertake asset sales may need to be developed before considering their involvement is such a process. Further, local governments generally do not have many assets to recycle, besides water infrastructure and land. Therefore, the opportunities available for local governments to divest assets and invest in infrastructure may be limited.

## Eligibility criteria

### Eligibility of assets

The NPA did not place restrictions on the type of assets eligible for asset recycling or the ownership structure that could be applied (sale, partial sale or lease). This allowed states to consider a broad range of assets to recycle. States were able to propose recycling smaller assets such as government buildings, land or public housing, rather than only considering large income generating utilities such as electricity networks and ports. Table 1 lists all assets recycled under the NPA.

Table 2: Assets Recycled under the NPA

Australian Capital Territory

| Assets divested | Method of Divestment |
| --- | --- |
| ACTTAB | Sale |
| Public housing | Sale |
| Commercial properties | Sale |
| **Total value:** | **$472.41 million**[[2]](#footnote-3) |

New South Wales

| Assets divested | Method of Divestment |
| --- | --- |
| TransGrid | 99-year lease (100%) |
| Ausgrid | 99-year lease (50.4%) |
| Endeavour Energy | 99-year lease (50.4%) |
| Property NSW holdings | Sale |
| UrbanGrowth NSW holdings | Sale |
| Pillar superannuation | Sale |
| Land and Property Information | Sale |
| **Total value:** | **$19.54 billion (estimated value as at 30 October 2018)**[[3]](#footnote-4) |

Northern Territory

| Assets divested | Method of Divestment |
| --- | --- |
| Territory Insurance Office | Sale (Split into 3 entities, 1 retained by NT) |
| Port of Darwin | 99-year lease (50.4%) |
| **Total value:** | **$916.9 million**[[4]](#footnote-5) |

The NPA specified that the Commonwealth would provide an incentive payment equal to 15 per cent of the total amount reinvested into additional economic infrastructure. The Commonwealth did not provide payments for the sale proceeds used for other purposes (i.e. to pay down government debt). The NPA also specified that the Commonwealth’s financial contribution must be spent on the additional infrastructure project in accordance with the eligibility criteria.

### Eligibility of new projects for reinvestment

The NPA included specific eligibility criteria for the infrastructure projects put forward by the states for reinvestment. Proposals had to demonstrate a clear net positive benefit; enhance the long-term productive capacity of the economy; and where possible, provide for enhanced private sector involvement in both the funding and financing of infrastructure.[[5]](#footnote-6)

The inclusion of specific eligibility criteria was designed to ensure the Government was investing in projects that would yield a positive economic benefit.

|  |
| --- |
| Box 1: Sydney Metro City & Southwest  The two stages of Sydney Metro form Australia’s largest public transport project. The first stage, Sydney Metro Northwest, is a 36 kilometre line connecting Chatswood to Sydney’s north-western suburbs. The second stage, Sydney Metro City & Southwest, is a 30 kilometre line that will connect Sydney Metro Northwest at Chatswood to Bankstown via the CBD, including a tunnel under Sydney Harbour.  Under the NPA, the NSW Government is investing $11.3 billion of asset divestment proceeds into Sydney Metro City & Southwest. Therefore, the project is supported by $1.7 billion of Commonwealth incentive payments. The NSW Government has stated that asset recycling allowed the delivery of Sydney Metro City and Southwest to be accelerated by five to seven years.  The Commonwealth Government’s assessment of Sydney Metro City & Southwest indicated that the project demonstrated a clear net positive benefit and the capacity to improve the long-term productive capacity of the economy. The NSW Government’s business case showed that the benefit-cost ratio for the project is 1.3. The project’s major beneficiaries will be for public transport users via travel time savings and reliability improvements. The benefit-cost ratio calculated did not include wider economic benefits. The business case found that by 2036 the project will enable over $8.5 billion per annum in additional economic value in the corridor, and by 2036 will stimulate over 44,000 additional jobs in the corridor.  After assessing the business case, Infrastructure Australia listed Sydney Metro City & Southwest as a High Priority Project, indicating that it will address a nationally-significant problem.  Sydney Metro City & Southwest is currently under construction and is due for completion in 2024. |

### Accelerated investment

The Commonwealth considered proposals involving existing infrastructure projects that would be accelerated through asset recycling.[[6]](#footnote-7) In order to be eligible to receive funding, states were required to demonstrate that construction activity would be accelerated to occur within the agreement period. These proposals were also required to meet the eligibility criteria but did not need to be completely new projects that had not previously been considered.

This flexibility meant that participating jurisdictions were able to use additional balance sheet capacity from the asset divestment to reinvest in projects to be undertaken earlier.[[7]](#footnote-8)

|  |
| --- |
| Box 2: Canberra Metro  Canberra Metro is a 12km light rail project linking Canberra’s northern suburbs to its city centre. In 2015, the Commonwealth and the ACT agreed to an NPA schedule listing asset divestments and a key $447.6 million investment using sale proceeds to construct the project. Canberra Metro is supported by $67.1 million of Commonwealth incentive payments.  The Commonwealth Government assessed Canberra Metro and found that the project demonstrated a net positive benefit and had the capacity to improve the long-term productive capacity of the economy. The ACT Government’s business case showed that the benefit-cost ratio for the project is 1.2. This figure incorporates transportation and land use benefits, with the remainder representing wider economic benefits. The Commonwealth did not consider a range of project options. Rather, the Commonwealth agreed to the project put forward by the ACT as it met the criteria set out in the NPA.  While Canberra Metro had been in a planning stage since 2012, competing fiscal priorities in the ACT meant that funding to deliver the project was not available. The Commonwealth Government was confident that the inclusion of the project in the NPA enabled its prioritisation by the ACT Government and accelerated its construction.  Canberra Metro is being delivered via a public-private partnership, aligning with the NPA requirement that, where possible, projects should provide for enhanced private sector involvement.  Canberra Metro is currently under construction and is due for completion in 2019. |

## Economic infrastructure

The purpose of the NPA was to assist in addressing state funding constraints that limited their ability to invest in economic infrastructure. ‘Economic infrastructure’ is generally understood to be infrastructure that supports economic activity, such as roads and railroads, as opposed to ‘social infrastructure’ such as hospitals and schools. However, the NPA did not define ‘economic infrastructure’.

Some jurisdictions reported that they experienced some uncertainty regarding whether certain potential infrastructure investments would be considered economic infrastructure. One other jurisdiction reported that they would have preferred the option to reinvest divestment proceeds in social infrastructure. For example, the NT expressed an interest in both economic and social infrastructure investment. While reinvestment in economic infrastructure assets was the explicit intent of the NPA, greater specificity around eligible projects in the NPA could have provided useful clarification for participating jurisdictions.

## Payment design

The NPA sets out that financial contributions are to be managed as an Asset Recycling Pool (the Pool) from which the Commonwealth will allocate incentive payments. Financial contributions are additional to existing Commonwealth infrastructure funding commitments.

Funding from the Pool was allocated on a first-come, first-served basis. States had up to two years from commencement of the NPA to agree with the Commonwealth the specific assets to be sold and the additional infrastructure investment which would be supported by funding from the Pool.

The total incentive payment from the Commonwealth was equivalent to a fixed 15 per cent of the proceeds received by the state from the sale of the asset(s) agreed by both parties, multiplied by the proportion of the sales proceeds reinvested by the state in the additional infrastructure investment agreed with the Commonwealth. Accordingly, if parts of the sale proceeds were used by the state to retire debt or for purposes other than reinvesting in infrastructure, the total incentive payment to the state was reduced commensurately.

The initial payment was made on the basis of the book value of the net asset(s) to be sold and equated to 50 per cent of the agreed 15 per cent of the proceeds for the asset(s). To be eligible for payment, the state was required to:

* 1. commence the tender process or the expression of interest to sell the asset;
  2. commence other government processes required ahead of the sale; and
  3. commence planning and approvals for the additional infrastructure project(s).

The final payment was based on the final proceeds received from the sale and was calculated as the total payment minus the initial payment. The Commonwealth was required to agree the final sale amount supplied by the state, and any adjustment that may be needed in the final payment to account for the difference between the book value of the net asset and the final sale proceeds, as well as any adjustment required where the sale results in a direct cost to the Commonwealth. Essentially milestone two was a ‘true-up’ or ‘true-down’ depending on the final asset sale price. The two-stage payment was designed to help ensure that the states were incentivised to sign up to the NPA and ‘get going’ with projects sooner.

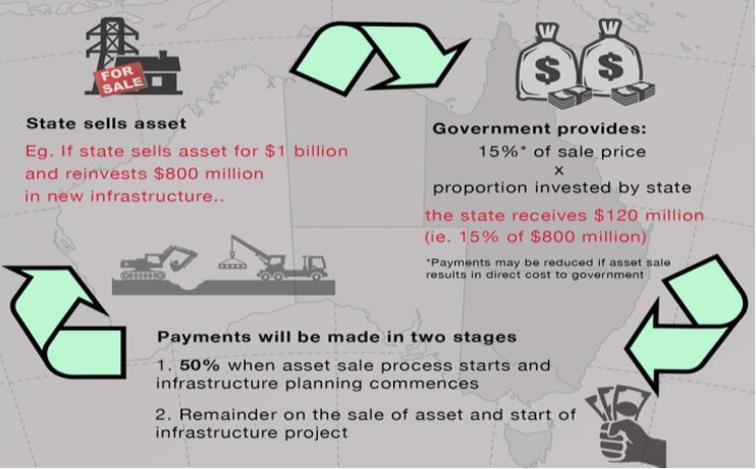
Table 3: Payment criteria

|  | Milestone 1 | Milestone 2 |
| --- | --- | --- |
| i. | Commencement of the tender process or the expression of interest to sell the asset | Completion of the sale of the asset |
| ii. | Commencement of other government processes required ahead of the sale | Commencement of construction of the agreed infrastructure project(s) |
| iii. | Commencement of planning and approvals for the additional infrastructure project(s) |  |

One challenge identified when administering the NPA, was reconciling milestone one and two payments once the ARI funding pool was reduced. This meant that the Commonwealth was only able to make payments up to a certain amount, if any asset sold for more than estimated (requiring a true-up) the Commonwealth had limited ability to agree on an increased milestone 2 payments. The two stage funding arrangement under the NPA, where a “true-up” occurs for the payment of the second instalment, added to the uncertainty felt by some jurisdictions when the available funding pool decreased. As signatories to the NPA, jurisdictions indicated they would have appreciated more consultation.

Further, some jurisdictions noted that the “true-up” process between market value and book value of assets under the NPA created confusion where there were multiple smaller assets being sold at different points in time. This confusion created a reporting burden where an updated schedule of assets was required each time a payment request was made.

Figure 1: The Asset Recycling process



## Was 15 per cent right?

Under the NPA, the Commonwealth and state government’s negotiated and agreed that a payment of 15 per cent provided an appropriate incentive for states to consider recycling long-term revenue stream from an asset into a new economic infrastructure project. The Commonwealth’s funding contribution was aimed at reducing constraints that limited states ability to invest in productivity-enhancing infrastructure.

For jurisdictions that participated in the NPA, a financial contribution and policy support provided additional momentum and incentive for decisions on asset divestments to be made. It also demonstrated to the community that not only did the Commonwealth support the divestment, but that it would also ensure proceeds were directed to new economic assets.

However, some jurisdictions are of the view that the terms and conditions of the NPA were more suited to a situation where the Commonwealth was a full funding partner of the additional infrastructure project, rather than just providing a 15 per cent uplift. From the Commonwealth’s perspective, the NPA was not designed to provide grants for infrastructure projects (as this mechanism already exists) instead it was to provide an incentive to sell or lease state-owned assets and use the proceeds to invest in new projects.

Three states were able to reach an agreement; NSW, the ACT and the NT, entitling them to payments worth a combined $2.3 billion, less than half the original funding pool.

New South Wales

Date of agreement: March 2015

Funding: $2.2 billion

Number of projects funded: 10

Project examples: Sydney Metro, Smart Motorways, Parramatta Light Rail, Pinch Points and Clearways etc.

Australian Capital Territory

Date of agreement: February 2015

Funding: $67 million

Number of projects funded: 1

Project examples: Canberra Light Rail

Northern Territory

Date of agreement: May 2016

Funding: $40 million

Number of projects funded: 11

Project examples: Ship lift and Marine Industries project, Roper Highway upgrade, Tanami Road upgrade, T-Gen project

In the 2016–17 Commonwealth Budget Papers, unallocated funds from the NPA were returned following negotiations with jurisdictions, which decreased payments by $453 million in 2016–17, and $854 million over three years to 2018–19.[[8]](#footnote-9)

## Timeframes

States had until 30 June 2016 to reach an agreement with the Commonwealth Government on the sale of assets and the eligible infrastructure projects. The NPA also stipulated that all asset sales had to be completed and construction of the new infrastructure project had commenced on or before 30 June 2019.

During consultation, stakeholders agreed that the inclusion of specific timeframes in the NPA encouraged jurisdictions to make prompt decisions about asset divestments and new investments. The additional balance sheet capacity from the asset divestment allowed reinvestment in projects to be undertaken earlier. For NSW, the programs in the table below were brought forward as a result of participation in the NPA.

Table 3: Accelerated projects in NSW

| Project/Program | Estimated years accelerated |
| --- | --- |
| Sydney Metro City and Southwest | 5–7 years |
| More Trains, More Services | Up to 2 years |
| Pinch Points and Clearways | Up to 5 years |
| M4 Smart Motorway | Previously unfunded |
| Gateway to the South Pinch Points | Up to 5 years |
| Northern Beaches B-Line | 2–5 years |

Source: NSW Government, Budget 2017–18, Budget paper No. 2: Infrastructure Statement, section 3-2, page 47.

However, jurisdictions also noted that the projects selected for investment were scoped prior to the introduction of the NPA. Some argued that the NPA timeframes did not provide sufficient time for new project proposals to be developed. Project development involves problem identification and prioritisation, initiative identification and options development, business case development, and business case assessment.[[9]](#footnote-10) For some projects, it is unlikely that this thorough process could be followed from start to finish within the NPA timeframe.

Therefore, whether the NPA provided funding for *additional* economic infrastructure was questioned. Some jurisdictions expressed the view that while the Commonwealth was looking to provide funding for “additional” infrastructure projects under the NPA, the projects also needed to meet the jurisdiction’s own overarching infrastructure strategy or priorities. This means jurisdictions may already have done preliminary work to define and scope the projects and therefore these projects may not be considered “additional” under the Commonwealth’s definitions. It was suggested that this definition of “additional” infrastructure created an incentive for jurisdictions to put forward projects that were not identified priorities.

Upon commencement of the NPA, the jurisdictions with long-term infrastructure plans or strategies were New South Wales, South Australia and the Australian Capital Territory.

One criticism of making the NPA time limited is that it resulted in assets being put to market before appropriate market testing had occurred and the asset sale price is lower than expected as a result. However, at the time the NPA was signed, all parties agreed that over two years was a sufficient timeframe for states to undertake appropriate market research.

## What was the reason for non-participation?

The NPA’s impact in bringing forward reinvestment was limited by some jurisdictions not participating. The link to asset divestment was one of the main causes of non-participation, either because asset divestment was not a policy priority of the specific jurisdiction at the time, or because there were no assets ready for sale within the NPA timeframes.

Some states expressed their opposition towards asset divestment, in particular, in the context of Infrastructure Australia’s recommendation that suggested some states should privatise their electricity and water businesses.[[10]](#footnote-11) The Queensland Government rejected the recommendation by stating that “Queensland does not support asset sales”.[[11]](#footnote-12) The Western Australian Government responded that “if they privatise assets they will do it for sound policy reasons and not just for additional budget”.[[12]](#footnote-13) Similarly, the South Australian Government at the time ruled out privatisation, particularly in the context of the sale of SA Water, arguing that this policy could result in higher prices to consumers.

The combination of a 15 per cent contribution coupled with a compressed timeframe for new projects also precluded a number of jurisdictions from participating.

# Outcomes

## Did the NPA reduce funding constraints for additional infrastructure investment?

Yes, funding constraints were reduced for jurisdictions that participated in the NPA, with Commonwealth funding providing impetus for asset divestments. For jurisdictions that participated, Commonwealth funding helped by supporting state-led reforms, as opposed to catalysing consideration of new divestments. The NPA did this by helping garner additional community support. The Commonwealth funding and policy support provided additional momentum and incentive for government decisions to be made. It also clearly demonstrated to the community that not only did the Commonwealth support the divestment, but that it would also ensure proceeds were directed to new economic assets.

Jurisdictions commented that asset divestment meant greater capacity on the balance sheet, with debt levels maintained within reasonable parameters. NSW attributed low debt levels to continued surpluses and its asset recycling strategy, with $18.2 billion of the gross sale proceeds allocated to debt repayments.[[13]](#footnote-14) Further, proceeds from asset sales alleviated fiscal pressures in the NSW forward estimates.[[14]](#footnote-15) The ACT noted that asset sales allowed it to “restructure [its] balance sheet” and invest in economic infrastructure.[[15]](#footnote-16)

There was feedback that the process needed to be sensitive to maintaining confidentiality for commercially sensitive information during a transaction. An instance was reported where NPA timelines were at odds with the time judged to be needed to optimise the sale value of a particular transaction. Such a situation was regarded as working against the objective of relieving funding constraints.

## Did the NPA increase economic activity, employment and improve living standards?

From the feedback received during consultations, from officers in the jurisdictions, economic activity increased for those that participated in the NPA. The experience of jurisdictions differed depending on their participation in the NPA. For jurisdictions that participated, the level of total reinvestment ranged from more than $14 billion[[16]](#footnote-17) in NSW, more than $448 million in the ACT[[17]](#footnote-18) and more than $269 million in the NT.[[18]](#footnote-19)

Feedback from jurisdictions that participated in the NPA is that the investment in infrastructure negotiated under the NPA produced an increase in economic activity through, for example, increased construction activity and employment. There is limited publicly available information on the additional economic activity that is directly attributable to the NPA. In general terms:

* NSW has experienced higher than average annual employment growth since April 2015, with over 192,000 additional people being employed,[[19]](#footnote-20)
* over a year to February 2017, NSW’s total annual average employment growth was 1.4 per cent with construction accounting for 1 per cent of growth;[[20]](#footnote-21)
* in the ACT, over 3,500 jobs were supported by the Canberra Light Rail in 2017 – the major project funded by the NPA;[[21]](#footnote-22) and
* the NT acknowledged that investment in economic infrastructure is necessary to create jobs and stimulate its economy.[[22]](#footnote-23)

While the projects delivered under the NPA are likely to be productivity enhancing in the long-term, it would be necessary to undertake project specific post-completion reviews in the future to determine net economic benefits.

It was commented that the support under the NPA for projects that meet long-term economic infrastructure opportunities in regional economies also allowed additional scope for jurisdictions to nominate projects that may not have met the condition that projects demonstrate “clear net positive benefits”.

An infrastructure agency commented that the NPA complemented other initiatives at the time, for example by helping to fund passenger rail projects (such as the Sydney Metro in NSW and the Canberra Light Rail in the ACT) that would not have been funded under the National Partnership Agreement on Land Transport Infrastructure Projects. The NPA on Asset Recycling was introduced at a time when the Australian Government’s policy was focused on road and freight rail projects.

## Did the NPA enhance the productive capacity of the economy?

Jurisdictions that participated in the NPA expressed a view that it had a positive influence on the productive capacity of their respective economies, for example:

* A productivity gain was generated by asset divestments, as assets would be managed more efficiently by the private sector.
* Capital deepening of governments allowing for investment decisions that contribute to longer term economic growth.

In NSW, the long-term lease of electricity assets is anticipated to improve efficiency and reduce the pressure on electricity prices in the future.[[23]](#footnote-24) The factors that affect electricity prices are complex and it is difficult to attribute price movements to specific factors such as the NPA. The Independent Pricing and Regulatory Tribunal (IPART) in NSW has found that since 2013-14, the average bill for residential customers has increased by 2per cent due to rising wholesale costs,[[24]](#footnote-25) however, in real terms this is in fact a 5 per cent price reduction.

Some jurisdictions reported difficulties in reaching agreement on what was “additional” investment, and that this process effectively encouraged them to put forward projects that were not necessarily considered the highest priority under well-considered state infrastructure strategies (this is because in some cases the highest priority projects already have funding committed). Therefore, to the extent that the NPA directed investment to lower priority projects, this may have resulted in a lower boost to productive capacity than may have otherwise been achieved if the funds were instead used to support identified priorities.

# Appendix A: Terms of Reference

## Review of the National Partnership Agreement on Asset Recycling

### Context

1. The National Partnership Agreement on Asset Recycling (‘the Agreement’) commenced on   
   2 May 2014 and expires on 30 June 2019.
2. The Agreement was designed to assist in addressing State and Territory funding constraints that limited their ability to invest in additional economic infrastructure. It aimed to increase investment in productivity enhancing infrastructure by encouraging the sale of state-owned assets to unlock funds and recycle the capital into additional infrastructure.
3. The Agreement requires a review to be completed approximately 12 months prior to expiry (clause 36 refers).

### Scope

1. The review will examine the extent to which the objective and outcomes of the Agreement have been achieved. In particular the review will consider the extent to which the Agreement:
   1. reduced funding constraints for additional infrastructure investment;
   2. increased economic activity, employment and improved living standards; and
   3. enhanced the productive capacity of the economy.
2. In addition, the review will consider whether the objective and outcomes of the Agreement have been achieved by:
   1. selling state-owned assets; and
   2. increasing investment in additional economic productive infrastructure.

### Process for conducting the review

1. The Commonwealth Treasury shall be responsible for ensuring that the conduct of the review is in accordance with the requirements of the Agreement and the federal financial relations framework.
2. The review will be undertaken by an independent evaluator reporting to the Project Lead, Structural Reform Group, Commonwealth Treasury.
3. The Commonwealth and all relevant States and Territories will be invited to participate in the review, including through a mix of written correspondence, teleconferences and face-to-face-meetings, as appropriate.
4. The review is expected to be completed by July 2018.

### Review outcomes

1. A report on the outcomes of the review will be prepared by the Commonwealth Treasury.

# Appendix B: Summary of participation

|  | NSW | ACT | NT | Total ($m) |
| --- | --- | --- | --- | --- |
| Estimated value of proceeds to be reinvested into agreed infrastructure investment from sale of State-owned assets | $14,604.3 | $447.62 | $269.04 | $15,320.96 |
| Commonwealth contribution | $2,190.9 | $67.14 | $40.36 | $2298.4 |
| Total | $16,795.2 | $514.76 | $309.4 | $17,619.36 |

# Appendix C: EY Report

Refer attached.

1. Commonwealth of Australia, Budget 2014-15, Budget Measures: Budget Paper No. 2, page 117. [↑](#footnote-ref-2)
2. For more recent information please visit: <http://federalfinancialrelations.gov.au/content/npa/infrastructure.aspx>. [↑](#footnote-ref-3)
3. For more recent information please visit: <http://federalfinancialrelations.gov.au/content/npa/infrastructure.aspx>. [↑](#footnote-ref-4)
4. For more recent information please visit: <http://federalfinancialrelations.gov.au/content/npa/infrastructure.aspx>. [↑](#footnote-ref-5)
5. Council of Australian Governments 2014, *National Partnership on Asset Recycling*, clause 16. [↑](#footnote-ref-6)
6. Australian Treasury 2014, *Implementation Guidelines for the Asset Recycling Initiative*, page 5. [↑](#footnote-ref-7)
7. Ernst & Young 2018, *Review of the National Partnership Agreement on Asset Recycling*, page 8. [↑](#footnote-ref-8)
8. Commonwealth of Australia, *Budget 2016-17, Budget Measures: Budget Paper No. 2*, page 147. [↑](#footnote-ref-9)
9. Infrastructure Australia 2018, *Assessment Framework.* [↑](#footnote-ref-10)
10. Infrastructure Australia 2016, *Australian Infrastructure Plan.* [↑](#footnote-ref-11)
11. Queensland Government Department of Infrastructure, Local Government and Planning 2016, *State Infrastructure Plan, Part B: Program*, page 9. [↑](#footnote-ref-12)
12. Western Australia Department of Treasury, [*Proposed Long Term Lease of Western Power Networks and Horizon Power’s North West Interconnected System*](https://www.treasury.wa.gov.au/Site-content/Asset-Sales/Updates/Proposed-Long-Term-Lease-of-Western-Power-Networks-and-Horizon-Power-s-North-West-Interconnected-System/) [↑](#footnote-ref-13)
13. NSW Government, *Budget Paper No. 1: Budget Statement 2015-16*, page 1 – 4. [↑](#footnote-ref-14)
14. NSW Government, *Budget Paper No. 1: Budget Statement 2015-16*, page 2 – 9. [↑](#footnote-ref-15)
15. ACT Government, *Budget Paper 3: Budget 2015-16*, page 24. [↑](#footnote-ref-16)
16. Schedule to the NPA, New South Wales Asset Divestments and Projects, Schedule B, page B – 6. [↑](#footnote-ref-17)
17. Schedule to the NPA, Australian Capital Territory, Schedule A, page A – 6. [↑](#footnote-ref-18)
18. Schedule to the NPA, Northern Territory, Schedule C, page C – 3. [↑](#footnote-ref-19)
19. NSW Government, *2017-18 Budget Papers, Budget Paper 1: Budget Statement*, page 3 – 4. [↑](#footnote-ref-20)
20. Ibid. [↑](#footnote-ref-21)
21. ACT Government, *Budget 2017-18, Budget Paper 2: Budget in Brief*, page 36. [↑](#footnote-ref-22)
22. NT Government, *Budget 2017-18, Northern Territory Economy*, page 6. [↑](#footnote-ref-23)
23. Infrastructure NSW 2018, *State Infrastructure Strategy 2018-2038,* pages 148-155. [↑](#footnote-ref-24)
24. Independent Pricing and Regulatory Tribunal New South Wales, [*Performance of the NSW Retail Electricity Market*](https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-compliance-monitoring-electricity-publications-market-monitoring-201617/fact-sheet-performance-of-the-nsw-retail-electricity-market-201617.pdf) [↑](#footnote-ref-25)