



**Making a meaningful contribution to
the productivity conversation**

A photograph of a construction site at sunset. Two large tower cranes are visible against a clear blue sky. In the foreground, a brick building is under construction, with a blue sign that reads "Barangaroo". To the right, a taller, dark glass skyscraper is partially visible. A bright light source, likely the setting sun, creates a vertical lens flare on the right side of the image. The brick building has a yellow sign and a list of numbers (30, 29, 28, 27, 26, 25, 24, 23, 22, 21, 20) on its side.

Barangaroo

About this document

This document is TCorp's feedback to the NSW Productivity Commission's Discussion Paper *Kickstarting the productivity conversation*.

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Executive summary

TCorp has a keen interest in NSW achieving strong and sustained productivity growth and welcomes the NSW Productivity Commission's Discussion Paper *Kickstarting the productivity conversation*.

TCorp has developed strong relationships, and has significant capabilities, in some of the areas covered by the Discussion Paper. These include water infrastructure funding, local councils and providing financial solutions for investment projects.

Our experience of working with organisations in these areas has also highlighted several opportunities to deliver even stronger productivity outcomes.

As such, TCorp is ready to be a willing and enthusiastic thought partner in the 'productivity conversation'.

Introduction

TCorp welcomes the NSW Productivity Commission's Productivity Discussion Paper, *Kickstarting the productivity conversation*. TCorp has a keen interest in ensuring that productivity growth is a focus for policymakers as many of TCorp's activities are impacted by it, either directly or indirectly.

TCorp has long and deep relationships with organisations that operate in some of the areas highlighted by the Discussion Paper as being key productivity enablers. This engagement has provided TCorp with the opportunity to develop a strong understanding of how we can assist our clients become more efficient and productive.

Importantly, TCorp also sees more scope to help facilitate productivity across the state in the following areas: water infrastructure, local councils and maximising value from investments. For these reasons, TCorp supports the aims of the Discussion Paper and its areas of focus and is a willing and enthusiastic participant in the 'productivity conversation'.

TCorp's activities benefit from strong productivity growth in NSW

Our submission has been guided by TCorp's statutory purpose, which observes that "*The principal object of the Corporation is to provide financial services for or for the benefit of the Government, public authorities and other public bodies.*" We work in partnership within TCorp and across the Government family to achieve significant financial impact over the long-term to create a stronger NSW.

In practice, TCorp provides best-in-class financial management, solutions and advice to the NSW Government family, which includes funding, lending, debt management, investment management and other financial services.

From this perspective, TCorp clearly sees the benefits to be gained from ensuring that a robust productivity performance forms the basis for a strong NSW economy which ultimately translates into a better quality of life for the people of NSW. This manifests itself in several ways.

For example, when TCorp issues bonds to foreign investors to help fund the NSW Government's budget, funding costs will be lower if investors are confident that a robust NSW economy will continue to support the state's AAA credit rating.

Similarly, over the long run, the investment returns on the \$100 billion of funds that TCorp manages on behalf of the NSW Government family will be highly influenced by the health of the economy and its productivity performance.

While TCorp has a keen interest in ensuring that productivity is supported as much as is feasible, this submission will not attempt to cover all of the subjects raised in the Discussion Paper, as we do not consider ourselves to be experts in a number of these areas. Rather, the submission will focus on those areas where TCorp's activities overlap with those highlighted in the Discussion Paper.

TCorp's current activities and their link to productivity

Of the six major areas identified in the Discussion Paper, TCorp considers that there are three areas which overlap with TCorp's core activities.

These areas come under the headings:

- Reliable, sustainable and productive use of our water and energy
- Smart ways to get more from our infrastructure
- Modernising our tax system to help our economy grow.

Specifically, TCorp funds water infrastructure, works extensively with local councils and provides financial solutions to maximise the value from investments.

Water infrastructure

One of the laudable points about the Discussion Paper is the way in which it considers the critical role of some factors—such as water security—that are not usually raised in the productivity debate. It is clear, however, that inadequate access to water will undermine the most efficient enterprise even if it has the latest equipment and the most productive workforce.

Appropriately, the Discussion Paper focusses on more effective use of existing water resources as well as water recycling. While TCorp does not have any particular expertise in these areas, TCorp has had a long and productive relationship with water utilities based on the provision of funding for new water infrastructure. In addition, TCorp, as a lender to local councils, facilitates the funding of key water infrastructure, particularly in non-metropolitan and regional areas. TCorp is also a part-owner of a UK water utility through its investment management operations.

TCorp's relationship with NSW water utilities

TCorp has had a long and wide-ranging relationship with the three major water utilities: Hunter Water, Sydney Water and WaterNSW.

Services provided by TCorp to the water utilities include:

- Debt funding
- Debt management and advice
- Financial solutions

- Assistance with regulatory rulings and decisions
- Strategic and economic research.

TCorp's work with the water utilities has focussed on ensuring that they have a reliable source of funding that minimises the financial markets risk to their business while doing so at a low cost. By doing so, we believe they can maintain their focus on meeting their core objectives.

In addition to the funding of regular capital expenditure and maintenance, TCorp has also engaged water utilities in funding particular projects such as the Sydney water desalination plant.

The growing investor appetite for 'green bonds' and 'sustainability bonds' has also enabled TCorp to tap a broader investor base who are keen to invest in the NSW economy. The NSW Sustainability Bond Programme was established in 2018 and is the only programme of its type among semi-government issuers in Australia.

Proceeds raised from this programme are earmarked to finance or refinance projects and assets that deliver positive environmental and/or social outcomes, align with and contribute towards meeting the United Nations Sustainable Development Goals and to support the NSW Government's environmental and/or social objectives. Further detail on our programme and the positive impact it has on NSW people and community is detailed in our inaugural 2019 annual report in Appendix 1.

Water infrastructure assets satisfy many of the requirements to be eligible for this additional source of funding. Examples of sustainable water and wastewater management projects that have been identified as being suitable for funding from this programme include: Green Square Trunk Stormwater Improvement, Astrolabe Park Stormwater Improvement, Strangers Creek Stormwater Improvement, Powells Creek Naturalisation and Cooks River Naturalisation as well as the Lower South Creek Treatment Programme.

Local councils

The Discussion Paper identifies a number of opportunities for productivity improvement that relate to local government. TCorp welcomes the Commission's timely focus on these issues and we look forward to working with it, where appropriate, on the identified productivity initiatives.

TCorp's relationship with local government

TCorp's Local Government Services (LGS) team has a multi-faceted relationship with local councils, which commenced in December 2011, and currently extends to two principal activities:

- Lending at discounted rates to approved NSW councils for the purposes of funding critical infrastructure projects
- Providing financial education to NSW councils to help deliver improved financial management in the local government sector.

Examples of how we work with local councils can be found in Appendix 2 which highlights recent case studies.

Inter-governmental partnership

LGS also has regular on-going engagement with key NSW Government stakeholders, principally, NSW Treasury, the Office of Local Government (OLG) and the Department of Planning, Industry and Environment (DPIE) and acts as a conduit between these stakeholders and the local government sector in relation to issues faced by NSW councils. These challenges include:

- A lack of revenue for some councils as well as access to affordable funding for critical Tier 2 infrastructure (in both cases, particularly, non-metropolitan and regional councils)
- Declining investment returns. This can result in a 'chase for increased yield' that may drive councils to invest in lowly rated investment products that may be inappropriate for their risk appetite
- Varying levels of financial sophistication, resources and capability across the local government sector.

Maximising value from investments

The Discussion Paper makes the acute observation that as the NSW "population and demand for services grows, maximising value from investments and existing assets will be critical to the liveability and productivity of our cities and regions."

This observation has many implications, including complex questions surrounding project selection and sequencing, as well as coordination challenges. TCorp believes that an important part of 'maximising value from investments' is having both an appropriate policy framework in place to cover financial considerations as well as the appropriate implementation tools available to deliver the outcomes that are desired.

In this respect, TCorp draws attention to the innovative work that NSW Treasury has done in building an appropriate financial policy framework. With that in place, TCorp's role has been to develop the tools to implement the policy and ensure that it works effectively within financial markets.

One example of this work is the appropriate use of foreign currency hedging to reduce the risk to project budgets emanating from large swings in foreign exchange rates. Without an appropriate policy in place, vendors may embed large opaque fees into a contract that create the illusion that there is no foreign exchange exposure. Alternatively, the client may decide to use a project's 'contingency reserve' to fund an adverse currency movement. This introduces unnecessary uncertainty into the project, often results in higher costs and may result in the client accepting an inferior outcome in order to remain closer to budget.

TCorp's work in this area has helped clients identify foreign exchange exposures in their contracts and manage them appropriately. This has reduced risk, increased budget certainty and in some cases has also reduced costs.

TCorp believes that maximising value from investments is achieved through a robust financial policy framework, such as the one developed by NSW Treasury, that optimises the contributions from the private and public sectors. This framework then enables the more challenging issues of project selection and sequencing to be taken in an environment of more certainty and clarity.

Searching for the low-hanging fruit: Areas where TCorp sees scope to do more to support productivity

The Discussion Paper has outlined a wide range of areas that should be explored in an effort to boost the state's productivity performance, including some areas that would require a major policy shift were they to be adopted.

TCorp's experience suggests that there is also scope to improve the state's productivity performance by some relatively modest—yet important changes—that could lead to significant cost savings, improve efficiency and enable more productivity-enhancing infrastructure to take place.

Water infrastructure

Where TCorp can assist water infrastructure funding and investment

TCorp remains focussed on ensuring that the water utilities will continue to have access to affordable, appropriate and reliable funding to undertake whatever infrastructure projects are necessary to enhance water security.

In addition, TCorp constantly seeks to augment the traditional funding channels with innovative mechanisms if they result in cheaper and more stable funding, for example the NSW Sustainability Bond Programme.

Another possible source of funding that could be explored in the future is equity funding. TCorp's Investment Management team notes that there is significant investor appetite to provide equity funding for appropriate infrastructure projects, which could include additional desalination plants, or water filtering/recycling plants.

TCorp has also developed strong relationships with major domestic and international investors who are keen to participate in long-term investment opportunities. This option could be considered in thinking about the state's future water infrastructure needs and how they can best be delivered.

Thus, while TCorp doesn't have a view on the governance of water infrastructure or what types of infrastructure should be built, TCorp is confident that appropriate and cost-effective types of funding can be attained to deliver it, and TCorp is ready and willing to assist where possible.

Local councils

Where TCorp can assist the local government productivity discussion

The Discussion Paper specifically raises a number of key productivity questions relating to local government and NSW councils, in particular, relating to:

- Performance monitoring and benchmarking of NSW councils
- The impact of regular community satisfaction surveys of NSW councils to make them more responsive to their residents
- Improving NSW funding arrangements to provide greater flexibility to residents' service demands.

TCorp has the capacity and experience to help respond to these matters including via the following activities:

Monitoring and benchmarking: TCorp, through its existing internal policies and arrangements with NSW Treasury, the OLG and DPIE, currently undertakes transactional and annual credit reviews of borrowing councils and annual benchmarking reviews of all NSW councils (excluding the NSW county councils). As a result, TCorp has a comprehensive and in-depth overview of the council population that forms the basis for informed and responsible lending decisions to facilitate local infrastructure projects.

Regular council engagement: LGS regularly meets with senior council representatives to discuss infrastructure requirements and local trends and issues, and also helps more broadly on financial best practice. This has been particularly insightful in non-metropolitan areas where councils face unprecedented challenges (for example, the impact of drought and bushfires).

Funding environment: As a lender to over 45 councils, TCorp is well placed to provide first-hand feedback on NSW councils' funding arrangements, including rate pegging and external funding options. The challenging funding landscape facing councils is likely to become even more difficult given the impact of natural disasters, population trends and as commercial banks review their participation in this sector.

Maximising value from investments

Where TCorp can assist in maximising value from investments

Introducing the NSW Treasury's financial policy framework was a critical first step in maximising value from investments. Developing the capability to implement the policy is also essential. Unless, however, the framework is fully embedded into the decision-making process, the benefits of lower costs, reduced risk and less complexity (and hence the feasibility of some productivity-enhancing investments) will fail to be realised. This is where TCorp believes that additional progress can be made.

It is important to note that non-compliance with the policy framework need not be due to antipathy towards the policy, but may be a consequence of unfamiliarity with the framework or the procurement process itself. For example, foreign currency exposure could be embedded into a contract during the early stages of the proposal, while the financial transactions take place at a much later stage and by a different team.

This points to the need for greater education of these issues across the government sector and enhanced enforcement mechanisms. TCorp also notes that adherence to a robust financial policy framework will not only have benefits for major infrastructure investments, but also for large public contracts more generally. By reducing the 'opportunity cost' of ongoing spending, this would also free up funding for additional innovative projects.

Conclusion

The Discussion Paper is a timely and important contribution to the debate about what can be done to boost productivity growth and ensure that NSW households continue to enjoy higher living standards in the future.

Governor Philip Lowe of the Reserve Bank of Australia recently stated that productivity growth “is the main source of sustainable increases in our wages and incomes. So, as a country, we need to keep focused on this.” This is exactly what the Discussion Paper succeeds in doing.

It is in this spirit that TCorp has made its submission to the Discussion Paper. We have a keen interest in NSW achieving strong and sustained productivity growth. We have also developed strong relationships, and have significant capabilities, in some of the areas covered by the Discussion Paper. These include water infrastructure funding, local councils and providing financial solutions for investment projects.

TCorp’s experience of working with organisations in these critical areas has also highlighted several opportunities to deliver even stronger productivity outcomes. As such, we are ready to be a willing and enthusiastic thought partner in the ‘productivity conversation’.

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About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A\$107 billion of funds under management, TCorp is a top five Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A\$75 billion.

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