

## **Transport funding, financing and investment – addressing the Infrastructure Deficit**

I would like to thank CEDA for the opportunity to present here today on what is a very important topic for the nation's economic outlook. **[Outline slide]**

It also gives me the opportunity to outline some of the significant tasks that have been set for Infrastructure Australia under the incoming government.

Infrastructure Australia comprises a board of eminent private sector and government representatives and a small secretariat of five permanent policy officers. **[IA Council Slide]**

The organisation is small and responsive, working proactively with industry on national infrastructure challenges.

The skills and experiences of the board are enhanced by the skills and experiences of the secretariat individuals.

The CV's cover all jurisdictions and tiers of government, the public and private sectors and all levels of government decision makers, for example, the experience and understanding I gained through budget work with Peter Costello.

These wide and diverse skills and experiences are reflected in IA's work, **[IA Reports Slide]** the assessments, the project prioritisations and the policy development, all of which focus on meeting Australia's infrastructure needs.

In meeting those future needs, it's vital we get infrastructure funding and financing right.

The right outcomes impact positively on Australia's competitiveness and well being through the important linkages between infrastructure and national productivity.

The topic is important because Australia has an infrastructure deficit. **[IPL Slide]**

- IA sees the deficit in the number of largely unfunded economic infrastructure submissions it receives.
  - While we've made some progress, with significant Australian government funding of transport infrastructure over recent years, there are however, currently over \$80 billion of largely unfunded projects identified on Infrastructure Australia's most recent priority list;

- State governments see the deficit in their infrastructure planning work with, in aggregate, a much larger number of unfunded projects identified on state infrastructure plans; **[congestion slide]**
- Importantly, the public sees the deficit in congested roads and overcrowded trains and buses.

**And, there will be increasing demand for infrastructure going forward.**

**That is inevitable.**

**[population graph slide]**

- Population growth will continue to place pressure on our cities with the ABS and the Australian Government's intergenerational report projecting significant increases in Australia's population.
- An ageing population will increase demand for public transport; and, **[PT slide]**
- There will be significant future pressures on our freight and port infrastructure. Throughput at our ports increased by around 10 per cent in volume terms in 2011-12. **[Port slide]**

**Yet, in the future, there will be less fiscal space, rather than more, to fund infrastructure. [PEFO slide]**

- Governments are currently under considerable fiscal pressure with the Australian Government looking to return to surplus and State governments looking to retain their credit ratings, or in some cases return to AAA. The fiscal audit processes in NSW, Victoria and Queensland only serve to demonstrate what we all know, that the states are under considerable budget funding pressure. **[White Paper graph slide]**

- Our ageing population means fiscal pressures are unlikely to ease as the proportion of the working age population declines. This is one of the contributing factors to the now well recognised fan graph of the Australian Government's intergenerational reports. **[IGR graph]**

In such an environment, it is important to ensure that any scarce government resources are directed towards the right solutions.

It is also important not to lose sight of the importance in determining infrastructure project priorities, so that scarce resources are not wasted. **[Port Strategy slide]**

Infrastructure Australia is currently updating its audit of Australia's economic infrastructure and this work will inform the development of a 15-year program of initiatives.

The national infrastructure audit will build on the national port and freight strategies to ensure these vital arteries of the Australian economy are flowing efficiently.

An important focus of the audit will be on cities including regional cities. **[Cities slide]**

Cities are responsible for around 80 per cent of Australia's population and GDP. The shape and form of our cities are fundamental to the productivity of the nation.

The current state of play on transport infrastructure, particularly in our cities is poor. **[road congestion slide]**

To break through the inertia, a grand bargain is required across all levels of government and industry to deliver for the community.

One of the first steps is that we need to fundamentally reform the way roads are funded and managed.

We need also to begin to treat and understand our roads as an asset class in a similar way to how airports and much of freight rail are now understood following two decades of reforms.



An example of this is occurring in the reform direction in the UK, where its highways agency will be separated into a corporate structure independent of government.

At the same time it will be important to continue with reforms we've seen over recent years so we better ensure broader transport planning work is truly multimodal. **[7 step slide]**

A key tool used by IA in the prioritisation of infrastructure is the Reform and Investment Framework.

The Reform and Investment Framework adopts a structured approach, starting with a clear articulation of the overarching policy goals and the problems and challenges facing Australia.

This is the first step before policymakers identify and assess various options or solutions to these problems.

Importantly, not all solutions will involve mega projects. **[IA BCR Chart]**

As reflected in submissions to Infrastructure Australia over recent years as shown in this chart, smaller projects generally have higher benefit cost ratios because they're more likely to be targeted at problems that are preventing better use of the wider network.

It will also be important not to lose sight of important demand side and supply side solutions to identify problems that encourage better use of existing infrastructure.

**[managed motorway slide]**

An example of a supply side, better use solution is national managed motorways, which regulates traffic flows on motorways to maximise throughput. **[Dd side slide]**

Good examples of demand side solutions include reform to road pricing and ways to better manage peak travel times. These solutions potentially also provides a potential revenue source to fund infrastructure.

It is also important that projects that are funded have demonstrated their potential contribution to national productivity through well-developed cost benefit analysis. **[CBA slide]**

Again, this is to ensure scarce resources are not wasted on the wrong projects.

Infrastructure Australia has championed since its inception, the importance of transparent cost benefit analysis in infrastructure prioritisation.

IA's assessments on projects it recommends are currently posted on its website.

While IA has encouraged proponents to release their cost benefit analysis studies themselves, unfortunately, few have, to date, been released.

However, Infrastructure Australia will continue to encourage the release of the cost benefit analysis studies. **[Sell and Build cover slide]**

**Given funding constraints, governments will increasingly need to turn to non-traditional funding sources.**

**This will invariably involve a greater role for the private sector in financing the nation's economic infrastructure and this is now a major focus of IA.**

Of course, an important pre-requisite for private sector investment in infrastructure projects is that the project provides a commercial rate of return.

Government providing funding to address the viability gap is one solution.

However, this ignores the underlying fiscal pressures I mentioned earlier.

An important part of the solution needs to be a revisit of user charging arrangements, particularly in the transport sector.

Getting user charges right provides a virtuous circle.

It helps provide a funding source for developing the infrastructure.

It helps to reduce overconsumption, thereby improving how infrastructure is used and directly improving efficiency and national productivity.

It also enables government to better target assistance to those socially disadvantaged, rather than providing a general subsidy to all users.

In the provision of public transport, **better capturing land value uplift**, as has occurred in the cross rail project in London and the development of the Hong Kong metro, is an example of where governments can be more pro-active in this area. **[GCLR slide]**

In Australia, the Gold Coast Light Rail project was partially funded by a \$120 million levy on ratepayers who will benefit from the project.

There is a need to look at projects, particularly the larger projects, on a case-by-case basis to determine the best form of government funding assistance.

For example, the Australian Government can possibly better utilise its balance sheet strength to provide targeted guarantees, which may lower the overall financing costs of a project.

This may in turn encourage long-term investment by superannuation and other investors in projects. **[AFR front page]**

Governments can no longer afford the luxury of committing significant fiscal resources to owning economic infrastructure assets that are better managed by superannuation and other private investors.

The capital governments unlock through this process can be reinvested in infrastructure, so Australians see the tangible benefits of the reform process.

Infrastructure Australia has identified over \$200 billion of economic infrastructure assets sitting on government balance sheets.

Many of these assets are providing low rates of return and can be better managed by superannuation funds and other investors.



The recycling of such assets creates real economic value that can be used to fund infrastructure, that is, value over and above their value in government hands while at the same time keeping public policy objectives and community benefits in place. **[Restart NSW slide]**

The Restart NSW model is a good example of capital recycling, with net sale proceeds of \$4.3billion from Port Botany and Port Kembla sale being recycled into other state infrastructure.

This is from assets that had not paid a dividend to the NSW Government in the last five years.

Peter Reagan will talk more about the NSW experiences in this area during his presentation. **[PPP slide]**

Infrastructure Australia is also looking at ways to improve the functioning of the infrastructure debt capital markets.

This in turn has the potential to lower the cost of financing of projects and provide long-term investors, such as superannuation funds, with an investment option to finance infrastructure.

This is a challenging area of reform. We have circulated a policy paper on options to develop the infrastructure capital markets to over 80 industry participants and held workshops with 30 industry and government participants.

We are course interested in hearing further views or perspectives.

We will produce a final report in the near future. **[End slide]**

In conclusion, Government funding and financing reform is a vital area of reform and has the potential to significantly lift national productivity and address the infrastructure deficit.

The benefits our nation can gain through this reform can underpin this nation's future growth and prosperity.

Thank you