AN OVERVIEW OF TRANSPORT INVESTMENT AND GOVERNMENT POLICY

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Introduction

I've been asked to provide an overview of transport infrastructure investment and Australian Government policy.

First, I'd like to consider a threshold question. Why should governments, Commonwealth and state, act to improve the quality, adequacy and efficiency of Australia's transport infrastructure?

Transport infrastructure and productivity growth

Transport infrastructure supports economic growth by reducing costs to business through faster, more efficient roads, rail and ports.

More efficient freight networks and export infrastructure means Australian businesses will have better access to global business. Fewer costs improve the competitiveness of Australian businesses.

Investment in faster, safer and more reliable transport systems means our cities are better places to live. Less traffic on our roads helps reduce travel times and costs. This means individuals have greater access to education, health and other services and also benefit from more employment opportunities as the mobility of labour is raised.

In the Australian context, the OECD has noted that past investment in Australia's roads has been associated with higher GDP, relative to other types of investment.

Similarly, investment in Australia's rail network has gone hand-in-hand, in the past, with higher aggregate output levels in comparison to other types of investment.

However, governments must act to improve the quality, adequacy and efficiency of our transport infrastructure so that it can continue supporting productivity growth into the future.

As highlighted by the Government's Third Inter-Generational Report, our current transport infrastructure will be subject to ever increasing levels of demand.

This growing level of demand is most likely to result from:

- population growth;
- demographic change and an ageing population;
- greater urbanisation; and
- climate change

The Third Inter-Generational Report, cities and transport infrastructure

Australia is one of the most urbanised countries in the world.

The United Nations estimates that over 88 per cent of Australians live in urban areas. Of course, this includes urban centres outside Australia’s major capital cities, such as Wollongong, the Gold Coast and Geelong. By 2020, this is forecast to grow to over 90 per cent of Australia’s total population.

In terms of economic activity, Australia’s major capital cities account for at least 65 per cent of GDP. Australia’s three largest cities – Sydney, Melbourne and Brisbane – contribute over 50 per cent of GDP.

The implications are clear – Australia’s cities and urban centres are a key driver of national productivity growth.

And investment in our cities is needed so that they can continue to support productivity growth. Indeed, failure to invest in our cities may prove very costly – constraining future economic growth.

In an urban context, traffic congestion is a clear example where failure to undertake reform will constrain future economic growth.

The Bureau of Infrastructure, Transport and Regional Economics has forecast that the cost of doing nothing about congestion in Australia's capital cities is around $12.9 billion in 2010. Along with a growing population, this cost is estimated to rise to around $20 billion per year by 2020.

And I don't need to tell anyone living in Sydney, Melbourne or Brisbane that congestion costs are real and substantial.

As well as time costs, they include traffic delays, increased greenhouse gas emissions, higher vehicle running costs, more road accidents and reduced family and leisure time.

Easing demand on our roads is also important to address Australia's growing freight task.

By 2019, the national freight task will have almost doubled from 1999 levels to almost 60 billion tonne-kilometres per years.

As an export-oriented economy, our national freight networks and international gateways are critical to the timely movement of goods on our roads and through our ports.

More efficient freight networks and export infrastructure are needed so that Australian businesses have better access to global markets.

Investment in our transport infrastructure, urban and regional, is needed so that people and goods can move from one point to another in an efficient way. This is one reason why investment in urban transport networks is important – directly shaping how well our cities function.

Well-targeted and efficient infrastructure investment in our cities and towns, complemented by integrated infrastructure planning, can offer potentially high economic and social benefits.

In large part, this is due to some of the inherent characteristics that higher density areas possess. For example, Governments can deliver a greater number of services to a larger number of people at lower cost. Finally, cities also create economies of scale and density for infrastructure. Generally speaking, cities requires less fixed infrastructure, per person, relative to rural areas.

For example, a metropolitan train services more people over fewer kilometres of track than a train travelling through regional and rural Australia.

However, as I noted earlier, greater population density and rising demand can eventually result in significant congestion costs. At a certain point, these costs will offset the benefits of the economies of scale.

The infrastructure investment task…

I've already outlined some of the most important drivers that will affect future demand for economic infrastructure. Population growth. Demographic change. Increased urbanisation. And climate change.

These will be challenges for decades to come and our economy is still operating below capacity.

But the Government is already focussed on ensuring our transport infrastructure has the capacity to support increased demand as the recovery takes hold and also support our growing population into the future.

A significant proportion of the Government's stimulus was geared towards addressing these capacity constraints that were always expected to return.

Something like 70 per cent of stimulus is in nation-building infrastructure — including in road, rail and ports.

And the Government has committed to continue its focus on:

Firstly, prioritising its infrastructure spending decisions carefully.

Secondly, focusing on demand and supply-side reforms to encourage better, more efficient utilisation of existing transport infrastructure.

And thirdly, encouraging the private sector to play a key role in the development, delivery and operation of Australia's transport infrastructure.

Further, we need to be smart when it comes to planning our future infrastructure. Careful, strategic planning is required otherwise we risk exacerbating existing problems. We also need to ensure that public and private sector investment is directed to those projects that deliver the greatest economic and social benefits. The Government has established Infrastructure Australia to conduct this sort of analysis.

Building more and more roads is not, however, always the answer. In most major Australian cities, the cheapest supply-side options have already been taken.

Acquiring more land for urban roads, building new bridges or digging new tunnels can be an expensive way to meet our future needs. And in highly developed cities like Sydney, Melbourne and Brisbane such options may no longer be feasible.

Even where expanding road capacity is affordable, there is still a question of how many additional roads and traffic are sustainable.

In addition, there is some evidence from cities in the United States that the extension of most major urban roads induces a proportional increase in traffic – that is, new users on the roads.

A framework for Government action…

I have already touched on how governments can act to address Australia's current and future infrastructure needs through: direct investment, demand and supply-side regulatory reform and private sector investment.

And, in addressing the topic of infrastructure investment and Government policy, I will consider each one in turn, including:

- how the Australian Government prioritises transport projects for Commonwealth funding and, in particular, Infrastructure Australia's role in advising the Government;

- how Government reform can make Australia’s existing infrastructure more efficient; and
- Infrastructure Australia’s work in creating a national public-private partnership market.

Direct investment in transport infrastructure

Infrastructure Australia

In the 2009-10 Budget, the Government allocated $8.5 billion to building new transport infrastructure across the states and territories. The selection of these projects involved a careful assessment of the benefits associated with each project.

Infrastructure Australia (or IA) advised the Government on projects that could be suitable for funding in the 2009-10 Budget. These projects were shovel ready and, at the same, met a range of criteria set down by IA.

IA is a critical part of the institutional structures and decision-making frameworks the Government has put in place to support its infrastructure agenda. And its role is designed to help governments select those infrastructure investments with the highest economic and social returns.

Established as an independent statutory body by the Government in 2008, it was set up solely for the purpose of driving the development of a long term, coordinated national approach to infrastructure development and delivery.

As part of a national audit of transport, communications, energy, and water infrastructure, IA identified seven themes to guide investment in Australia's infrastructure. Today, I will just outline those three that are most relevant to us.

- Increasing public transport capacity in our cities.
- Developing more effective ports and associated land transport systems to more efficiently cope with imports and exports.
- Development of our rail networks so that more freight can be moved by rail.

Based on a published methodology, and working with the project proponents, IA assessed and prioritised proposals based on whether they supported one of IA's seven themes for action, addressed a relevant theme and were of national significance.

Eligible projects also needed to meet the assessment criteria set down in legislation.

This includes:

- How well the project meets Australia’s nation-building policy goals to support economic growth, protect the environment and promote social inclusion?
- How does the project contribute to Australia’s economic success?
- Whether high quality project governance structures are in place to ensure that the project can be successfully delivered?

IA applies rigorous cost-benefit analysis to the assessment and prioritisation of project proposals. Using a cost-benefit analysis means IA can determine a benefit-cost ratio through which most benefits and costs, including environmental, are monetised. This approach means each project is measured based on an objective economic assessment of the project. This includes identifying the level of marginal, or additional, benefit a project will deliver compared to its marginal economic cost.

Every infrastructure project funded out of the Government’s Building Australia Fund in the 2009-10 Budget was recommended by IA.

Going forward, the Government will continue to draw on IA's advice in prioritising infrastructure spending. This is particularly important given the impact the global financial crisis has had on Government finances.

Strategic planning and major cities

The third aspect relates to strategic planning in Australia's major cities.

The Prime Minister has said:

> "If the Commonwealth is to foot any significant part of the urban infrastructure bill – the Commonwealth will legitimately expect to have confidence in the integrity of the strategic planning in our major cities."

Transparent, long-term plans for growth are needed to support high quality urban development. And to support this, the Prime Minister has proposed the development of national criteria to evaluate the future strategic plans for Australia's major cities. The Government will then link infrastructure funding to compliance with these criteria.

This will affect the allocation of Government funding to states and territories to build transport infrastructure in our major cities.

Eight criteria were proposed; but three are particularly relevant for the Government and its investment in urban transport infrastructure into the future.

- Whether credible plans to reduce greenhouse gas emissions have been implemented. This includes practical improvements in public transport infrastructure.
- Whether provision has been made for building and upgrading nationally significant infrastructure like transport corridors, inter-modal connections and communications and utilities networks.
- Whether an effective framework for private sector investment and innovation in urban infrastructure is in place.

Of course, a key part of this new approach will be Commonwealth-state arrangements to jointly assess how states and territories have performed against these criteria and how performance can be improved.

And, to this end, the Commonwealth is committing to more fully developing the criteria and guidelines in consultation with state and territory governments and the Australian Local Government Association through the Council of Australian Governments (or COAG).

Making existing infrastructure more efficient

The way governments decide to spend money and invest in urban infrastructure is important in expanding the productive capacity of the economy. While the Government established IA for this purpose, it's not the only way governments can drive good policy outcomes.

Investment is only one part of the infrastructure story.

Regulatory reform is needed to promote the better, more efficient use of our existing stock of transport infrastructure. This is necessary for the economic benefits associated with existing infrastructure to be fully realised.

The Government's micro-economic reform agenda is one way it is acting to help achieve this outcome.

As part of its reform agenda, the Government is working with state and territory governments to streamline regulations applying to the nation's transport sector.

These reforms were long overdue. Altogether, they have the potential to boost national income by as much as $2.4 billion a year. They will reduce transport costs for business and help lift national productivity without compromising safety.

In 2009, COAG agreed to implement national regulation for rail and maritime safety, and heavy vehicles.

- The Australian Maritime Safety Authority will become the national safety regulator for all commercial shipping in Australian waters.
- A national rail safety regulatory system will be established, with South Australia hosting the national regulator.
- A single national heavy vehicle regulator will be established to regulate all vehicles over 4.5 gross tonnes.

Better assessment of risk and more efficient allocation of resources through a national scheme will improve the safety of these key transport sectors.

COAG has also commissioned the next stage of research needed to move towards more efficient heavy vehicle charging under the COAG Road Reform Plan.

All up, these national arrangements are intended to remove inefficiencies that are caused by inconsistent jurisdictional requirements and reduce the compliance burden for business. This will help reduce transport costs more generally, benefiting both businesses and consumers alike.

The governments of Australia are working together to put in place a seamless national economy – an outcome that will lift national productivity and allow transport operators to get products onto supermarkets shelves and our exports to market at the lowest cost.

In addition to regulatory reform, cost-reflective user pricing can be a tool for governments to change user behaviour and demand for scarce resources, such as road space.

Research suggests that the costs of road congestion will continue to grow as demand for scarce road space grows. The costs of congestion are multiple, and include longer travel times, higher levels of air pollution and increased greenhouse gas emissions.

The different charges levied on road users, such as fuel tax, motor vehicle stamp duties, registration and insurance arrangements and the possibility of user charges, such as congestion charging, are within the scope of the Review of Australia's Future Tax System.

You will understand that I cannot comment on what the Review has found on these issues, nor on what the Government's response might be.

A role for the private sector – PPPs and a national market

The National PPP Policy and Guidelines

I would like to take the opportunity now to say something about the role of the private sector in infrastructure provision and how governments and IA can facilitate this.

It is worth pointing out that IA's role is not simply confined to making recommendations to Government about its spending decisions.

IA is also playing an instrumental role in the creation of a national public-private partnership (or PPP) market. A large part of this role involves direct engagement with the Infrastructure Working Group. This group was established under COAG and includes representatives from the Commonwealth, and states and territories who meet regularly to progress its' PPP agenda. This includes the development of the National PPP Policy and Guidelines and fostering a competitive national PPP market.

This means both IA and COAG are working to advance the Government's agenda to create greater competition and drive down costs in infrastructure markets through greater private sector participation.

The benefits of this policy are clear. Governments achieve better value for money because PPPs help facilitate better, more optimal risk transfer, management synergies, increased innovation, more efficient asset utilisation and integrated whole-of life asset management.

IA is supporting the creation of a national PPP market through the development of National PPP Policy and Guidelines and creating awareness around a pipeline of PPP projects.

Developed in consultation with state and territory governments, and endorsed by COAG on 29 November 2008, the Guidelines are an important milestone in the development of a national PPP market because they seek to consolidate the PPP guidance material of individual Australian jurisdictions to provide a unified national framework.

The Guidelines are extremely comprehensive. They cover for instance: project assessment, affordability and procurement strategies.

The Government is strongly committed to these Guidelines because of the real and tangible benefits they offer state and territory governments in their infrastructure procurement.

In addition to the National PPP Policy and Guidelines, and as part of its wider efforts to foster greater national consistency in the procurement of social and economic infrastructure using the PPP model, IA has worked with states and territories to develop commercial principles for infrastructure delivery.

IA has developed two sets of commercial principles.

The first set of principles apply to social infrastructure and are included as part of the Guidelines I mentioned earlier. These principles set out the Commonwealth and state and territory governments' current preferred commercial principles for social infrastructure PPPs.

In general, these principles apply to core services and accommodation projects where government payments are based on the availability of the infrastructure, and the facility reverts to government ownership, at no cost, at the end of the concession term.

Building on the Guidelines, these principles are intended to achieve a consistent and efficient risk allocation framework for the delivery of social infrastructure PPPs across jurisdictions.

To this end, jurisdictions have agreed that these principles replace existing standard commercial principle guidance material for social infrastructure projects that currently apply at a jurisdictional level.

In addition, IA is working on a set of commercial principles for economic infrastructure projects.

As many of you are already aware, economic infrastructure projects generally includes those projects where the private sector party bears the market, or demand-side, risk and revenues are often derived from third parties.

This is different from a social infrastructure project where government retains the demand risk, traditionally through an availability based payment mechanism. Common examples include toll roads, ports and car parking facilities.

The draft commercial principles for economic infrastructure are under development but, similar to the commercial principles for social infrastructure, they are intended to apply to the Commonwealth and state and territory governments so as to achieve a consistent and efficient risk allocation framework for the delivery of economic infrastructure PPPs across jurisdictions.

Early feedback suggests that these Guidelines, complemented by the commercial principles for social and economic infrastructure, have been helpful in educating potential private sector participants in Australia’s PPP market.

Greater consistency and more transparency surrounding the PPP model and its use across jurisdictions is an important way to lower transaction costs for potential market participants while, at the same time, building greater awareness and confidence in the processes governments apply to PPP procurement.

Conclusion

In conclusion, governments have a leading role in the development and delivery of nation building transport infrastructure.

The Commonwealth and state and territory governments each have a role to play through direct investment and regulatory reform, along with continuing to encourage, and partner with, private sector investors in transport infrastructure markets.

Each role is extremely important. Direct investment in infrastructure delivery is essential but the benefits of such investment depend on the selection of those projects that can deliver the greatest social and economic benefits and effective regulatory frameworks.

Transparent and robust decision-making processes and project analysis are needed to support this outcome. Appropriate institutional structures are vital. In this context, the establishment of IA represents an important change in the institutional architecture that underpins and informs Government decision-making and the prioritisation of its spending decisions.

Going forward, IA will also be important in articulating an integrated national infrastructure agenda that complements efforts by state and territory governments to develop long-term strategic plans for Australia's capital cities.

Acting together, the public and private sectors have an important role in improving and expanding the quality, adequacy and efficiency of Australia's transport infrastructure. Greater private sector participation in infrastructure development is essential.

Working through COAG and IA, the Government will continue to focus on identifying practical and specific measures - like the National PPP Policy and Guidelines – that will help attract more private sector participation into the infrastructure market.

This will, over time, build greater confidence and certainty in the Australian PPP market. The benefits of this policy are clear – increased competition and greater value for money.

The need to sustain future productivity growth so as to support rising living standards over time is one of the primary responsibilities of government.

Governments must continue to act through direct investment and regulatory reform to drive a well-functioning and competitive market for transport infrastructure.

Thank you.