

s 22

**From:** Gaetjens, Philip  
**Sent:** Sunday, 7 July 2019 1:41 PM  
**To:** Mrakovcic, Maryanne; Wilkinson, Vicki; Codina, Martin; Quinn, Meghan  
**Cc:** Rayner, Karla  
**Subject:** [SEC=UNCLASSIFIED] Tsr/Tsy meeting with RBA Governor

All

Just got another call from Tsr who said Wednesday pm remained 'doable' for him and Governor.

I said it may be Maryanne only due to other engagements, that she would be in touch and may have already spoken with Martin.

He also mentioned that he would like to engage on the speech he discussed with Meghan either on Tuesday or Wednesday, noting that it should also include some state of the economy coverage including some specific insights given it would be his first speech since the election.

I will handover to you to finalise these matters and confirm timing.

Philip Gaetjens  
Secretary  
The Treasury  
(Sent from my iPad)

s 22

**From:** McDonald, Hamish  
**Sent:** Monday, 8 July 2019 11:37 AM  
**To:** Codina, Martin  
**Subject:** RE: Infra discussion with RBA [DLM=For-Official-Use-Only]

thanks

**From:** Codina, Martin  
**Sent:** Monday, 8 July 2019 11:10 AM  
**To:** McDonald, Hamish; Mrakovcic, Maryanne  
**Cc:** s 22; Crone, Peter  
**Subject:** RE: Infra discussion with RBA [DLM=For-Official-Use-Only]

Thanks Hamish. That looks good. Emphasis should be on conveying the scale and breadth of the current State and Fed programmes – with a particular focus on near term expenditure.

s 47B(a)

Re pre-briefing, I will confirm once I come back with a confirmed briefing date/time – hoping to make it Thursday to accommodate other competing priorities.

Please call if you have any questions.

Martin

**From:** McDonald, Hamish <Hamish.McDonald@TREASURY.GOV.AU>  
**Sent:** Monday, 8 July 2019 10:31 AM  
**To:** Codina, Martin <Martin.Codina@TREASURY.GOV.AU>; Mrakovcic, Maryanne <Maryanne.Mrakovcic@treasury.gov.au>  
**Cc:** s 22  
**Subject:** Infra discussion with RBA [DLM=For-Official-Use-Only]

Hi Martin and Maryanne

Below is our broad outline of what we are working on for a slide deck for an infrastructure discussion between the Treasurer, Treasury and the RBA Governor.

Please let me know if this is what you are after.

- Framing of Cth and State budget aggregates
- Cth Government has a substantial spending program underway, including compared to recent years (Cth spend from 10 years ago to 10 years into the future)
- Cth also undertaking substantial defence infrastructure spending
- Infra sector is very busy and reports hitting capacity constraints (large hump of cth, state and private major projects over the next decade)

- It is difficult to bring forward spending for major projects (working on a data chart for this)

s 47B(a)

- Maintenance is more scalable, but relatively small (size of current maintenance spend)

s 47B(a)

Also, I understand the timing is still being finalised. As part of that, do you think the Treasurer will want a pre-brief before the discussion?

Cheers

Hamish

**Hamish McDonald**

Division Head | Structural Reform Division | Fiscal Group

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*The Treasury acknowledges the traditional owners of country throughout Australia, and their continuing connection to land, water and community. We pay our respects to them and their cultures and to elders both past and present.*

s 22

**From:** Codina, Martin  
**Sent:** Tuesday, 9 July 2019 1:00 PM  
**To:** Mrakovcic, Maryanne  
**Subject:** Re: Meeting [SEC=UNCLASSIFIED]

Melbourne

> On 9 Jul 2019, at 12:26 pm, Mrakovcic, Maryanne <Maryanne.Mrakovcic@treasury.gov.au> wrote:

>

> Thanks Martin - Canberra?

>

> M

>

> Sent from my iPhone

>

>> On 9 Jul. 2019, at 12:26 pm, Codina, Martin <Martin.Codina@TREASURY.GOV.AU> wrote:

>>

>> Hi Maryanne - just confirmed that the meeting with the Governor will be at 11am. Treasurer would like to be briefed prior to the meeting from 930. Happy to discuss. Thanks.

>>

>> -----Original Message-----

>> From: Mrakovcic, Maryanne <Maryanne.Mrakovcic@treasury.gov.au>

>> Sent: Tuesday, 9 July 2019 12:22 PM

>> To: Codina, Martin <Martin.Codina@TREASURY.GOV.AU>

>> Subject: [SEC=UNCLASSIFIED] Meeting

>>

>> Hi martin

>>

>> Hamish tells me the meeting on Thursday is set for 1130 subject to Phil Lowe?

>>

>> Just checking as I was waiting to hear?

>>

>> Regards

>> Maryanne

>>

>> Sent from my iPhone

s 22

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**From:** McDonald, Hamish  
**Sent:** Tuesday, 9 July 2019 1:18 PM  
**To:** Codina, Martin  
**Subject:** RE: Confirming meeting with RBA at 11am Thursday. Tsy pre-briefing from 930. EOM [SEC=UNOFFICIAL]

Great, ta

---

**From:** Codina, Martin  
**Sent:** Tuesday, 9 July 2019 1:00 PM  
**To:** McDonald, Hamish  
**Subject:** Re: Confirming meeting with RBA at 11am Thursday. Tsy pre-briefing from 930. EOM [SEC=UNOFFICIAL]

Correct

On 9 Jul 2019, at 12:37 pm, McDonald, Hamish <[Hamish.McDonald@treasury.gov.au](mailto:Hamish.McDonald@treasury.gov.au)> wrote:

In Melbourne yes?

On 9 Jul 2019, at 12:26 pm, Codina, Martin <[Martin.Codina@treasury.gov.au](mailto:Martin.Codina@treasury.gov.au)> wrote:

**Martin Codina**  
Chief of Staff  
Office of the Hon Josh Frydenberg MP  
Treasurer | Federal Member for Kooyong  
Parliament House, Canberra ACT 2600 | p +61 2 6277 7340  
e [martin.codina@treasury.gov.au](mailto:martin.codina@treasury.gov.au) | w [www.joshfrydenberg.com.au](http://www.joshfrydenberg.com.au)

s 22

**From:** Codina, Martin  
**Sent:** Wednesday, 10 July 2019 7:26 PM  
**To:** McDonald, Hamish  
**Cc:** Mrakovcic, Maryanne; Rayner, Karla; s 22  
**Subject:** Re: RBA infrastructure discussion slides [SEC=UNCLASSIFIED]

Thanks Hamish.

On 10 Jul 2019, at 5:43 pm, McDonald, Hamish <[Hamish.McDonald@treasury.gov.au](mailto:Hamish.McDonald@treasury.gov.au)> wrote:

Hi Martin

Please find attached the slides we have for the discussion tomorrow.

We will have hard copy sets for the Tsr and office, and a set for Mr Lowe (without the back pocket slides) for tomorrow.

See you at the Melbourne cpo at 930.

Cheers  
Hamish

<Tsy Infrastructure presentation\_RBA clean, with back pocket.pptx>



Australian Government  
The Treasury

TSV/AU

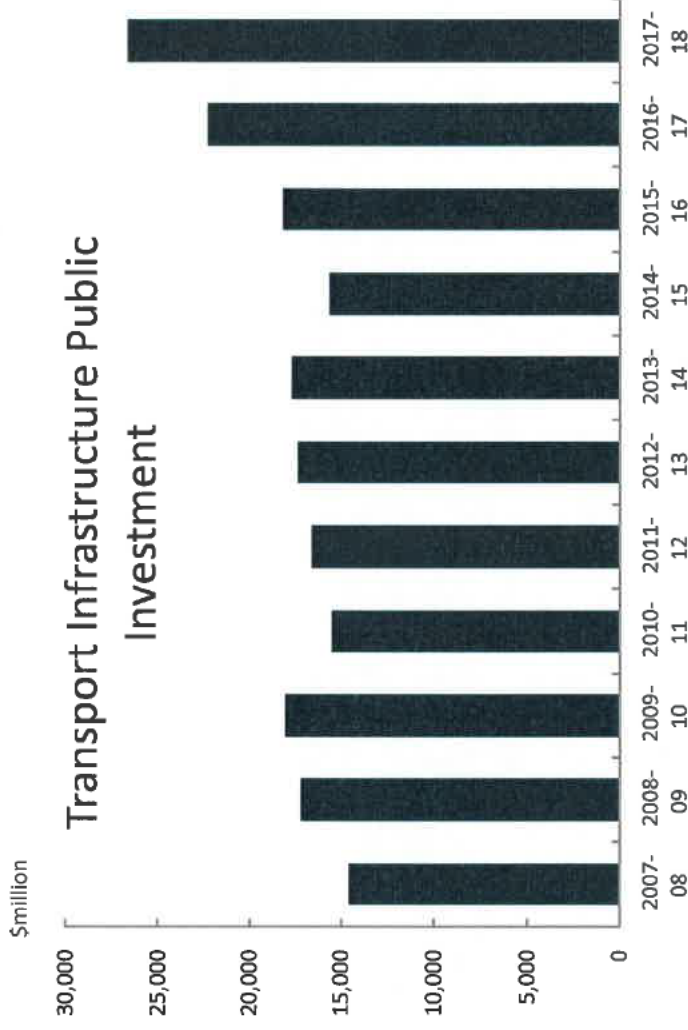
# The Australian Government's infrastructure program

11 July 2019



# Transport infrastructure in Australia

- Total public sector transport infrastructure investment was \$26.6 billion in 2017-18
- The Australian Government promotes sustainable economic growth, development and connectivity by contributing to the development of an integrated land transport network



Source: ABS, Customised report, 2019

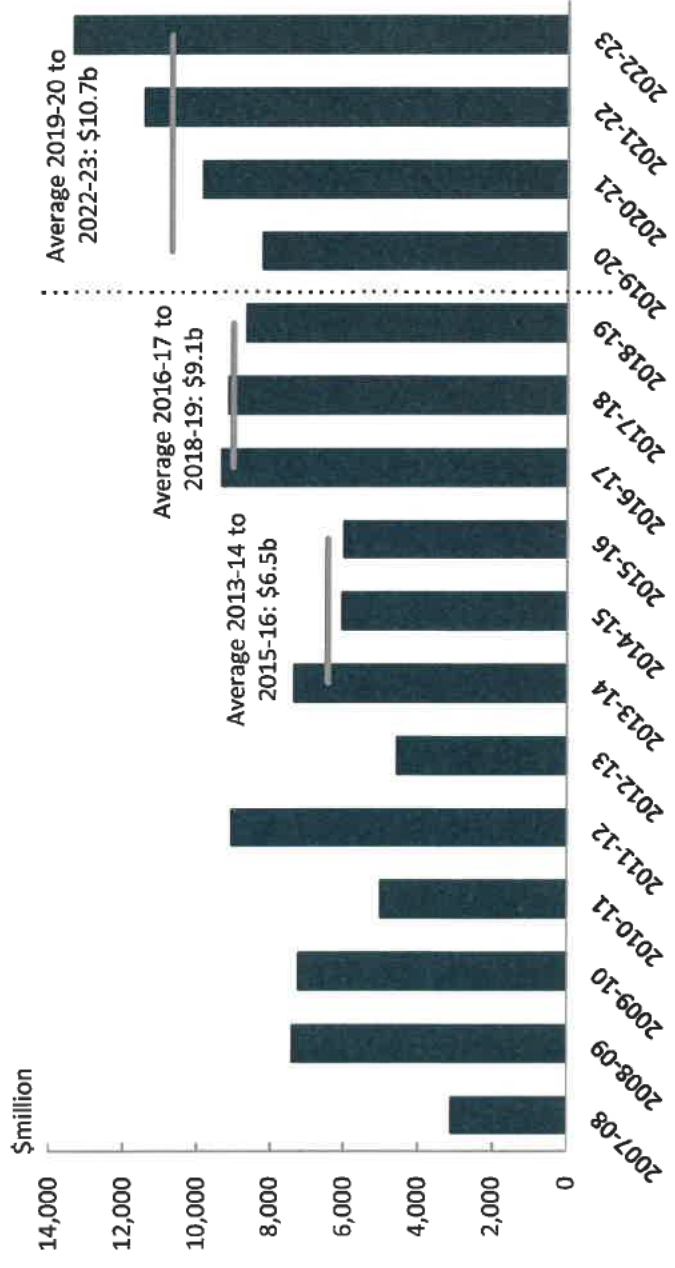
Note:

- the numbers include all transports capital expenditure - more than just road and rail
- the numbers include funding from the Commonwealth
- the data is for the non-financial public sector
- capital expenditure includes assets acquired using finance leases



# Australian Government infrastructure spend

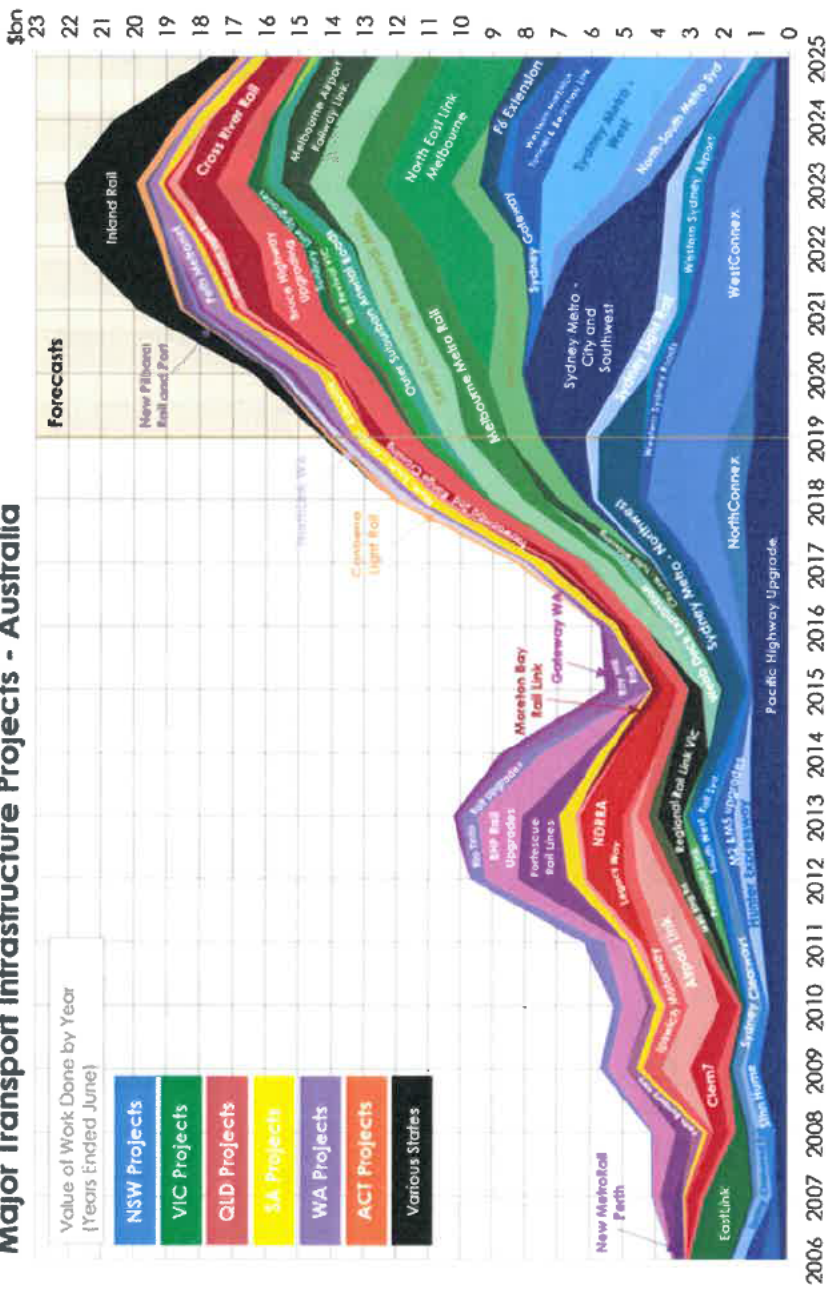
- \$100 billion infrastructure commitment over the next decade
- Average 2.4 per cent of total payments over the FEs



Source: Department of Infrastructure Transport Cities and Regional Development, Total Infrastructure Expenditure as of Budget 2019-20  
 Note: Includes Infrastructure Investment Program (IIP), Financial Assistance Grants and equity injections for road and rail.  
 Current as of Budget 2019-20

# Infra sector is very busy and reports hitting capacity constraints on east coast

Major Transport Infrastructure Projects - Australia





# It is difficult to speed up spending for major projects

- Infrastructure projects are complex. Success relies on careful planning and delivery, and strong governance.
- The lead times for this are lengthy and cannot be readily varied without risking poor delivery and cost overruns.
- Project development and funding go hand in hand so there is no stock of 'shovel ready' projects. And, lags mean spending takes place years ahead so not a useful stimulatory tool.
- Maintenance is different, and local....used during the GFC.
- And there is an existing pipeline of steady productivity enhancing investment in justified, transformational projects.

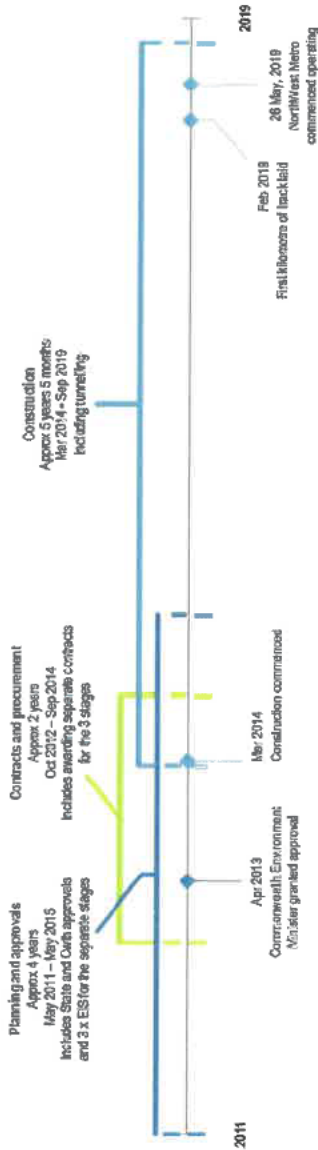
# Example - Timeline for a Major Project

## Project Timeline Comparison

### NorthWest Metro NSW (9 year project)

\$8.3b initial project budget. Received share of AG \$1.7b in asset recycling funding as part of Sydney Metro project. Delivered on time and around \$1b under budget.

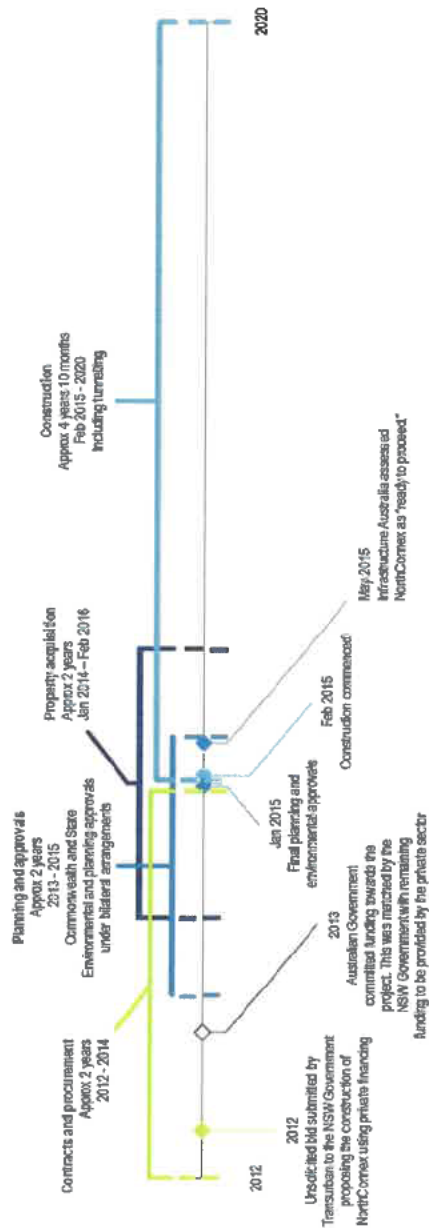
Sydney Metro opened the NorthWest stage in May 2019 and offers a new generation of fast, safe and reliable train services. Metro services are high-frequency, electric trains. The metro stops at 13 stations along the Metro NorthWest line, including 8 new metro stations and 5 upgraded stations. The project consisted of 3 major stages - Major civil construction works, surface and viaduct civil works, and operations.



### NorthConnex NSW (Approx 9 year project)

Project is delayed approx 12 months. Anticipated opening mid-late 2020. Total funding \$3b. AG \$412m/NSW \$412m and private sector funding. Cost overruns also faced by NSW Government.

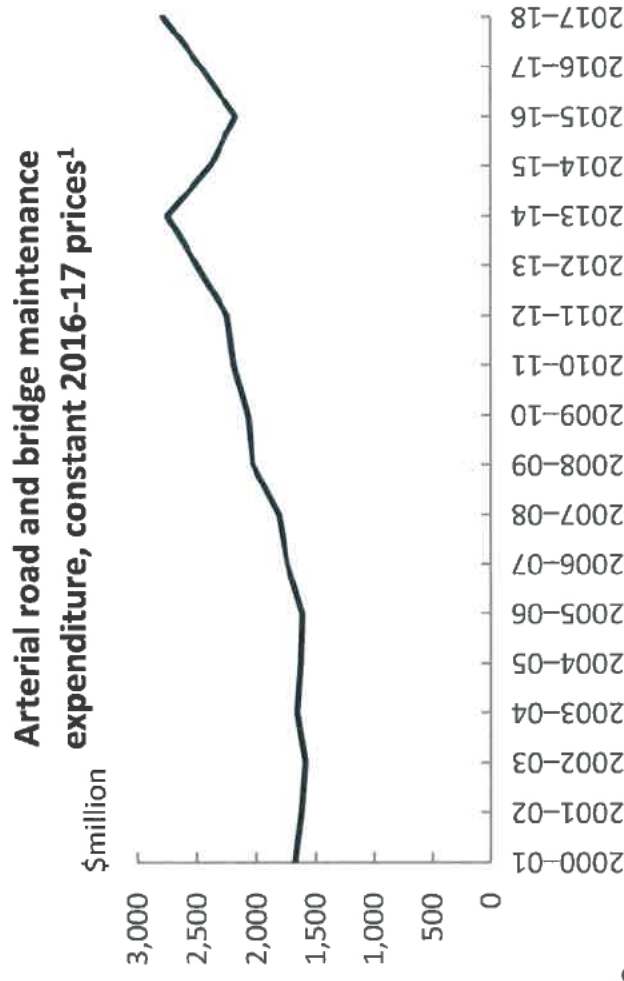
Delays primarily due to tunnelling and associated contractual issues. NorthConnex will be the longest road tunnel project in Australia. NorthConnex is a nine kilometre tunnel that will link the M1 Pacific Motorway at Widsnoga to the Hills Rd Motorway at West Penrith Hills, narrowing around 5,000 trucks off Penrith Hills Road each day.





# Maintenance funding is more scalable, but relatively small

- Commonwealth provides \$350 million (0.04 per cent of Cth infrastructure spend) per annum to the states for road maintenance
- Arterial road maintenance averages about \$2.5 billion per year<sup>1</sup>
  - total road maintenance expenditure is over 2x higher
- Hasn't kept pace with new construction spending, creating an overhang
- A majority of road maintenance is done by local governments



<sup>1</sup> Indicative arterial road data only – reported by states to NTC and BITRE, and may rely on varying definitions of road classifications. From Bureau of Infrastructure, Transport and Regional Economics (BITRE), 2018, *Yearbook 2018: Australian Infrastructure Statistics*, Statistical Report, BITRE, Canberra ACT

# Substantial defence infrastructure spending

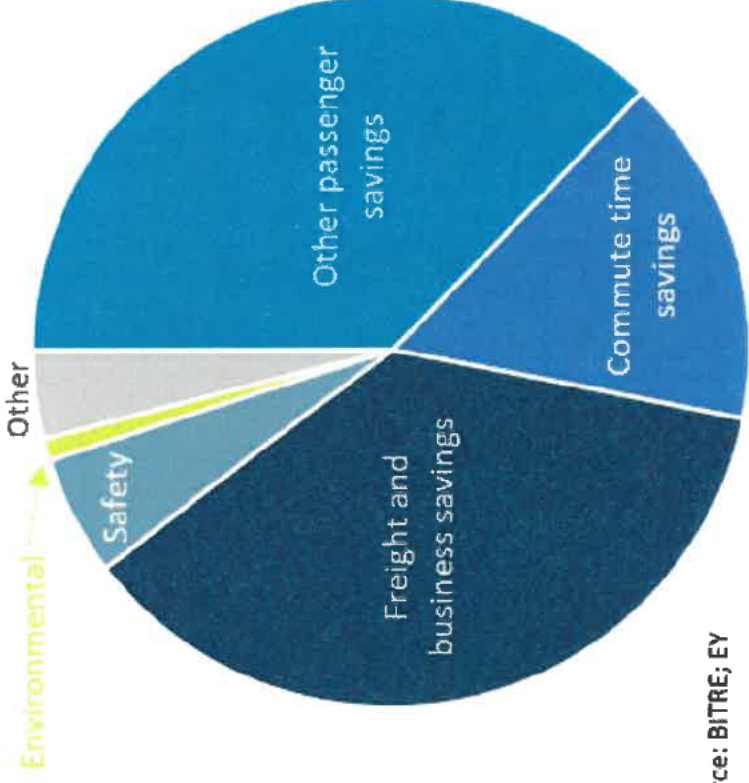
- Defence infrastructure projects are generally large, delivered over a number of years and often involve sequential projects – making fast-tracking and re-prioritisation difficult.
- The Facilities and Infrastructure Program (FIP) currently has around \$9.4 billion over the forward estimates (2019-20 to 2022-23).
  - For example the FIP includes \$1.5 billion to provide new and upgraded facilities and infrastructure to support the introduction of the Joint Strike Fighter across the country.
- The FIP forms part of the Defence Integrated Investment Program (IIP) - \$200 billion over 10 years from 2016 – funding primarily capability based projects (such as the Future Submarine Program).
  - The Defence Policy for Industry Participation requires successful tenderers to provide detailed plans for Australian industry participation.



Back pocket

# Infrastructure Investment Program

Distribution of Benefits from IIP



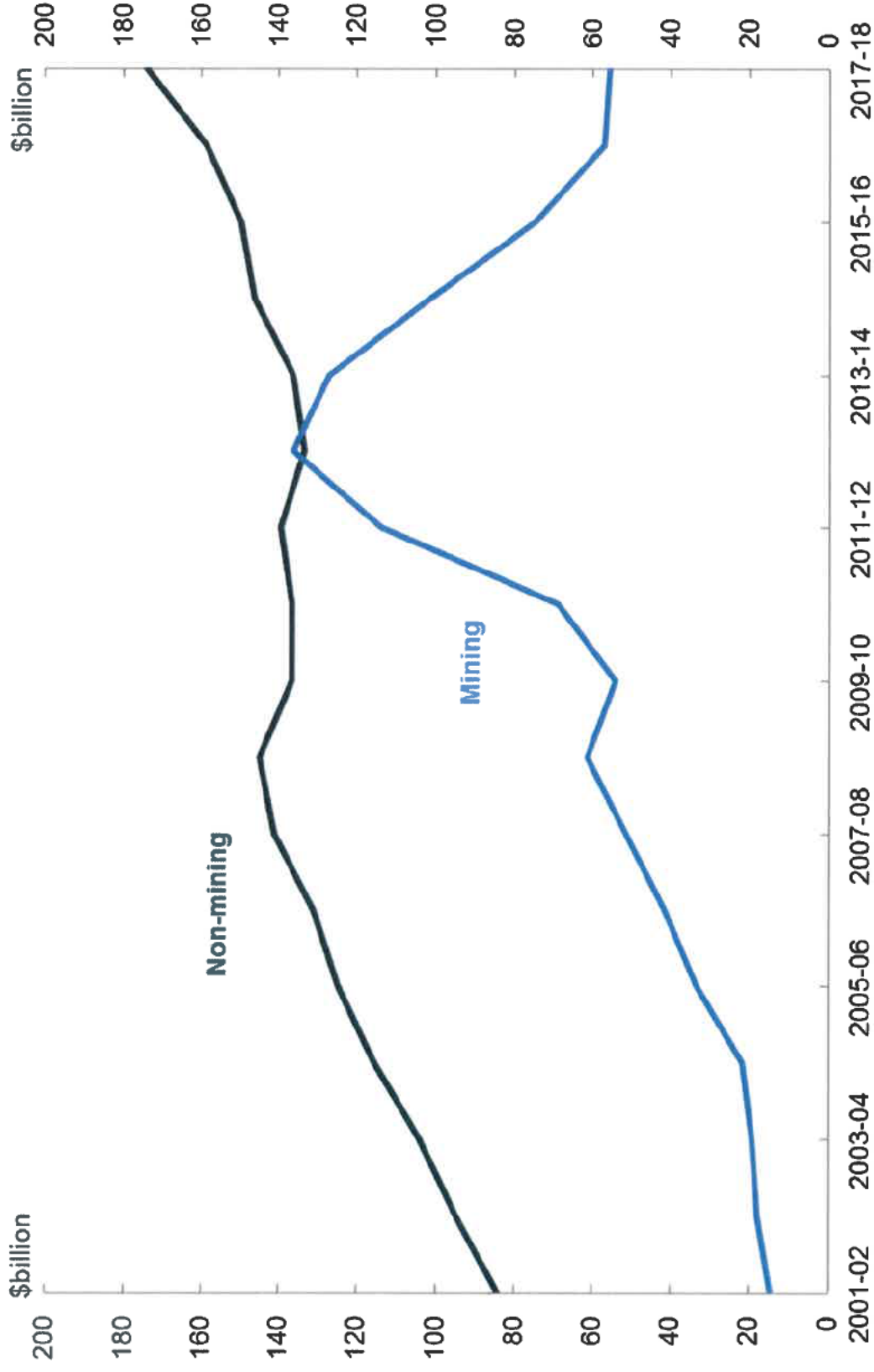
Source: BITRE; EY

# Australian Government infrastructure spend – back pocket

	Forward Estimates				
	2019-20	2020-21	2021-22	2022-23	Ave
Infrastructure commitments, \$m	8223.2	9862.7	11441.2	13378.2	10726.3
Proportion of total payments, excluding GST, %	1.9	2.2	2.5	2.8	2.4
Proportion of total payments, excluding GST, %	1.7	1.9	2.1	2.4	2.0



# Private mining and non-mining investment



Note: Data are nominal.

Source: ABS cat. no. 5206.0 and unpublished ABS data.

# State infrastructure funding

- Based on figures across all state and territory budgets, there is over \$200 billion of planned spending on infrastructure over the next four years - 70 per cent of this in Victoria and NSW alone.
- Over the four years to FY2022-23:
  - NSW has allocated \$93 billion in funding (including capital expenditure for government-owned corporations)
  - VIC has allocated \$53.7 billion to infrastructure investment
  - QLD has allocated \$32 billion to general government infrastructure





# Bitumen

- Bitumen is a by-product of the crude oil distillation process.
- At present, 90% of bitumen used in Australia is imported, predominantly sourced from large refineries in Asia, mainly in Singapore, South Korea, Thailand and Malaysia.
- Any step-change in demand could potentially result in a price hike due to supply shortages. Furthermore, cargo and shipping of bitumen is quoted on a USD basis. As the Australian dollar depreciates, the cost implication for imported bitumen can be significant.
- There are a limited number of suppliers of bitumen in Australia – approximately four suppliers.

# Stimulatory effect of income tax cuts

- Lower taxes will support household disposable income, which will support consumption growth
  - The tax relief measures will increase aggregate household income by around \$8 billion each year over the forward estimates period, which is equal to around  $\frac{3}{4}$  per cent of 2017-18 household income
  - As household consumption accounts for almost 60 per cent of the economy, this will in turn support economic growth
- The Government's tax measures will further benefit the economy by improving incentives to work