Infrastructure Australia Annual Report and Updated National Priority List
July 2013

On 2 July 2013 Infrastructure Australia released its fifth annual report to the Council of Australian Governments (COAG). The report reflects on the first five years of Infrastructure Australia and sets the direction for Australia's infrastructure sector, outlining a pipeline of projects and policy reforms for the next 50 years. The report also updates the National Infrastructure Priority List of projects.

Over the past year, more than 79 project proposals were submitted for assessment and the number of projects added to the priority list more than doubled. The National Priority List now includes $80 billion worth of projects at various stages of readiness. Most significantly, the five projects deemed "ready to proceed" in July 2012—meaning that they meet all Infrastructure Australia's criteria and that Infrastructure Australia recommends government to consider funding for these projects—have received Federal funding commitments. These projects include: Brisbane's Cross-River Rail project, two upgrades to Victoria's Monash freeway, Melbourne Metro Stage 1 and the completion of the Pacific Highway upgrade in NSW. The National Broadband Network was also added to the National Priority List.

Media release available here.

The National Priority List

The National Priority List is a pipeline of projects Infrastructure Australia considers key to strengthening the economy, dealing with the challenges of sustainable population growth, export bottlenecks, urban congestion and climate change.

The projects on the list are assessed as having real merit or significant potential. The list provides a guide for the long term investment decisions of both the public and private sectors, including super funds. In 2011 Infrastructure Australia introduced a minimum capital cost threshold of $100 million for projects on the list. This threshold was again applied on this year's list.

The National Priority List divides projects into four categories reflecting their stage of readiness. Projects included at 'Early Stage' address a nationally significant issue or problem, but the identification or development of the right solution is at an early stage.

Projects in the 'Real Potential' category address a nationally significant issue and there has been a considerable amount of analysis of potential solutions. However, development work is still underway and the analysis is ongoing.

Projects at 'Threshold' have strong strategic and economic merit and are only not ready to proceed due to a small number of outstanding issues. For instance, integration of the proposal into the wider network might require more planning.

Projects deemed 'Ready to proceed' represent good investments that meet all of Infrastructure Australia's criteria, i.e. they make a strong contribution to strategic policy goals, and are supported by a cost-benefit analysis that suggests the benefits will considerably outweigh the cost. It is only projects in this category that Infrastructure Australia recommends government to consider funding for.

The National Priority List provides advice and recommendations to government on infrastructure projects and funding, and decisions to fund projects are still made by government. Thus, the category a project is in does not necessarily determine whether the project will go ahead or not.

The National Priority List is available here.

The full Annual Report is available here.

Funding and Reform

The latest report identifies two major challenges for infrastructure funding:

- government budgets lack sufficient headroom to fund all the infrastructure required even if borrowings are increased; and
- there is a fundamental disconnect between the infrastructure Australians want and their willingness to pay for it through taxes or other charges.

The report outlines that Australia risks facing a chronic undersupply of infrastructure unless Governments are innovative with using available funds effectively and the community gets used to paying for the infrastructure it wants. The report suggests seven key reforms to boost infrastructure performance and capital productivity, including:

- the establishment of a single National Infrastructure Fund;
- innovative use of government budgets;
- recycling capital for new infrastructure;
- a 'User Pays – User Says' approach to infrastructure investment;
- reduction in the layers of Government;
- excellence in project governance; and
- smarter and leaner infrastructure procurement.

The Annual Report details all seven reforms and outlines the various actions that will be taken to implement them. A brief overview of the actions and areas of reform from p 93 of the report is provided on the next page.

Reform 1
ESTABLISH A SINGLE NATIONAL INFRASTRUCTURE FUND

Action 5: Invest in public transport and high value vehicle links
Public investment in urban transport should focus on public transport, with expansions to the urban road network funded by users, not all taxpayers. This could involve priority for buses, commercial and freight vehicles at peak times.

Action 8: Create a pipeline of priority freight infrastructure
Establish a pipeline of priority investment based on long term plans for ports, corridors and industrial precincts to provide certainty to major projects, support industry planning, and improve national connectivity.

Action 20: Coordinated short and long term infrastructure plans in our regions
Strategic planning, investment in and delivery of regional infrastructure to keep pace with long term demand for our regional resources and produce, coordinating effort between governments, the private sector and beneficiaries of infrastructure.

Reform 2
USE GOVERNMENT BUDGETS INNOVATIVELY

Action 1: Better use of urban networks
Optimise network performance and defer costly new infrastructure by re-pricing transport, using smart infrastructure applications, improving services, delivering more transit oriented development and improving asset maintenance.

Action 2: Provide incentives to build higher residential densities and dense commercial centres in cities
Aim for increased infill development along routes that are well served by public transport by placing incentives on government funding for new infrastructure to provide higher dwelling densities that match the scale and associated cost of the project.

Action 23: Moving minerals and resources from pits to port
Implement 30 year port plans, regular reporting and undertake inbound and outbound land freight and logistics planning around our major mining ports.

Action 26: Create a remote Indigenous Communities Essential Infrastructure Investment Fund
Establish a fund in each state and territory to coordinate infrastructure spending across governments, streamline the governance and financing model for the infrastructure lifecycle and allocate funds on the basis of rigorous assessment and prioritisation.

Reform 3
RECYCLE CAPITAL FOR NEW INFRASTRUCTURE

Action 11: Boost efficiency through private ownership of freight assets
Transfer suitable port and rail assets to the private sector to free up public funds and deliver a more efficient freight network.

Action 15: Transfer water assets to the private sector
Significant reforms in the last two decades have paved the way for private ownership of water assets. This would free some $50 to $60 billion of capital in water infrastructure for reinvestment elsewhere.

Action 16: Transfer energy assets to the private sector
Transfer state-owned electricity network and generation assets to free up to $66 billion in capital for other purposes, to spur improvements to service delivery and efficiency.

Action 24: Recycling capital from regional assets to fund much-needed regional infrastructure
Transfer ownership of regional assets such as airports where it can improve productivity and support reinvestment in regional infrastructure.

Reform 4
USER PAYS – USER SAYS

Action 4: User Pays, User Says – Charging for urban transport
Charging reform is urgently needed to manage growing urban transport demand and make the best use of the existing networks. Efficient road pricing and congestion charges in cities will create sustainable revenue sources for new investment and attract private investment.

Action 6: Create a complete national freight network
Identify and link strategic places for freight across the country and plan the right freight infrastructure over the next 50 years with industry involvement, a long term program of priority investment, a transition program, the right infrastructure governance and a rigorous analytical approach.

Action 9: User pays, user says – for freight infrastructure
Introduce a national policy framework to shift a greater commercial focus onto roads and enable the freight sector to identify, plan and deliver the infrastructure that they are willing to fund.

Action 13: User pays, user says – set prices to recover the full costs of providing water services
Implement full cost recovery pricing to provide the level of service that is required by the community.

Action 19: User pays, user says – making better use of energy infrastructure
We can make better use of existing infrastructure by managing peak demand and reconsidering our reliability standards to match the level of service we are willing to pay for. A nationally consistent framework to manage reliability standards would be a step in the right direction.

Reform 5
REDUCE LAYERS OF GOVERNMENT

Action 3: Consolidate local governments in cities
Consolidate councils to reduce fragmentation and enable local councils to be effective infrastructure partners and strategic planners.

Action 12: Introduce a national economic regulator for water
Reduce the number of water regulators from seven to one, with more efficient regulation, opportunities for private investment, a corporatisation model and greater certainty for customers.

Action 17: Improve national governance and planning of our energy markets
Further integrate the institutional frameworks, regulation and planning of all of Australia's energy markets into a truly national framework.

Action 18: Streamline our national response to the global issue of climate change
Apply a global approach to lowering carbon emissions to achieve the most cost efficient reductions. This means trading where cheaper reductions can be achieved overseas.

Action 21: Consolidate regional local governments
To support sustainable investment by local governments, consider all options to strengthen regional infrastructure planning and delivery including regional delivery models, formal infrastructure agreements between bodies, and consolidation of local governments, especially in New South Wales and Queensland.

Reform 6
BE WORLD LEADERS IN PROJECT GOVERNANCE

Action 7: Deliver 30 year plans for Australia's major ports
Proper long term planning for our major ports, with reporting against agreed national performance indicators.

Action 10: Create a national road portfolio manager
A national approach to managing our road portfolio where the most economic investments are progressed and asset condition and service is linked to private investment.

Action 14: Consider alternative water sources
Planning for the introduction of sustainable, reliable water supply and a mature debate on alternative water sources including potable reuse.

Action 25: Endorse the Remote Indigenous Infrastructure Policy Framework
Address the multifaceted causes of poor integration and coordination around infrastructure in remote Indigenous communities and define a model to deliver essential infrastructure assets and improved services outcomes.

Reform 7
SMARTER, LEANER INFRASTRUCTURE PROCUREMENT

Action 22: Make better use of scarce water resources and invest in a thriving food sector
Invest in water capture and storage and consider innovative infrastructure solutions such as surplus water diversion to serve our food sector.

Action 27: Trial innovative financing approaches for Indigenous infrastructure
There are opportunities to attract social benefit bonds and to combine contracts for whole-of-life infrastructure outcomes with contracts for social, health and education outcomes. Such procurement is complex and the private and public sectors will need to build capacity to adopt it.

In addition to the reforms outlined in the Annual Report, in July 2013 the Government announced a new tax incentive to support up to $25 billion in new private sector infrastructure spending. Under the incentive, the Infrastructure Coordinator can designate projects that have been assessed as 'Ready to Proceed' on Infrastructure Australia's Priority Project List as eligible for a tax concession. The incentive aims to encourage private sector investment in nationally significant projects by preserving the value of tax deductable project losses over time and making it easier for investors to access these losses. The joint press release by Minister Albanese and Minister Albanese is available here.

The reform follows on from the release in June 2012 of the report *Infrastructure Finance and Funding Reform* by the Infrastructure Finance Working Group, established to advise Infrastructure Australia on infrastructure finance issues. See Hawker Britton's Occasional Paper on the report here.

Infrastructure Australia

Infrastructure Australia is the peak advisory body on matters relating to infrastructure in Australia. Established under the *Infrastructure Australia Act 2008*, which came into effect on 9 April 2008, Infrastructure Australia is an eleven member statutory body whose members are appointed by the Federal Minister for Infrastructure and Transport.

Infrastructure Australia reports regularly to the Council of Australian Governments (COAG) through the Federal Minister for Infrastructure and Transport.

Infrastructure Australia has the primary function of providing advice to the Minister, Commonwealth, State, Territory and local governments, investors in infrastructure and owners of infrastructure on matters relating to infrastructure, including in relation to the following:

- Australia's current and future needs and priorities relating to nationally significant infrastructure;
- policy, pricing and regulatory issues that may impact on the utilisation of infrastructure;
- impediments to the efficient utilisation of national infrastructure networks;
- options and reforms, including regulatory reforms, to make the utilisation of national infrastructure networks more efficient;
- the needs of users of infrastructure;
- mechanisms for financing investment in infrastructure.

See Hawker Britton's Occasional Paper on Infrastructure Australia here.

More information on Infrastructure Australia is available at:
http://www.infrastructureaustralia.gov.au/