

Introduction

- 1.1 The House of Representatives Standing Committee on Infrastructure, Transport and Cities' (the committee) inquiry into options for financing faster rail is timely and important. Fast rail connections between Australia's major capital cities and regional centres will strengthen economic and social ties, and connect people to housing, jobs and services.
- 1.2 This report builds on the committee's work in the previous Parliament on: the Australian Government's role in developing cities; the role of transport connectivity in stimulating development and economic activity; and the use of automation and new energy sources in land-based mass transit.
- 1.3 The committee's consideration of options for financing and funding faster rail focuses on value capture mechanisms.

Key terminology

Financing and funding

- 1.4 The committee acknowledges the difference between financing (meeting the upfront costs of building the infrastructure) and funding (paying for the project over its lifecycle) projects, and has considered both as part of this inquiry.
- 1.5 In evidence to the committee, a number of groups stressed the importance of distinguishing between financing and funding, and suggested that the latter posed the greater challenge to transport infrastructure projects. Infrastructure Partnerships Australia described financing for infrastructure as 'abundant', due to Australia's 'competitive, liquid and

sophisticated' finance markets and the Australian Government's 'broadly strong' credit ratings. In contrast, the group noted that infrastructure funding 'can only come from two sources: taxpayers and beneficiaries'.¹

- 1.6 What was clear from evidence was that financing and funding must be part of wider integrated strategic planning. For example, Infrastructure Partnerships Australia argued that:

If you get the funding piece right, you will have no challenges in getting the finance to pay for the upfront capital costs of that infrastructure, be that through sovereign borrowing or at the project level. But you will not be able to get the finance if you don't get the planning right and the funding burden is too severe to be able to pay for.²

- 1.7 Selected financing and funding approaches, and opportunities for the Australian Government to help optimise taxpayer investments in rail infrastructure projects are discussed in Chapter 2.

Rail speed

- 1.8 The committee also recognises there can be technical distinctions between fast, faster and high-speed rail. However, the report refers to faster rail in general terms unless otherwise specified.

- 1.9 The Infrastructure and Project Financing Agency (IPFA) and the National Faster Rail Agency (NFRA), in their joint submission, noted that 'there is no internationally agreed definition of fast rail, faster rail or high-speed rail and the terms are often used interchangeably'.³ IPFA and the NFRA submitted that these terms could be regarded as follows:

- faster rail – services operating between 130 and 160 kilometres per hour
- fast rail – services operating between 160 and 250 kilometres per hour
- high-speed rail – a commercial speed of 250 kilometres per hour (the principal criterion identified by the International Union of Railways).⁴

1 Mr Adrian Dwyer, Chief Executive Officer (CEO), Infrastructure Partnerships Australia, *Committee Hansard*, 17 August 2020, Canberra, p. 15.

2 Mr Adrian Dwyer, CEO, Infrastructure Partnerships Australia, *Committee Hansard*, 17 August 2020, Canberra, p. 21.

3 Infrastructure and Project Financing Agency (IPFA) and the National Faster Rail Agency (NFRA), *Submission 8*, p. 7.

4 IPFA and NFRA, *Submission 8*, p. 7.

- 1.10 A key message from groups was that, more important than committing to a prescribed speed, it is essential that services be fit-for-purpose. For example, Tipping Point supported establishing a definition for faster rail that considers the service outcomes for customers of the rail service and not how fast the rolling stock may operate.⁵
- 1.11 Providing an investor perspective, the Queensland Investment Corporation commented that it is less focused on the specifics of high-speed and faster rail than on whether the line is 'delivering a service and...meeting consumer expectations in such a way that that asset will grow over time and not become a stranded asset or an underperforming asset'.⁶

Background

Relevant agencies

- 1.12 In recent years, the Australian Government has continued its commitment to growing Australia's cities and regions and providing crucial transport infrastructure linkages. This has included introducing policies and plans, and establishing agencies to support developments.
- 1.13 In the wider infrastructure context, IPFA was established as an executive agency from 1 July 2017, and from August 2019 moved under the Treasury portfolio. Its role is to:
- provide independent commercial and financial advice to support the delivery of Australian Government infrastructure projects
 - build the Australian Government's capability to deliver infrastructure priorities
 - strengthen confidence in the Australian Government's investments through better-informed decisions and investment management.
- 1.14 In IPFA's 2019-20 Annual Report, the agency noted that during that period it had worked with 13 different departments and agencies, and provided advice on policies, programs and projects, which represent at least \$66.8 billion of investment. Since IPFA's establishment in 2017, it has

5 Tipping Point, *Submission 19*, p. 2.

6 Mr Trent Carmichael, Partner, Global Infrastructure, Queensland Investment Corporation (QIC), *Committee Hansard*, 14 September 2020, Canberra, pp. 6-7.

provided advice on over \$125.5 billion worth of Australian Government infrastructure investments. This includes advice on: Inland Rail; City Deals for Darwin, Western Sydney, Hobart and Geelong; Snowy 2.0; and the Underwriting New Generation Investments Program.⁷

1.15 In the 2019 *Planning for Australia's future population* strategy, the Australian Government highlighted the need for taking a shared approach across all levels of government in planning for Australia's future population. This includes prioritising big nation building projects with rail and road. The Australian Government recognised that improving transport connections between capital cities and regional centres can support economic and population growth in the regions, particularly with faster rail connecting people to housing, jobs and services.⁸

1.16 The NFRA was established on 1 July 2019 to lead the development and implementation of the Australian Government's 20-year Plan for a Faster Rail Network. The NFRA is an executive agency within the Infrastructure, Transport, Cities and Regional Development portfolio, reporting to the Minister for Population, Cities and Urban Infrastructure. Its stated purpose is:

To enable more people to access employment, housing and social opportunities by advising the Australian Government on faster rail opportunities between our capital cities and regional centres, and administering funding to support the delivery of agreed projects.⁹

1.17 A key part of the NFRA's role is working closely with state and territory governments on opportunities to develop rail infrastructure between Australia's major cities and regional centres, to advance social, economic and population outcomes.

Previous committee reports

1.18 The previous committee's 2016 report *Harnessing Value, Delivering Infrastructure* focused on the major themes of: transport connectivity; property development to create value; the role of government in planning and coordination; and value capture. The report contained 13 recommendations in the areas of:

- transport connectivity (Recommendations 1 to 6)

7 IPFA, *Annual Report 2019-20*, October 2020, pp. 1 and 25.

8 Australian Government, *Planning for Australia's Future Population*, 20 March 2019, pp. 5 and 26.

9 IPFA and NFRA, *Submission 8*, p. 5.

- capturing property value increases to contribute to new transport infrastructure (Recommendation 7)
 - the role of the Australian Government in working with state and territory governments on a system for coordinating planning and funding major infrastructure programs and procurement (Recommendations 8 and 9)
 - establishing value capture mechanisms that can be used to contribute funding towards major infrastructure projects (Recommendations 10, 11 and 13)
 - supporting the roll out of City Deal-type agreements with various state, territory and local governments (Recommendation 12).¹⁰
- 1.19 The Australian Government responded to the report in March 2018, noting that a range of new initiatives had been announced that directly relate to the recommendations. It also referred to the Australian Government's then \$75 billion commitment in funding and financing for new and upgraded land transport over 10 years from 2017-18.¹¹
- 1.20 In the response, the Australian Government noted most of the recommendations. It expressed support for the recommendation to continue to recognise the importance of road transport in Australia and investigate new technologies to make road use safer, cheaper and more efficient, including development of autonomous vehicles, low-emission vehicles, and smart road infrastructure (Recommendation 6).¹²
- 1.21 The Australian Government indicated its in principle support for Recommendation 7, which called for government to recognise that the value captured on property value increases and associated taxes – directly resulting from new connectivity – can contribute towards the costs of new transport infrastructure. In the response, the Australian Government recognised the potential for 'well designed, transparent value capture mechanisms to assist in the planning and delivery of critical new

10 House of Representatives Standing Committee on Infrastructure, Transport and Cities, *Harnessing Value, Delivering Infrastructure*, November 2016, pp. xix-xxiii.

11 Australian Government, *Australian government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Harnessing Value, Delivering Infrastructure*, March 2018, p. 2.

12 Australian Government, *Australian government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Harnessing Value, Delivering Infrastructure*, March 2018, pp. 11-12.

infrastructure’, and acknowledged that any value capture regime ‘must also ensure that beneficiaries retain a fair proportion of the benefits’.¹³

- 1.22 In its response, the Australian Government supported some parts of Recommendation 12. However, it did not agree with using the potential for value uplift as a factor when prioritising infrastructure projects.¹⁴
- 1.23 The previous committee’s September 2018 report *Building Up & Moving Out* considered a number of themes covered in the 2016 report. The 2018 report contained 37 recommendations proposing a range of measures in the broad areas of: national settlement planning and integration of cities and regions; urban sustainability and connectivity; and the Australian Government’s role in supporting a system of master planning of the development of Australia’s cities and regional centres.
- 1.24 In its May 2020 response to the previous committee’s *Building Up & Moving Out* report, the Australian Government noted its \$100 billion commitment to transport infrastructure investment over the next ten years. It also outlined a number of recent developments in managing Australia’s population growth to help overcome congestion pressures, particularly in the nation’s major cities. These include:
- the Australian Government convening meetings with state and territory planning ministers to discuss opportunities for cooperation and information sharing between governments (since September 2019)
 - the launch of the new Centre for Population in Treasury (October 2019)
 - the Council of Australian Governments (COAG) agreement on the National Population and Planning Framework (March 2020)
 - investment by the Morrison Government of over \$100 billion in transport infrastructure over the next ten years, included \$4 billion in the Urban Decongestion Fund
 - the City Deals developed in Darwin, Hobart, Geelong and Adelaide.¹⁵
- 1.25 In the response, the Australian Government agreed in principle, or noted, the majority of the recommendations. It supported the previous

13 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Harnessing Value, Delivering Infrastructure*, March 2018, pp. 13-14.

14 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Harnessing Value, Delivering Infrastructure*, March 2018, pp. 20-21.

15 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Building Up & Moving Out*, May 2020, pp. 2-3.

committee's recommendation to 'ensure that urban and regional infrastructure is developed giving consideration to potential settlement patterns'.¹⁶ However, the Australian Government did not agree to the three recommendations on:

- producing an effective cost of living index to highlight the economic and lifestyle advantages of living in regional communities
- investigating the provision of spatially and industry targeted tax incentives to drive strategic secondary economic agglomeration in major cities
- establishing a national training program for public sector infrastructure procurement.¹⁷

1.26 In relation to these recommendations, respectively, the Australian Government outlined that:

- it already collects and publishes a range of information on regional Australia, and that a standardised cost of living index 'may create unhelpful competition between regional areas against specific criteria that are not fully reflective of the benefits regional communities can provide'¹⁸
- financial incentives are only one factor in a commercial analysis and are 'unlikely to be determinative'¹⁹
- it works closely with state and territory governments to ensure that project procurement 'uses best practice and maximises value for money'.²⁰

1.27 The previous committee's *Innovating Transport across Australia* report, presented in March 2019, contained 17 recommendations for enhancing transport connectivity through opportunities in automated transport and

16 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Building Up & Moving Out*, May 2020, Recommendation 27, p. 20.

17 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Building Up & Moving Out*, May 2020, Recommendations 6, 31 and 35, pp. 8, 22 and 24.

18 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Building Up & Moving Out*, May 2020, p. 8.

19 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Building Up & Moving Out*, May 2020, p. 22.

20 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Building Up & Moving Out*, May 2020, p. 24.

new energy sources, and the government's role in developing relevant policies and prioritising developments.

- 1.28 The Australian Government provided its response to the *Innovating Transport across Australia* report in November 2020. It noted that smart technologies will be integrated into Australia's transport infrastructure through the \$110 billion land transport infrastructure investment pipeline.²¹
- 1.29 In its response, the Australian Government supported the previous committee's recommendation on developing a strategy for managing the transition to full automation on roads, including mapping regulatory responses, vehicle specifications and driver training requirements. It noted the Australian infrastructure and transport ministers' agreement to prepare for automation on Australia's roads through the National Policy Framework for Land Transport Technology and the associated Action Plan.²²
- 1.30 The Australian Government also supported the recommendation for it to facilitate the introduction and uptake of electric vehicles, especially mass transit vehicles, including through coordinating and planning infrastructure development. It has announced a \$74.5 million Future Fuels package, which includes a new Future Fuels Fund to help business and regional communities to take advantage of opportunities in hydrogen, electric and bio-fuelled vehicles. Further, the Australian Government stated that the strategy will 'complement the current work by Australian infrastructure and transport ministers to progress a national work program to address the barriers and challenges impeding the uptake of electric vehicles'.²³
- 1.31 In its response to the *Innovating Transport across Australia* report, the Australian Government also supported the recommendations on: monitoring the development of Hyperloop technology; and expanding the Office of Future Transport Technology to cover alternative energy sources such as battery electric power and hydrogen fuel cell power. It noted that

21 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Innovating Transport across Australia*, November 2020, p. 2.

22 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Innovating Transport across Australia*, November 2020, Recommendation 4, p. 5.

23 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Innovating Transport across Australia*, November 2020, Recommendation 5, p. 6.

the office's current remit includes cooperating with ongoing government work on alternative energy sources.²⁴

- 1.32 However, the Australian Government did not support the recommendation to establish a statutory Office of a National Chief Engineer to provide independent expert advice on infrastructure planning and development. The Australian Government expressed a preference for long-term planning advice functions to be delivered by existing or specialist office holders or bodies, such as Infrastructure Australia, rather than a new office.²⁵ The remaining recommendations were supported in principle or noted in the government response.

Infrastructure investment and economic recovery

- 1.33 The importance of major infrastructure projects, including rail projects, and the economic, social and community benefits they provide is well recognised, and do not need to be revisited in detail in this report. However, it is worth noting that during the inquiry, a number of witnesses highlighted the value of rail and other infrastructure projects as important economic enablers, especially in addressing the economic challenges arising from the coronavirus pandemic (COVID-19).
- 1.34 In June 2020, the Australian Government announced a \$1.5 billion infrastructure stimulus package, and is working with state, territory and local governments to ensure the delivery of infrastructure in the pipeline, and to identify additional opportunities in the short-term to support local jobs and firms.²⁶
- 1.35 In its submission, the Committee for Melbourne highlighted the benefits of investing in faster rail, including to economic activity and job creation, and longer-term benefits through improved mobility and connectivity. In particular, in facing the economics challenges of COVID-19, it stressed that:

24 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Innovating Transport across Australia*, November 2020, Recommendations 7 and 17, pp. 7 and 14.

25 Australian Government, *Australian Government response to the House of Representatives Standing Committee on Infrastructure, Transport and Cities: Innovating Transport across Australia*, November 2020, Recommendation 16, p. 14.

26 Department of Infrastructure and Regional Development and Communications, *Infrastructure investment response to COVID-19*, <https://investment.infrastructure.gov.au/infrastructure_investment/infrastructure_investment_response_covid-19/index.aspx>, accessed 6 November 2020.

...there never has been a more relevant time to consider investment in faster rail and infrastructure which could underpin Australia's recovery and enable greater connectivity between the major cities and regions.²⁷

- 1.36 Similarly, the Property Council of Australia and Arup highlighted the opportunities presented by the conceptual shift that has come with COVID-19. The Property Council commented that, post COVID-19, settlement patterns could be changed to open up economic development in Australia's regional areas.²⁸ The COVID-19 experience has demonstrated the extent of digital capacity and possibilities, further supporting options for digital work and regional growth as people can move away from CBD-centric work bases.²⁹
- 1.37 QIC observed that investment in critical infrastructure such as rail, 'will not only simulate direct and indirect economic activity, including job creation, but create a lasting legacy of enhanced connectivity and economic prosperity in our key regions'.³⁰

Conduct of the inquiry and report structure

- 1.38 On 18 October 2019, the Honourable Alan Tudge MP, Minister for Population, Cities and Urban Infrastructure, asked the committee to inquire into options for financing faster rail.
- 1.39 The details of this inquiry were published on the committee's webpage, and a media release was issued seeking submissions. The committee received 36 submissions and two supplementary submissions, which are listed in Appendix A.
- 1.40 Due to the coronavirus pandemic, the committee suspended the conduct of the inquiry between 25 March and 12 May 2020.

27 Ms Martine Letts, CEO, Committee for Melbourne, *Committee Hansard*, 21 July 2020, Canberra, p. 9.

28 Mr Kenneth Morrison, Chief Executive, Property Council of Australia, *Committee Hansard*, 17 August 2020, Canberra, p. 14.

29 Dr Timothy Williams, Australasian Cities Lead, Arup, *Committee Hansard*, 23 June 2020, Canberra, p. 49.

30 Mr Trent Carmichael, Partner, Global Infrastructure, QIC, *Committee Hansard*, 14 September 2020, Canberra, p. 2.

- 1.41 The committee held public hearings in Canberra via videoconference on 23 June, 21 July, 17 August and 14 September 2020. The hearings were webcast through the Australian Parliament's website, allowing interested parties to view or listen to the proceedings as they occurred. Hearing witness details are provided in Appendix B.
- 1.42 Submissions and transcripts of public hearings are available on the committee's webpage at https://www.aph.gov.au/Parliamentary_Business/Committees/House/ITC/Financingfasterrails.
- 1.43 The committee views this inquiry as an extension of the substantial work of the previous committee on key infrastructure planning and developing Australia's cities and regions. Consequently, the committee is delivering a targeted report focusing on practical measures to enhance approaches to financing and funding rail projects.
- 1.44 Chapter 2 acknowledges that there are a range of options available for financing and funding rail infrastructure projects, and discusses the significant role for the Australian Government in funding and in strategic planning for rail infrastructure projects. It discusses maximising opportunities for value sharing, where rail infrastructure projects, wholly, or partially funded, by the Australian Government results in significant value uplifts for beneficiaries. It also considers how capturing this property value uplift can help to pay for rail projects, and by extension reduce the burden on current and future taxpayers who are paying for this infrastructure.