Revenue from Joyce's inland rail won't cover capital costs

Jacob Greber Economics correspondent

The Turnbull government's Melbourne-to-Brisbane inland rail project – Barnaby Joyce's most politically important pet project – won't generate enough revenue to cover its capital cost, says the chief executive of the Australian Rail Track Corporation John Fullerton.

In remarks that might undermine a key justification for the government's decision to fund the project "off balance sheet", Mr Fullerton told a parliamentary committee last week that revenues from customers on the future freight route wouldn't be enough to cover its construction cost.

cash flow

"From a strict ARTC point of view, no, the revenues that flow to us wouldn't cover the full capital cost and provide a return," he said.

Mr Fullerton added that broader benefits would flow from the project that wouldn't be captured by the company, which is getting $8.6 billion to build the 1700-kilometre rail line. While the project is backed by Infrastructure Australia and Labor, doubts remain it will ever be profitable in its own right, given estimates that it will deliver just $1.10 for every dollar invested.

Marion Terrell, transport program director at the Grattan Institute, said the inland-rail project was relatively unusual as the money was treated as a capital investment from the Commonwealth's point of view.

That differed from the way most Commonwealth infrastructure was treated, as a direct cash hit to the budget, because money was provided to state governments to build roads, ports and railways.

Ms Terrell said the Melbourne-to-Brisbane railway was particularly risky because of its size, which made costblowouts more dramatic, the threat of political changes and interference, and the fact that the 1:1 cost ratio was an "extremely tight margin for error".

Experts were worried that any blowouts in the project would result in a repeat of the NBN Co debacle, in which the Commonwealth was forced to tip in additional resources to keep the project viable. That increased pressure for NBN Co to produce a viable return to the government.

Andrew Charlton, an economic consultant and former advisor to former prime minister Kevin Rudd, said such projects must deliver a market-based return or be treated as a straight government expenditure.

"That was the big sleeper with the NBN," Mr Charlton said. "If it didn't ultimately generate a commercial return, then all of those equity injections could come back and hit the budget."

Mr Fullerton said there were two phases in the project.

"There is the construction phase itself up to 2025, which is the build phase," he said. "ARTC, through the arrangements with the Australian government, is now responsible for the delivery of that project to budget, to scope, to time. Beyond that, those revenues that will be generated as a result of that project will flow to ARTC.

"And in given the business case projections around the market size, the market share shift pricing of access on the corridor, there's been some assumptions made about the revenue flow from that project from day one."

Mr Fullerton said it had always been clear that, from a "pure commercial" point of view, ARTC wouldn't invest the full cost of the project because "a lot of the benefits don't flow to us".

"The only benefits that we collect off the projects are additional access revenues because of the high volume.

"Those revenues that flow from day one cover all our operating costs and all future growth capex on the corridor but, in terms of an economic investment from a government perspective, it's a positive return, because benefits flow to the above-rail operator and other benefits are identified in that business case."

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John Fullerton, left, ARTC