5 December 2019

Committee Secretariat
Standing Committee on Infrastructure, Transport and Cities
PO Box 6021
Parliament House
CANBERRA
Canberra ACT 2600

Submission to Inquiry into Options for Financing Faster Rail

Dear John Alexander OAM, MP

Prosper Australia thanks the committee for the opportunity to address the *Inquiry into Options for Financing Faster Rail*.

Our submission is made in partnership with Hale Infra Strategy and speaks to both the issues of financing and funding, with a focus on beneficiary funding and value capture. It is most relevant to the planning and delivery of passenger rail, including Faster Rail, in the fast-growing conurbations along Australia's Eastern seaboard.

Prosper notes that the major barrier to large scale infrastructure investment in Australia is not financing. With interest rates now at record lows, the costs of financing have never been lower.

The Federal Government can now issue long-term bonds at negative real interest rates - effectively be paid by investors to borrow and make investments in infrastructure. Other public sector entities can also borrow at very low rates.

The Reserve Bank of Australia has also considered using unconventional monetary policy e.g. Quantitative Easing. Prosper notes that if the RBA intends to purchase large amounts of securities and other financial assets to stimulate the economy, there is no technical reason why those securities cannot be infrastructure bonds issued to finance infrastructure investment. Indeed the RBA appears supportive of this kind of spending.

Additionally, there is no shortage of investors willing to provide financing provided there is a secure funding stream. There are a large number of institutional investors (including superannuation funds) looking for stable long term yields.

However, we note that there are substantial and obvious risks and costs associated with the currently-preferred model of availability-based Public-Private Partnerships. This model is highly opaque, costly, ineffective and results in policy capture skewing benefits towards industry rather than the public interest.

In regards to this we recommend:

> *Return the public interest, taxpayer interest, and 'best and most cost-effective delivery strategy' to the core of funding decisions for major projects. Concerned policy stakeholders may need to prepare for overt confrontation with the extremely costly and ineffective but vested interest favoured 'availability based PPP' model.*

Rather than *financing*, we view the absence of planning for sustainable *funding* as the bigger hurdle to rail investment. Ad-hoc and/or poorly conceived project funding strategies for Faster Rail may limit potential financing options.

Despite the decade-long existence of Infrastructure Australia, and the creation of state-based equivalent organisations, we suggest transport appraisal practices and business cases remain more-or-less the same today as they were a decade ago.

Arguably it is profoundly difficult to understand project investment decisions and government priorities where there is no clear sense of project benefits and beneficiaries.

Various international jurisdictions seem to have developed more viable, 'programmatic', steady, reliable and predictable approaches to funding major transit project needs over time. These innovations should be carefully considered for application in an Australia-relevant manner.

We provide a holistic depiction of the benefits that accrue in major transport projects, to demonstrate the need for comprehensive appraisal. **Obtaining financing is easy so long as there are secure, programmatic and sustainable funding strategies.**

Without clarity around the 'benefits' arising from Faster Rail initiatives, it is difficult, among other things, to understand the basis and fairness of funding decisions and adopted delivery approaches.

Beneficiary funding constitutes charging for newly created pools of value that accrue specific beneficiary groups.

The options for beneficiary funding boil down to five distinct categories:

- Value capture through the existing, mainstream tax system.
- Special fees or levies (of which there are five identified variations or sub-categories)
- Sale or auction of development rights
- Working via a 'comprehensive TOD and urban renewal agency'
- Direct property plays by the transit agency

Among all of these categories, funds generated must be ploughed-back into transit project resourcing. It is also important to see them as mutually supportive. In most cases, multiple mechanisms (perhaps all at once) can be worked in intelligent combination, given that they each connect with distinct beneficiaries or benefit pools.

We suggest the time has come for a new era in major project funding innovation and program delivery. This will need to be based on improved levels of trust in the workings of government and major transport projects.

To operationalise value capture or beneficiary funding mechanisms, they must be integrated cleanly into an overall project planning and decision-making process. This requires funding strategy and policy to be positioned at the apex of the Faster Rail agenda.

In summary,

- Faster Rail *financing* is not as difficult as *funding*.
- Value capture mechanisms can be used to develop a sustainable source of funding.
- Project planning must be integrated with urban zoning and design planning for value capture funding opportunities to be maximised.

For further detail please find attached our recent discussion paper *The Transit Transformation Australia Needs.*

Yours Faithfully,

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