

Chapter 2

Benefits of infrastructure and responsibility for delivery

2.1 This chapter outlines the benefits of investing in public infrastructure; the responsibilities for planning and delivering public infrastructure in Australia; and the roles of key government bodies and agencies.

Benefits of investing

2.2 The Australian Academy of Technological Sciences and Engineering (ATSE) 2014 policy statement outlined the broad benefits of investing in infrastructure:

[Infrastructure] underpins productivity growth, supports a growing population, sustains industry growth, boosts competitiveness, enhances societal wellbeing and connects rural and urban environments.¹

Economic benefits

2.3 The 2014 Productivity Commission (PC) report highlighted that infrastructure investment directly affects the level of economic activity. The PC commented on the central importance to the economy of delivering and maintaining public infrastructure:

Efficient public infrastructure plays a key role in a competitive and productive economy and the ongoing funding and financing of infrastructure development in Australia is therefore of critical importance.²

2.4 Investment in infrastructure is seen as central to Australia's economic wellbeing, as outlined by the Department of Infrastructure and Regional Development (DIRD):

Investing in high-quality infrastructure has the capacity to stimulate and enhance the productivity of the economy in both the short and long term. It is an investment that has a multiplier effect throughout the economy, generating lasting economic, social and environmental benefits.³

2.5 The economic benefits of infrastructure were also recognised by Standard & Poor's Ratings Services:

Investing in high-quality infrastructure can create jobs, generate demand, and enhance efficiency, lowering costs for businesses and governments, and generating a so-called "multiplier effect" on GDP growth.⁴

2.6 The PC also observed that improved public infrastructure can create benefits in related markets including:

1 ATSE, 'Infrastructure to Meet Australia's Future Needs', Policy Statement (November 2014).

2 Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71 (2014), Volume 1, p.V.

3 Department of Infrastructure and Regional Development, 'Infrastructure' at <https://infrastructure.gov.au/infrastructure/> (accessed 25 September 2015).

4 *Submission 63*, p. 4.

- transport infrastructure that provides business with access to new port facilities can promote competition in stevedoring services and shipping
- communication networks increase the opportunity for collaboration and innovation
- ports and airports provide access to international markets and the benefits of international trade in goods and services
- rail systems built in the nineteenth and twentieth centuries established patterns of urban settlement on Australia's east coast that are highly valued today in the housing market
- urban roads, public transport and telecommunication networks can improve the amenity of cities and improve economies of agglomeration and contribute to innovation.⁵

Productivity

2.7 Mr Philip Lowe, Deputy Governor, Reserve Bank of Australia, commented in a 2013 speech that investment in transport infrastructure could open new business opportunities:

One of the less obvious benefits [of investment in transport infrastructure] is what economists sometimes call agglomeration spillovers. Effective transportation networks deepen markets. They bring consumers closer to more businesses, and they bring workers in contact with more opportunities. These deeper markets and connections promote competition. They promote greater specialisation by both firms and workers. And they promote innovation and a more dynamic economy. While the internet has some of these same effects, person-to-person contact remains an essential part of business, education and innovation. Poor transportation makes this contact difficult and hurts our national productivity.⁶

2.8 Mr Saul Eslake, Economist, advised that despite the challenges involved, well-chosen infrastructure projects can enhance productivity growth⁷ and added:

This would be a good time to undertake infrastructure spending that both meets economic or social needs, can pass and be shown to pass reasonable cost-benefit tests, and which would put to work labour and capital that is currently lying idle.⁸

2.9 Ms Jane McGill, Senior Policy Adviser Infrastructure, Industry Super Australia also spoke about the contribution of infrastructure to productivity:

5 Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71 (2014), Volume 1, pp 59-60.

6 Mr Philip Lowe, 'Productivity and Infrastructure', Speech to the IARIW-UNSW Conference on Productivity Measurement, Drivers and Trends, Sydney (26 November 2013).

7 *Committee Hansard*, 14 August 2015, p. 1.

8 *Committee Hansard*, 14 August 2015, p. 4.

Obviously there are some very useful things that flow from infrastructure in terms of the broader economy. When we invest in infrastructure we do achieve productivity gains in the economy. As the population ages and as the workforce participation decreases, productivity is the only way that we are going to be able to sustain living standards, and there is certainly plenty of evidence of the link between infrastructure and productivity.⁹

Social benefits

2.10 The PC noted the benefits social infrastructure such as schools and hospitals can have:

...important direct benefits to individuals and can also have broader economic implications. For example, improved education and health outcomes can lead to increased workforces participation and labour productivity.¹⁰

2.11 Standard & Poor's Ratings Services recognised that investment in social infrastructure would benefit future generations:

Any discussion on future infrastructure planning should take into account our growing social infrastructure needs. Lifting more people out of poverty and entrenched disadvantage would likely be good for the economy. Too much inequality can be a drag on long-run economic growth.

Encouraging the development of the nascent social impact investment sector may increase efficiency, effectiveness and innovation to solve entrenched social issues, and attract a broader spectrum of investors over time to scale up proven ideas.¹¹

Responsibility for delivery

2.12 In its 2014 report, the PC explained that Australian governments have historically taken responsibility for most aspects of public infrastructure provision, noting:

In part, this was due to a desire to ensure equitable access to services across the community and because there is a range of 'market failures' that would lead to inadequate provision if decisions were left entirely to the private sector.¹²

2.13 In more recent decades, private investment in public infrastructure has grown, principally as a result of the privatisation of formerly government owned assets and services.¹³

9 *Committee Hansard*, 5 November 2015, p. 7.

10 Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71 (2014), Volume 1, p. 59.

11 *Submission 63*, p. 2.

12 Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71 (2014), p. 3.

13 Infrastructure Australia, *Australian Infrastructure Audit: Our Infrastructure Challenges Report – Volume 1* (April 2015), p. 48.

2.14 Nonetheless, government remains primarily responsible for planning and delivering public infrastructure.¹⁴ Table 1 outlines the *de facto* allocation of responsibility for the planning and delivery of infrastructure across the three tiers of government.¹⁵

*Table 1: Responsibility for infrastructure by level of government*¹⁶

Level of government	Economic infrastructure	Social infrastructure
Commonwealth	Aviation services (air navigation etc) Telecommunications Postal services National roads (shared) Local roads (shared) Railways (shared)	Tertiary education Public housing (shared) Health facilities (shared)
State	Roads (urban, rural, local) (shared) Railways (shared) Ports and sea navigation Aviation (some regional airports) Electricity supply Dams, water and sewerage systems Public transport (train, bus)	Educational institutions (primary, secondary and technical) (shared) Childcare facilities Community health services (base hospitals, small district hospitals, and nursing homes) (shared) Public housing (shared) Sport, recreation and cultural facilities Libraries Public order and safety (courts, police stations, traffic signals etc)
Local	Roads (local) (shared) Sewerage treatment, water and drainage supply Aviation (local airports) Electricity supply Public transport (bus)	Childcare centres Libraries Community centres and nursing homes Recreation facilities, parks and open spaces

2.15 Irrespective of the responsibilities at different levels of government, due to the vertical fiscal imbalance,¹⁷ the Commonwealth is the major source of infrastructure funding for the states and territories.

14 Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71 (2014), Volume 1, p. 58. See also Ms Marion Terrill, *Roads to riches, Better transport investment*, Grattan Institute, April 2016, pp 11-12.

15 This table is based on 2004 Parliamentary Library research. The committee understands that this is the most recent work on the issue and the information is still relevant. See Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71 (2014), Volume 1, p. 58.

16 Parliamentary Library, Research Paper no. 8, 2003-04, *The Commonwealth Government's Role in Infrastructure Provision*, Richard Webb, Economics, Commerce and Industrial Relations Group, 1 March 2004.

17 The large imbalance between the financial resources available to the two tiers of government and their respective expenditure responsibilities.

2.16 Mr Eslake, told the committee that even though the Commonwealth may have greater capacity to finance and fund infrastructure projects, the bulk of public sector infrastructure delivery rests with state, territory and local governments:

On average, over the past decade state and territory governments have accounted for 61 per cent of total public sector gross fixed capital formation, local government 16 per cent and the Commonwealth 19 per cent, much of which is in defence equipment purchases. This is despite the fact that the Commonwealth has significantly greater capacity to finance infrastructure spending both from its own recurrent revenues and via its borrowing capacity.¹⁸

2.17 This point was reinforced by Mr Raymond Tame, Chief Executive Officer, City of Armadale:

If you compare the taxation revenue capability of the different levels of government, federal collects 82 per cent of the tax and provides about eight per cent of the infrastructure. The state government collects 15 per cent of the tax and looks after about 56 per cent. Of course, that is understandable; states should be providing the heavy infrastructure. Local government capability is three per cent of the taxation base but we are looking after 36 per cent of the infrastructure.¹⁹

Local government

2.18 The committee heard submissions from local government representatives detailing a shift in responsibility for infrastructure to local government. Councillor Deidre Flint, Chair of Infrastructure of the Southern Tasmanian Council Authority, explained that state governments had transferred the cost of maintaining several infrastructure assets to local government:

The state government handed us 103 bridges back, in the 80s, without any consultation, which we now have to maintain. Since 2002, we have been replacing two to four wooden bridges a year, which is an enormous cost for us, and we have another two that we have to do. That does not mean the maintenance stops. We still have to do that as well.²⁰

2.19 The Western Australian Local Government Association (WALGA) in its submission argued that local governments have substantial infrastructure responsibilities but limited capacity to raise revenue:

This is particularly evident when one considers that the only form of taxation employed by Local Governments is property rates, whereas the State and Commonwealth Governments are able to use a range of taxes.²¹

18 *Committee Hansard*, 14 August 2015, p. 2.

19 *Committee Hansard*, 9 October 2015, p. 2.

20 *Committee Hansard*, 6 November 2015, p. 17.

21 *Submission 72*, p. 5.

2.20 WALGA outlined the exponential rise in responsibility for non-financial assets, such as parks and recreational areas. In the 2013-14 financial year WA local governments had responsibility for \$27.6 billion in non-financial assets:

The value of this stock of non-financial assets has grown at a rate of 8.9 percent per annum over the last ten years.²²

2.21 The (former) House Standing Committee on Economics, Finance and Public Administration inquired into local government and cost shifting. In its report, the committee concluded that:

The assessment of the true extent of cost shifting from other spheres of government to local government is extremely complex. There is no clear definition of cost shifting, so most representatives of local government were careful not to provide an estimate of the extent of cost shifting.²³

Key government bodies and agencies

Council of Australian Governments (COAG)

2.22 In December 2013, COAG established the Transport and Infrastructure Council (the Council) bringing together the Commonwealth, state, territory and New Zealand ministers with responsibility for transport and infrastructure along with the Australian Local Government Association. The policy responsibilities of the Council include:

- surface transport;
- transport safety and security;
- promotion of more efficient and environmentally conscious transport, including through vehicle emission standards and national cycling promotion;
- infrastructure policy and investment, including road, rail and ports; and
- infrastructure and related land use planning.²⁴

2.23 The objective of the Council is to:

...achieve a co-ordinated and integrated national transport and infrastructure system that is efficient, safe, sustainable, accessible and competitive. Achieving this objective will support and enhance Australia's economic development and social and environmental well-being.²⁵

22 *Submission 72*, p. 5, citing the Australian Bureau of Statistics, Government Finance Statistics, Australia 2013-14, (Cat. No. 5512.0).

23 (Former) House Standing Committee on Economics, Finance and Public Administration Inquiry into Local Government and Cost Shifting, available at http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_committees?url=efpa/localgovt/index.htm, p. 26.

24 See: <http://transportinfrastructurecouncil.gov.au/about/> (accessed 3 February 2016).

25 See: <http://transportinfrastructurecouncil.gov.au/about/> (accessed 3 February 2016).

Commonwealth agencies

2.24 The key Commonwealth agencies involved in infrastructure planning and funding are Infrastructure Australia (IA) and the Department of Infrastructure and Regional Development (DIRD).

Infrastructure Australia

2.25 IA is an independent statutory body established in 2008 to assist all levels of government in identifying and prioritising funding for nationally significant infrastructure projects. IA is expected to provide 'high quality advice on Australia's requirements for nationally significant infrastructure'.²⁶ As outlined in the 2015 Statement of Expectations by the Minister for Territories, Local Government and Major Projects:

The Australian Government expects Infrastructure Australia to contribute to the efforts of all levels of government to build a strong and prosperous economy by providing robust, independent and evidence-based advice on Australia's future infrastructure needs. This includes identifying gaps in Australia's infrastructure as well as creating a priority list, based on robust analysis and strategic long term planning, of nationally significant infrastructure proposals.²⁷

2.26 In May 2015, IA released the first audit of the nation's infrastructure. It provides:

...a top-down assessment of the value-add, or Direct Economic Contribution of infrastructure; considers the future demand for infrastructure over the next 15 years, and delivers an evidence base for further gap analysis, long term planning and future investment priorities.²⁸

2.27 On 17 February 2016 IA released its first 15 year Australian Infrastructure Plan. The Plan sets out 78 recommendations to address current infrastructure gaps and emerging infrastructure challenges. The Plan explores:

...the infrastructure challenges and opportunities Australia faces over the next 15 years and the solutions required to drive productivity growth, maintain and enhance our standard of living, and ensures our cities remain world class.²⁹

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- 26 Infrastructure Australia, Statement of expectations at <http://infrastructureaustralia.gov.au/about/accountability-reporting.aspx> (accessed 22 January 2016).
- 27 Statement of Expectations for the Board of Infrastructure Australia for the period 1 November 2015 to 30 June 2017 available from: <http://infrastructureaustralia.gov.au/about/role.aspx> (accessed 10 September 2015).
- 28 Infrastructure Australia, *Australian Infrastructure Audit: Our Infrastructure Challenges Report – Volume 1* (April 2015), p. 12.
- 29 Infrastructure Australia, *Australian Infrastructure Plan*, <http://infrastructureaustralia.gov.au/policy-publications/publications/Australian-Infrastructure-Plan.aspx> (accessed 18 February 2016).

2.28 At the time the Plan was released IA also released a reinvigorated Infrastructure Priority List, which identifies potential infrastructure solutions for investment over the next 15 years and will be updated regularly throughout each year.³⁰ The list does not indicate a commitment by government to fund the construction of the listed projects.³¹

2.29 Mr Philip Davies, Chief Executive Officer, IA, clarified the division of responsibilities between IA and the Department of Infrastructure and Regional Development:

We are not involved in the funding of the projects. Our role really goes up to the point where we assess projects and put them on the priority list. At that point the federal government, with state and territory governments, chooses what to fund, and that is done through the Department of Infrastructure and Regional Development. From that point onwards the Department of Infrastructure and Regional Development oversees the funding and delivery of those investments.³²

Department of Infrastructure and Regional Development

2.30 DIRD has responsibility for the 'design and implementation of the Australian Government's infrastructure, transport and regional development policies and programs'.³³

2.31 In 2012 the DIRD launched the National Infrastructure Construction Schedule (NICS). The NICS is a Commonwealth, state, territory and local government collaboration. The NICS provides industry and investors a public pipeline of infrastructure projects for development or investment.³⁴ The NICS includes construction projects valued from \$50 million for larger states, and \$20 million for smaller states, territories, local governments and councils. All projects are subject to planning and feasibility studies to test the project's validity prior to funding.³⁵ The NICS website lists upcoming government asset sales and feasibility studies to inform future investment.³⁶

2.32 The DIRD also coordinates a number of infrastructure investment and grants programs. One of the more recent grant programs established is the National Stronger

30 See <http://infrastructureaustralia.gov.au/policy-publications/publications/Australian-Infrastructure-Plan.aspx> (accessed 10 March 2016)

31 Infrastructure Australia, National Priority List at www.nics.gov.au/Home/PriorityProjects (accessed 21 January 2016).

32 *Proof Committee Hansard*, 1 March 2016, p. 10.

33 Australian Government Department of Infrastructure and Regional Development 'About the Department' <https://infrastructure.gov.au/department/about/index.aspx> (accessed 2 February 2016).

34 NICS, 'About NICS' at www.nics.gov.au (accessed 21 September 2015).

35 NICS, 'About NICS' at www.nics.gov.au (accessed 21 September 2015).

36 See www.nics.gov.au (accessed 21 September 2015).

Regions Fund (NSRF) which commenced in 2015 and provides \$1 billion of funding over 5 years to enhance infrastructure in regional communities. The NSRF is designed to assist disadvantaged regions or areas of disadvantage within a region by awarding infrastructure grants.³⁷ The grant must be matched on at least a dollar for dollar basis. The funded projects must deliver an economic benefit to the region beyond its construction.³⁸

State agencies

2.33 Most states appear to plan and manage infrastructure projects within a department.³⁹ However, some states have or are in the process of establishing infrastructure-specific agencies.

Infrastructure NSW

2.34 Infrastructure NSW (INSW) was established in July 2011 under the *Infrastructure NSW Act*.⁴⁰ INSW works as an independent decision-making authority⁴¹ with a board of leading business people with expertise in infrastructure and the state's senior public servants. INSW was established to:

...bring real change to the way infrastructure is delivered, and put infrastructure planning and decision-making where it should be, in the hands of experts.

And where politicians now or in the future decide to reject the advice of experts, it will be up to them to account for their decisions and actions. This bill lays the foundation for what's been missing for more than 10 years: Coordinated infrastructure planning across the whole of government, using the most efficient and effective funding mechanisms to deliver the best results.⁴²

2.35 INSW is linked to NSW's Department of Treasury. INSW requires state government projects that seek funding in excess of \$100 million or projects nominated by the Premier as a 'special project', to go through INSW. INSW utilises skills of experts such as Dr James McIntosh, Director of Land Use and Transport Integration Consulting:

37 Australian Government Department of Infrastructure and Regional Development 'NSRF' <http://investment.infrastructure.gov.au/funding/NSRF/index.aspx> (accessed 2 February 2016).

38 Australian Government Department of Infrastructure and Regional Development 'NSRF' <http://investment.infrastructure.gov.au/funding/NSRF/index.aspx> (accessed 2 February 2016).

39 SA – Department of Planning Transport and Infrastructure, QLD – Department of Infrastructure, Local Government and Planning, WA- Department of State Development, NT – Department of Infrastructure. Note- Responsibility for Infrastructure in the ACT appears to be shared across several portfolios.

40 *Infrastructure NSW Act 2011* NSW.

41 Infrastructure NSW, 'Our Board' <http://www.infrastructure.nsw.gov.au/about-us/our-board.aspx>, (accessed 2 February 2016).

42 The Hon. Michael Gallacher MLC, Minister for Police and Emergency Services NSW, Second Reading Speech, Legislative Council Hansard, 21 June 2011, p. 2923.

We review the project against a set of criteria and guidelines and we make our recommendations. As it goes through, the project gets steered through the Infrastructure New South Wales review—their guidelines—to make sure that it is achieving what they want.⁴³

Infrastructure Tasmania

2.36 In 2015, the Tasmanian Department of State Growth established Infrastructure Tasmania to:

...assess, prioritise, and review major economic infrastructure proposals, including the coordination of all infrastructure funding submissions to both the State and Federal Governments.⁴⁴

2.37 The new CEO, Mr Allan Garcia's role will be to:

...ensure the effective coordination, planning and assessment of all major infrastructure proposals in Tasmania, including rail, major roads, energy, ports and water and sewerage.⁴⁵

2.38 Mr Brenton West, CEO of the Southern Tasmanian Councils Authority described the work undertaken to date to set up this new body:

They have appointed a CEO. There is a body of work. He has set out a work plan that he is working towards. You can see all of that. I think it is in its infancy. We would be hopeful that this body would be a positive outcome. He has set a time line. He wants to develop a pipeline list of projects.⁴⁶

Infrastructure Victoria

2.39 On 3 September 2015, the *Infrastructure Victoria Bill 2015* was passed to establish Infrastructure Victoria which will:

...promote rigorous and transparent decision-making and improve public debate and build consensus for priority infrastructure projects. We will work with the community and stakeholders to develop a 30-year infrastructure strategy that identifies the infrastructure needed to support improved social, economic and environmental outcomes for Victoria.⁴⁷

2.40 The Infrastructure Victoria website indicates that its priorities include:

- preparing a 30 year Infrastructure Strategy to identify Victoria's infrastructure needs and how they can be met;
- providing advice to the government on infrastructure matters; and

43 *Committee Hansard*, 6 November 2015, p. 38.

44 See http://www.stategrowth.tas.gov.au/home/about_us/infrastructure (accessed 3 February 2016).

45 See http://www.stategrowth.tas.gov.au/home/about_us/infrastructure (accessed 3 February 2016).

46 *Committee Hansard*, 6 November 2015 p. 15.

47 See <http://www.infrastructurevictoria.com.au/> (accessed 3 February 2016).

- publishing research on infrastructure matters.⁴⁸

2.41 The Victorian Minister of Transport's second reading speech acknowledged the need for greater transparency around decision making:

...Government must prioritise and select the projects and reforms that deliver the highest public net benefit. These decisions are not easy, but they should always be based on evidence and robust, transparent analysis.

Transparency must underpin infrastructure decision-making because the community cannot, and should not, accept such decisions without being properly informed and involved.⁴⁹

Other bodies

Global Infrastructure Hub

2.42 Following an agreement by G20 leaders, the Global Infrastructure Hub was established in Sydney in November 2014 with Mr Chris Heathcote, the inaugural CEO. The website indicates the mandate of the hub is to:

...drive progress on its infrastructure agenda and to move engagement with the private sector beyond business as usual.

The Hub will work to address data gaps, lower barriers to investment, increase the availability of investment-ready projects, help match potential investors with projects and improve policy delivery.

The Hub will report to the G20 and work collaboratively with governments, the private sector, development banks and international organisations. According to the B20, the Hub could help unlock an additional \$2 trillion in global infrastructure capacity to 2030.⁵⁰

2.43 Mr John Fraser, Treasury Secretary, spoke about the Global Infrastructure Hub at a 2015 estimates hearing:

One of the key objectives of the Global Infrastructure Hub is to bring together a regimen for putting projects together so that, if a country or a state or indeed a local government, or even people from the private sector, want to design an infrastructure project, they will get the benefit of international experience—things on literally how to set up a contract; dispute resolution procedures; how to market it—and that is very much a supply-side effort.⁵¹

48 See <http://www.infrastructurevictoria.com.au/> (accessed 3 February 2016).

49 The Hon Jacinta Allan MLA, Minister for Public Transport Victoria, Second Reading Speech, Legislative Assembly Hansard, 24 June 2015, p. 2115.

50 See <http://globalinfrastructurehub.org/about/> (accessed 30 October 2015).

51 Senate Economics Legislation Committee, *Estimates Hansard*, 21 October 2015, p. 17.

