

# **Infrastructure: a regional Road Fund option**

An opportunity for deep-seated  
reform

# Public Infrastructure Inquiry 2014

- The report covers costs of public infrastructure, as well as finance of it
- The finance section was quite heavily contested by submitters
- Particularly for equity investors in PPPs, there are deep concerns at insufficient projects of investable quality; and safer opportunities offshore
- This may be a short-term response; but performance recently does not add to confidence that governments understand financiers

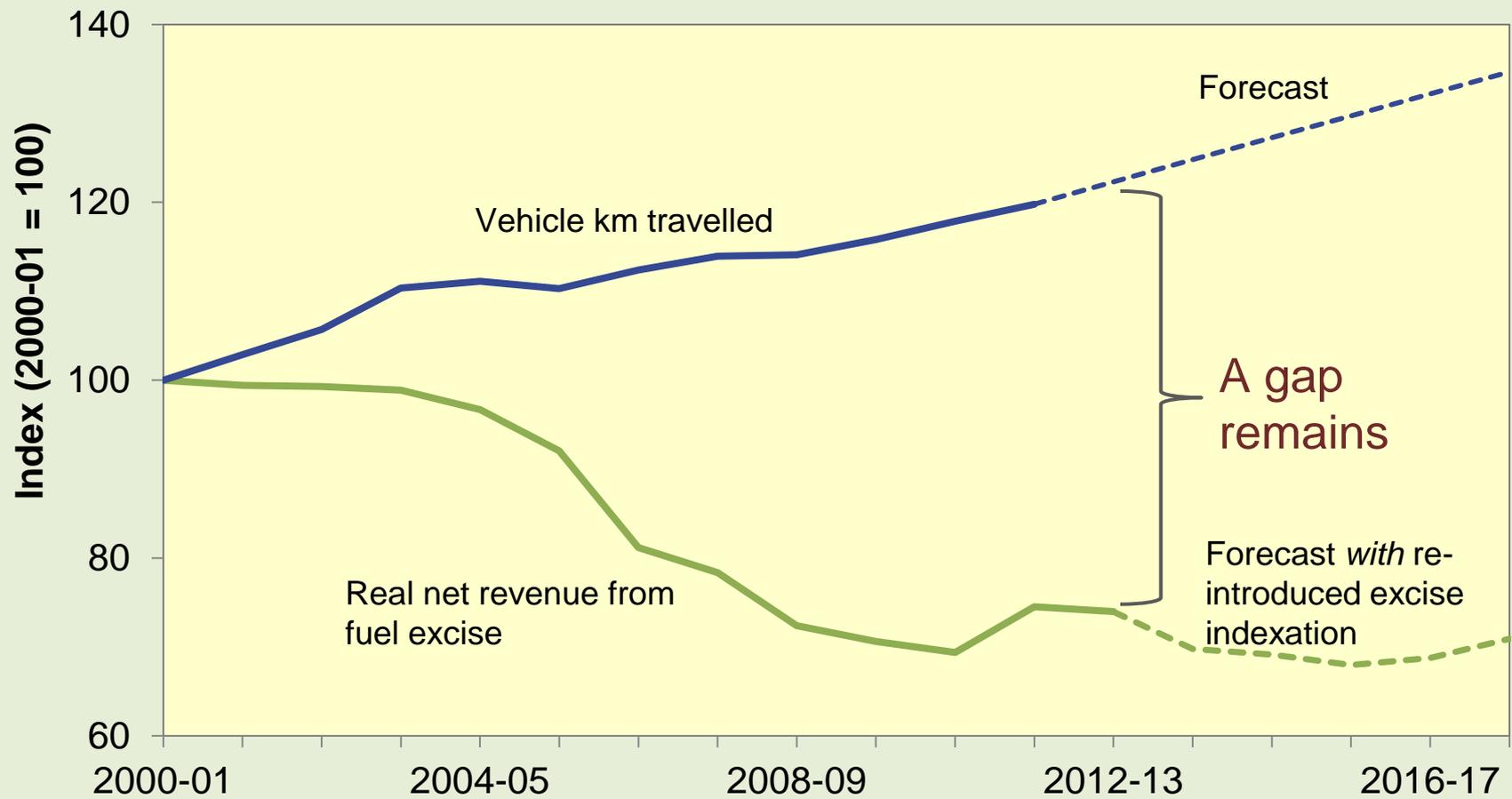
# Other issues

- Costs – land is expensive in Australia
- Labour *costs* as share of total costs in construction has not altered over two decades
- Labour *quality* is more variable: training and CFMEU tactical behaviour both need policy responses
- Productivity – construction in Australia in line with international experience but scope for innovation (BIM, prefab off-site)
- Tenders too inflexible: early design release; purchase innovation; shrink the suite of obligatory plans; less exclusivity in debt finance

# Finance

- Australian Super funds (led by IFM and Australian Super) and the (few remaining) finance bond insurers sought reforms for better risk pricing
- Issues: bias to short-term debt and the attitude of Treasuries to insist on fully financed bids - restricting innovation
- Inverted bids: super investors looking to replace integrators (eg Macquarie Bank); they have done so successfully offshore
- Super seeks to lead negotiations with banks on debt; but want preferred investor status to do that.

# Road use and real net revenue from fuel excise tax



# Reform the allocation of funds

- Road Funds – an adaptation of the NZ model
- Bring together **road user organisations** (ie consumers), C/w and State/territory road authorities (ie purchasers)
- Initially, Fund rolls up existing funds and determines project priorities
- Ultimately, and after building confidence in allocation, to support pricing reform
- Funds would be hypothecated to roads
- Bar coding for cars - small electronic charges (eg 10c) for a grade separation, or bridge strengthening (B triple)

# A Regional Road Fund

- The Road Fund model can be applied regionally
- Aggregations of councils; State funds also rolled in
- Qld: 17 Regional Road Transport groups, prioritising projects. SE Qld mayors
- Water infrastructure also offers some models – but absence of a pricing system is an impediment in roads

# Commonwealth role

- To breathe life into Road Funds
- Once allocation decisions are working at State/Territory/local level, each fund could become a repository for C/w funds (ie untying)
- C/w would participate in each fund ie still have a role in allocation
- But the State/Territory Minister would be the final arbiter
- But without the shift to Road Fund models, funding will always fall short of need
- C/w will have to embrace **hypothecation**

# Infrastructure Australia (IA)

- Review projects > \$50m, but no IA veto
- Key future role for IA should be the publisher of data on individual projects (both as planned and as delivered)
- Publish benchmarks from this data (eg a kilometre of 2m water pipe, a kilometre of rail tunnel). This has successfully conditioned bids in the UK
- Should improve CBAs over time
- Pipeline of published projects is actually pipeline of CBAs
- External financiers tap this pipeline.

# Leadership

- Convene a national infrastructure forum; preferably not a COAG process
- Many elements of this do not need C/w 'approval'. Early adopters can assist others
- Subsequently, could be scope for COAG; but not the search for signatures at the cost of quality reforms
- Allows for different rates of progress. Including pricing reforms, this is not a task that will be completed inside 5-7 years
- The key is starting with allocation of existing funds, confidence-building.