



21 November 2019

Thank you for the opportunity to submit to the NSW Government Federal Financial Relations Review (FFRR). Infrastructure Australia appreciates the opportunity to draw attention to our previous work, which is relevant to the FFRR's Terms of Reference.

As you will be aware, Infrastructure Australia is the nation's independent infrastructure advisor. We provide research and advice to governments, industry and the community on infrastructure investments and reforms that will benefit all Australians.

The *Australian Infrastructure Audit* released in August 2019 examines the major challenges and opportunities facing Australia's infrastructure over the next 15 years and beyond. The 2019 Audit covers transport, energy, water, telecommunications and social infrastructure.

We have presented our findings in terms that matter to users, by focusing on outcomes for them. Our hope is that this enhanced focus on users, and the role infrastructure can play in improving their quality of life will drive better decisions that are rooted in the long-term interests of Australians.

The Audit considers industry capacity, capability and efficiency, including funding and financing of infrastructure. It found that Australia's size and varied population density create funding challenges, and that there is a need for increased capital and maintenance investment across many sectors.

Key challenges identified for infrastructure funding include:

- **Funding for public infrastructure has risen above historical trends, but remains below that of many other nations and may need to rise further to maintain or improve user outcomes.** Australia's investment levels are below the 2.5% of annual GDP forecast by the OCED to be required to 2030.<sup>1</sup> Without sufficient funding for public infrastructure outcomes for users will deteriorate over time, undermining productivity and quality of life.
- **Community Service Obligations (CSOs) lack transparency, competition and specificity, are not frequently reviewed, and may be inefficient.** There are 315 CSOs for infrastructure, 39% of which are not transparent.<sup>2</sup> Opaque funding arrangements erode community support for CSOs and the benefits they deliver, while the lack of a consistent review processes means decision-makers cannot be sure that funding delivers value for money.
- **A historical underspend on preventative maintenance, short budgetary and funding cycles, a lack of data and incentives, and inadequate reporting have contributed to a maintenance funding backlog across all infrastructure sectors.** The *National State of the Assets* report identifies that 10% of local government roads and 6% of bridges were reported to be in poor condition.<sup>3</sup> The value of these assets amounts to approximately \$14 billion.<sup>4</sup> In 2016-17 the local road backlog in New South Wales increased to \$2.2 billion.<sup>5</sup> To assist with this backlog, the New South Wales government provided \$500 million in funding through the Fixing Local Roads Program.<sup>6</sup> An ongoing maintenance backlog will erode

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<sup>1</sup> Organisation for Economic Co-operation and Development 2007, *Infrastructure to 2030 (Volume 2): Mapping Policy for Electricity, Water and Transport*, OECD, Paris, p 21, available via: [www.oecd.org/futures/infrastructureto2030/infrastructureto2030volume2mappingpolicyforelectricitywaterandtransport.html](http://www.oecd.org/futures/infrastructureto2030/infrastructureto2030volume2mappingpolicyforelectricitywaterandtransport.html).

<sup>2</sup> CIE 2018, *Infrastructure-Related Community Service Obligations*, CIE, Sydney, p 36, available via: [www.infrastructureaustralia.gov.au](http://www.infrastructureaustralia.gov.au).

<sup>3</sup> Australian Local Government Association 2019, *National State of the Assets*, ALGA, Sydney, available at: <https://cdn.alga.asn.au/wp-content/uploads/2018-National-State-of-the-Assests-1.pdf>.

<sup>4</sup> Australian Local Government Association 2019, *National State of the Assets*, ALGA, Sydney, available at: <https://cdn.alga.asn.au/wp-content/uploads/2018-National-State-of-the-Assests-1.pdf>.

<sup>5</sup> NRMA 2019, *Funding Local Roads: Addressing the infrastructure backlog*, NRMA, Sydney, available at: <https://www.mynrma.com.au/-/media/documents/advocacy/funding-local-roads.pdf>.

<sup>6</sup> NSW Government 2019, *Fixing Local Roads Program*, NSW Government, Sydney, available at: <https://www.rms.nsw.gov.au/business-industry/partners-suppliers/lgr/grant-programs/fixing-local-roads.html>.

asset quality and reliability, and bring higher costs for future asset maintenance and renewal.

However, there is also an opportunity to avoid major capital investment through better-use solutions (low- or non-capital efficiency) to infrastructure problems. This could avoid or delay investment in expensive new or upgraded assets, and stretch public funding for infrastructure further, bringing productivity benefits for more users sooner.

Infrastructure Australia is currently preparing the *Australia Infrastructure Plan*, which is a response to the Audit's findings. The most recent *Australian Infrastructure Plan* was released in 2016. It examined challenges associated with infrastructure funding, and proposed a series of actions for governments:

- Infrastructure Australia or the Productivity Commission should undertake a public inquiry into road funding. The inquiry would identify a new funding model to replace existing road taxes and charges with a more equitable approach that charges users, not taxpayers.
- Governments should commit to the implementation of a heavy vehicle road charging structure within five years, followed by the extension of road charging across all vehicle types within 10 years.
- State and territory governments should increase the cost recovery of public transport services and strike a more appropriate balance between user and taxpayer funding.
- The Australian Government should review its capacity to use additional public borrowing to increase infrastructure investment.
- All governments should routinely consider land value capture in public infrastructure investments.
- All governments should take steps to reduce Australia's infrastructure maintenance backlog. The Australian Government should require all proponents seeking project funding to consider whole-of-life maintenance costs in their business cases. Public infrastructure asset owners should routinely use fixed-term maintenance contracts to deliver funding certainty and better asset conditions.

While there has been some action on these reforms since 2016, progress has not been consistent. Many of these potential areas of reform are highly interconnected and may warrant further consideration in the context of the FFRR. For instance, the progress of road user charging and the linkages between road standards, maintenance investment and revenue generation. Consideration of road user charging should additionally give regard to public transport fares (user charges).

In order to support governments in their consideration of several of the key reforms identified in the 2016 Plan, Infrastructure Australia released *Making Reform Happen* in 2018. The paper identifies a role for a new incentive-based funding approach to drive nationally significant infrastructure reforms. The proposed approach shares characteristics with the Asset Recycling Program and the National Competition Policy.

The *Making Reform Happen* paper considers five key reforms that if fully implemented could together could deliver an estimated \$66 billion increase in GDP by 2047 (\$2016) and a \$17.1 billion (4.6%) permanent annual increase in tax revenue for the Australian Government (in nominal terms) from 2016-17 levels. The five proposed reforms are listed below:

- **Enhanced contestability of asset ownership and service delivery**
  1. Reforming the urban water sector
  2. Reforming the electricity market
  3. Franchising public transport services
- **Facilitating infrastructure funding through a user pays model**
  4. Introducing road user charging
- **Broadening the tax base and removing barriers to economic activity**
  5. Reforming land tax to move from transaction-based taxes to a broad base land tax model.

This is not an exhaustive list of reforms. It should be considered as a starting point for the types of reform that could be implemented using an incentive-based funding approach.

Since 2018, state and territory governments have pursued reform at different paces. Infrastructure Australia acknowledges the recent progress from the NSW Government to introduce additional contestability to the delivery of public transport services, particularly metropolitan bus operations. Further opportunity exists to continue these reforms in the rail sector.

We would welcome the opportunity to further expand on the challenges and opportunities identified in the *Australian Infrastructure Audit 2019*, the reforms identified by the *Australian Infrastructure Plan 2016* and the *Making Reform Happen* paper. We have included copies of these reports for your consideration.

Should you wish to discuss this submission further, please contact Infrastructure Australia's Executive Director.

Regards



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