



# Cash crisis a threat to grand plans

Canberra people shouldn't expect their city to benefit much from plans to massively upgrade the nation's infrastructure, **TOM SKOTNICKI** writes

**T**HE INFRASTRUCTURE priorities released on Friday provide a vision of Canberra serviced by a Very Fast Train, a light rail, the best road system in Australia, a secure water supply, first-rate electricity grid and a blue-ribbon health system. It would be a dream outcome and that is precisely what it is likely to remain.

There is widespread support for the priority list of projects that was released by Infrastructure Australia ahead of the final draft of its report next year. But few infrastructure experts believe the Government is in a position to come up with more than \$200 billion for infrastructure in the next few years.

It was a big ask at the time of the May budget, when the Government allocated more than \$50 billion to programs including the Building Australia Fund, health and hospital infrastructure, the education fund and broadband. But since then the Building Australia Fund has been reduced to just over

\$12 billion, of which \$4.7 billion was allocated two weeks ago to create jobs and speed up infrastructure spending.

The collapse of financial institutions around the world that threatens to send developed economies into a prolonged recession could put paid to the dream of a revitalisation in Australia's capital base.

The Rudd Government's budget surplus has virtually evaporated and the prospect of billions of dollars spare for infrastructure appears remote. The Government could issue debt and go into substantial deficit to generate the funds but infrastructure will have to compete with other priorities, such as increased welfare demands and possibly continuing demands for financial bail-outs. The previously proposed massive infrastructure spending could be perceived as economically reckless.

Large-scale spending would have also required private-sector

involvement in areas such as roads and bridges, rail projects, electricity and water infrastructure. Brendan Lyon, executive director of Infrastructure Partnerships Australia, which is comprised of public- and private-sector infrastructure industry participants, claimed private financing was the only way that the hundreds of billions required over the next decade could be raised. However, he said that when the full infrastructure program was launched next year, it would have to offer private investors far better returns to gain support.

Lyon suggested key projects would need to deal with urban congestion and an inefficient freight and logistics network.

Professor Bill Russell from the University of Melbourne said the work being undertaken by Infrastructure Australia was the most systematic and comprehensive overview undertaken, and ideally would provide a better basis for project funding than Auslink. "The

## ACT PROPOSALS

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|--|--------------------------|
| Very Fast Train (Victoria/ACT/NSW).....          | <b>\$32-\$59 billion</b> |
| Light rail for the ACT.....                      | <b>\$2.95 billion</b>    |
| Health Capital projects.....                     | <b>\$1 billion</b>       |
| Majura Parkway (stage 2).....                    | <b>\$250 million</b>     |
| ACT Solar.....                                   | <b>\$119 million</b>     |
| Southern Energy supply.....                      | <b>\$28.2 million</b>    |
| Hoskingstown to Fyshwick electrical looping..... | <b>\$92 million</b>      |
| Cotter Dam upgrade.....                          | <b>\$119 million</b>     |
| Murrumbidgee Googong water transfer.....         | <b>\$70 million</b>      |

infrastructure audit process has involved public submissions, and has extended to much wider categories of spending than the previous Auslink process, which was dominated by the wishlists of state roads authorities, and included projects of limited national merit," he said.

"Auslink had a very major defect in that, under Howard government policies, it included no bids for

urban public transport, which is one of the most serious areas of state investment neglect. In both Sydney and Melbourne - one with a government operator and one with a private operator - the train systems are struggling to cope with rapid patronage increases.

"This certainly reflects decades when federal support went only to freeways, creating the double bind of freeway-sourced congestion and

aging tracks and signals on the rail systems. It is to be hoped that this monumental error will begin to be corrected once COAG is presented with the final infrastructure audit findings."

Russell said he was convinced the audit would lead to outcomes that saw federal support flow on a more rational basis to a wider range of infrastructure projects.

Lyon said the challenge would be



to ensure that the private sector would be prepared to enter partnerships with government. The fallout in financial markets had reduced the preparedness for investors to take risks and also had proportionately increased the percentage of infrastructure projects in most fund portfolios. "It will undoubtedly make it more difficult to structure deals," Lyon said.

However, he said the argument that governments would be better off borrowing funds themselves and paying for infrastructure directly ignored evidence which suggested that projects involving a mix of government and private investment were more efficiently constructed and operated.

He said that the sheer scope of the infrastructure required would make it very difficult for government to raise the funds.

Despite the long list of projects being considered, most infrastructure experts believe the Melbourne to Brisbane inland freight corridor, as well as further rail projects, acceleration of the national freeway system, alleviation of urban congestion in Sydney, Melbourne and Brisbane and additional works on ports around the Pilbara are most likely to gain support. It would be surprising if proposals such as the Very Fast Train or light rail for Canberra were funded by the Federal Government.

Professor Russell said the expectation that private finance would be ubiquitous in this round of infrastructure development would not be met, as a result of the financial crisis and also because many existing infrastructure projects had not delivered the bonanza to investors that was

expected.

"The likely outcome is that what private capital is available will flow to extremely profitable projects and that those with risks of any kind – design risks, construction risks or commercial risks – will fall to public-sector finance," he said.

"In this context it is even more important that the processes of front-end assessment applied by Infrastructure Australia are both rigorous and transparent."

It was also important, he said, that a high standard of state-government project management was applied to the delivery of projects that were approved. This could not be relied on in all jurisdictions – which raises the possibility of continuing Federal Government supervision.



Hauling iron ore through the Pilbara, one of the regions which might benefit from infrastructure spending.