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UDIA Submission to the House of Representatives Inquiry into Infrastructure Planning and Procurement

The Urban Development Institute of Australia (UDIA) welcomes the opportunity to provide this submission to the House of Representatives Standing Committee on Infrastructure and Communications Inquiry into Infrastructure Planning and Procurement. UDIA is the peak body representing the interests of the development industry around Australia, acting on behalf of thousands of members across the country from a wide variety of fields.

Infrastructure investment has the potential to greatly improve Australia's economic productivity and the quality of life in our cities, and with careful planning and delivery, can generate an enormous positive net benefit for our society. Ensuring the timely provision of sufficient major infrastructure such as transport, utilities and community infrastructure is an ongoing area of concern for the development industry.

UDIA wishes to address two specific areas of the terms of reference for this inquiry; the extent to which governments are adequately considering and planning for Australia's future infrastructure challenges, and how the competitive market for infrastructure funding can be deepened.

Planning for Australia's Future Infrastructure Challenges

UDIA believes that Governments are not doing enough to plan for Australia's future infrastructure challenges, and that this is putting our economic productivity, and the quality of life in our cities at risk.

A key challenge for Governments is ensuring the selection process for new infrastructure projects is rigorous, transparent and evidence based, so that Governments and the community receive the best return on their investment of scarce funds. Poor project selection removes funds from more worthy projects, and can act as a strain on government resources and result in a net loss to the community.

UDIA believes that Government decision making on infrastructure must be guided by independent and expert advice, based on transparent and objective methods such as cost benefit analysis. This will ensure that the wider impacts on urban form and growth management from infrastructure are taken into account, and will ensure that the Government and community gets the best value for money.

An additional challenge is ensuring that planning for infrastructure is both long term and coordinated between states and different levels of Government. In the past, governments have failed to adequately take in to consideration the impact of infrastructure planning decisions on the plans, goals and objectives of other levels of Government, and other jurisdictions. There is a need for infrastructure planning and funding to be coordinated across different levels and functions of government (e.g. land use and transport planning, economic and urban development and environmental assessment) to ensure the most efficient and cost effective infrastructure outcomes.

Deepening the Market for Infrastructure Funding

By some estimates Australia's infrastructure deficit is as much as 770 billion dollars, and that figure is likely to continue to grow. Considered in light of current and probable future pressure on Government revenue, it is clear that alternative sources of funding will be required to meet Australia's infrastructure needs.

Private Public Partnerships

Private Public Partnerships (PPPs) provide the potential to reduce project costs and construction times, facilitate risk sharing between the public and private sectors, and open up new pathways to private sector financing. PPPs are best suited to large scale infrastructure projects that are large enough, and have a rate of return high enough to make PPPs worthwhile.

There have been several high profile PPP projects in Australia recently that caused significant losses for the private sector party as a result of sub-optimal management and allocation of the risks involved. UDIA believes that problems associated with recent PPP projects can be resolved, and that ultimately PPPs have the potential to be an effective method of financing infrastructure. The Federal Government should continue make greater use of public private partnerships.

Increased Retail and Institutional Investment

Another potential way to increase the funds available for infrastructure investment is through increasing access to institutional and retail investors. In particular, Australia's superannuation industry has enormous potential as a source of funding for infrastructure projects. Methods to unlock investor funds include infrastructure bonds, preferential tax treatment, and addressing existing barriers to investment, such as a lack of market experience in infrastructure investment, concerns over project risk, lack of an established marketplace for infrastructure, and a lack of an ongoing, diversified pipeline of new infrastructure projects.

One specific model advocated by UDIA involves the establishment of an Urban Infrastructure Fund to increase retail and institutional investment. The Fund, which is outlined in the Urban Coalition's Plan, A New Deal for Urban Australia, would create a new infrastructure asset class. Returns on this asset class would be credit enhanced via a tax rebate or government guarantee, in order to make it more attractive to investors (see appendix).

Money raised by this investment product would be used by the Urban Infrastructure Fund to provide seed finance to qualifying infrastructure projects, submitted by project sponsors such as local governments, statutory authorities or regional development corporations. Project sponsors would complement seed finance with funding from other sources (such as traditional government recurrent expenditure, PPPs, bank finance, etc.)

The Federal Government should investigate new ways to remove barriers to private investment in public infrastructure, and improve the attractiveness of public infrastructure as an investment.

Developer Charges/Levies

UDIA would also like to provide the committee with a brief comment on the role of developer charges in funding infrastructure. Developer charges are upfront charges levied on developers for the provision of new or upgraded infrastructure. Increasing reliance on developer charges in recent years has had a deleterious impact on housing supply and affordability by 'front loading' the cost of infrastructure on to developers, and subsequently new home buyers.

Developer charges are frequently opaque and unjustified in their application, and there may be no clear connection between the cost of the infrastructure provided and the developer charge, to the extent that the developer charge may be well in excess of the cost of the infrastructure it is supposed to pay for. Additionally, in many cases developer charges are used to pay for infrastructure that benefits the wider community (for example trunk roads and utilities infrastructure upgrades). In this case, developers and ultimately new home buyers are being forced to subsidise the rest of the community.

A further problem with developer charges is that where the developer is required to build and bear the upfront cost of public infrastructure, local governments and councils have a strong incentive to set unnecessarily high engineering and construction standards in order to minimise their ongoing maintenance and replacement costs. Where these reduced costs aren't reflected in lower council rates, new home buyers effectively end up paying for their infrastructure twice, once through a higher up front house price, and again through recurring rates.

In the interests of intergenerational equity and improving housing affordability, UDIA believes that Governments should favour funding and financing approaches that spread the cost of infrastructure out over extended time frames, rather than impose it up front, such as through developer charges.

Conclusion

UDIA thanks the Standing Committee on Infrastructure and Communications Inquiry for the opportunity to provide this submission to the Inquiry into the role of public transport in delivering productivity outcomes. UDIA would welcome the opportunity to discuss any aspect of this submission in greater detail. For further information, please contact UDIA National on 02 6230 0255 or at udia@udia.com.au.