

# Chapter 1

## Introduction

### Referral

1.1 On 25 June 2014, the Senate resolved to establish the Select Committee into the Abbott Government's Budget Cuts. The committee was established to inquire into the effect of cuts or changes in the Commonwealth budget and provide a final report to the Senate on or before 20 June 2016, with particular reference to:

- a) any reductions in access to services provided by the Commonwealth;
- b) the provision of other services, programs or benefits provided by the Government affected by the budget;
- c) Commonwealth-state relations and the impact of decreased Commonwealth investment on service delivery by the states;
- d) the fairness and efficiency of revenue raising;
- e) the structural budget balance over the forward estimates and the next 10 years;
- f) the reduced investment in scientific research and infrastructure and its impact on future productivity;
- g) public sector job cuts;
- h) the impact of the budget on retirement incomes and pensions;
- i) intergenerational mobility;
- j) the impact of the budget on young people and students;
- k) the impact of the budget on households; and
- l) other matters the committee considers relevant.<sup>1</sup>

### *First interim report*

1.2 On 4 February 2015, the committee tabled an interim report focused on the following issues:

- changes to Newstart allowances, including the raising of the eligibility age from 22 to 24 and introducing a six-month waiting period for new claimants before they receive benefits;
- the cessation of funding for important programs such as Youth Connections and RecLink Australia; and
- the deregulation of Australia's higher education system and funding cuts for schools and the vocational education and training (VET) sector.

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1 *Journals of the Senate No. 36—25 June 2014*, pp 1000-1001.

1.3 The committee subsequently held hearings into the effect of budget cuts on the Australian Securities and Investment Commission (ASIC) and Australia's public broadcasters, the ABC and SBS. The committee also held a public hearing to speak to the Treasury about the assumptions underpinning the Intergenerational Report released on 5 March 2015.<sup>2</sup>

#### ***Committee name change***

1.4 On 11 August 2015, the Senate agreed to change the name of the committee to the Senate Select Committee into the Scrutiny of Government Budget Measures to more accurately reflect the ongoing work of the committee.<sup>3</sup>

#### **Areas of inquiry for this report**

1.5 As per Terms of Reference c, e, f and h, the committee agreed to investigate infrastructure financing and expenditure by the Australian government and its effect on the broader economy, including:

- current trends in the levels of public infrastructure and private capital investment;
- changes to productivity and well-being projected to result from public infrastructure investment;
- long-term economic impact of public infrastructure investment, including private sector investment that leverages off public infrastructure provision;
- capacity for the budget to absorb debt to fund infrastructure;
- potential funding mechanisms for public infrastructure investment, including infrastructure bonds and sovereign wealth funds; and
- potential funding sources for public infrastructure investment, including superannuation funds.

#### ***Conduct of the inquiry***<sup>4</sup>

1.6 The committee directly contacted a number of relevant organisations and individuals to notify them of the inquiry and to invite submissions.

1.7 The committee invited a number of organisations to make submissions to this phase of the inquiry by the end of July 2015, which was subsequently extended to 3 December 2015. A list of all submissions received by the committee is available at Appendix 1.

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2 The Hansards from these hearings are available from the committee website: [www.aph.gov.au/select\\_budgetmeasures](http://www.aph.gov.au/select_budgetmeasures).

3 *Journals of the Senate No. 104*—11 August 2015, p. 2900.

4 Details of the inquiry were placed on the committee's website at: [www.aph.gov.au/select\\_budgetmeasures](http://www.aph.gov.au/select_budgetmeasures).

1.8 In relation to this inquiry, the committee held public hearings in: Sydney on 14 August 2015; Perth on 9 October 2015; Melbourne on 5 November 2015; Hobart on 6 November 2015; Canberra on 1 March 2016 and Hobart on 14 April 2016.

1.9 Relevant submissions and the Hansard transcripts of evidence from public hearings can be accessed online through the committee's website.

### ***Context***

1.10 In the immediate post-war era, governments predominantly bore the responsibility for and cost of providing infrastructure, including by taking on public debt.<sup>5</sup> In more recent decades, governments have looked to models of infrastructure provision that have expanded the role of private sector financing, management, and ownership.

1.11 This coincided with a period in which, generally speaking, government debt has decreased<sup>6</sup> as has public investment in infrastructure.<sup>7</sup> In recent years, this trend has abated<sup>8</sup> somewhat as governments have sought to stimulate the economy in the aftermath to the global financial crisis (GFC). However, federal and state government budgets remain subject to fiscal pressures.<sup>9</sup>

1.12 Given this outlook, there is a need to consider the levels of public infrastructure expenditure, and the financing of this infrastructure from public and private sources.

### ***Terminology***

1.13 Infrastructure is usually categorised as economic or social. The Productivity Commission (PC) provided the following definitions:

Economic infrastructure — incorporates the physical structures from which goods and associated services are used by individuals, households and industries, including rail, roads and public transport, water and energy networks, ports and airports.

Social infrastructure — includes the facilities and equipment used to satisfy the community's education, health and community service needs, such as hospitals and schools.<sup>10</sup>

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5 KPMG, *Public Private Partnerships, Emerging Global trends and the implications for future infrastructure development in Australia*, June 2015, p. 1.

6 Professor Steve Keen, *Submission 64*, Figure 1: Australian government debt as a percentage of GDP, p. 3.

7 Dr Robert Bianchi, *Submission 66*, p. 3.

8 Ms Marion Terrill, *Submission 65*, pp 2-3; Productivity Commission, *Public Infrastructure, Inquiry Report No. 71 (2014)*, Volume 1, p. 57

9 Department of Infrastructure and Regional Development, *Trends: Infrastructure and Transport to 2030 (2014)*, p. 6.

10 Productivity Commission, *Public Infrastructure, Inquiry Report No. 71 (2014)*, Volume 1, p. 54.

1.14 This inquiry has focused on economic infrastructure that is publicly accessible. This reflects the nature of the submissions received as well as the constraints of the terms of reference on this committee.

1.15 The PC report detailed the difference between funding and financing:

The terms 'funding' and 'financing' are often conflated. For the purposes of this inquiry, funding refers to the revenue-raising sources and streams to pay for the costs of infrastructure over its life (such as user charges). Financing refers to the supply of capital (private or public) used to pay for the upfront investment costs of an infrastructure project. The term public private partnership (PPP) is used broadly [by the PC] to cover procurement models involving some privately financed investment.<sup>11</sup>

1.16 This distinction was also highlighted by Infrastructure Australia in their recently released Infrastructure Plan:

Funding refers to how infrastructure is paid for. Ultimately, there are only two sources of funding for infrastructure, either taxpayers through government spending or directly by users, such as through electricity charges or road tolls.

Financing refers to the supply of capital, such as loans and equity, used to pay for the upfront investment costs of an infrastructure project. The sources of funding are then used to pay back the money raised through the initial financing.<sup>12</sup>

1.17 While this committee report has sought to follow this distinction in its summary of evidence, conclusions in relation to funding and financing—and all other issues examined—have been brought together in the final chapter. The evidence received by the committee tended to consider funding and financing in combination. Further, there is an inextricable link between the two issues when seeking to make recommendations about government budget measures.

### **Structure of this report**

1.18 This report consists of seven chapters:

- Chapter 1 (this chapter) sets out administrative matters and provides a brief overview of the terms of reference for this phase of the inquiry.
- Chapter 2 outlines the importance and benefits of investing in infrastructure; and the roles and responsibilities of governments and their agencies.
- Chapter 3 examines the current planning and decision-making processes, and covers options to improve these processes.

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11 Productivity Commission, *Public Infrastructure*, Inquiry Report No. 71 (2014), Volume 1, pp 4-5.

12 Infrastructure Australia, *Australian Infrastructure Plan – Priorities and reforms for our nation's future* (2016), Report, p. 90.

- Chapter 4 considers the level of spending on infrastructure; and the relationship between spending and desired level of service.
- Chapter 5 considers funding and discusses options to increase funding for infrastructure.
- Chapter 6 examines instruments for infrastructure financing.
- Chapter 7 brings together the committee's views and makes recommendations.

### **Acknowledgements**

1.19 The committee thanks all the individuals and organisations who have participated in this inquiry through making submissions or attending public hearings.

