BRIEFING NOTE

Infrastructure Funding: the need for innovation

Monday, May 27 - Keynote Address Sir Rod Eddington

Goal & Objectives

The Committee's goal is to **raise awareness of innovative funding models and to highlight the issues with current project prioritisation methods**. Our aim is to ensure that Melbourne's critical infrastructure projects like Melbourne Metro and East-West Link are built – as these are vital city shaping projects and productivity enhancers.

To achieve this goal, the Committee believes there are a number of strategic discussions that need to occur:

1. Raise awareness of strategic issues such as long-term and visionary planning, prioritisation, funding versus finance, debt versus deficit.
2. Generate awareness of possible funding hurdles and solutions.
3. Advocate for changes to implementation barriers.

As part of our role in promoting informed debate, the Committee is aiming to address a range of key Questions:

1. What funding models have worked elsewhere and how could we utilise them in a Victorian and Australian context?
2. What are some of the hurdles to securing funding and financing?
3. What are some of the barriers that prohibit implementation?
4. Project prioritisation has always been determined by the government of the day; do we need a more independent prioritisation process?

Building on the work done by our members in raising the debate around direct and indirect user pays as a means of funding infrastructure, this session aims to evaluate some of the more innovative funding strategies being implemented globally and across Australia.

Overview

In 2012, the Committee for Melbourne published two discussion papers on the infrastructure funding and financing issue: *Funding and Financing Infrastructure in Victoria* and *Moving Melbourne.* Both these papers concluded the solution to infrastructure funding and financing issues was a change in the mindset of government and the community.

These works coincided with the release of Infrastructure Australia's (IA) Infrastructure Finance Working Group (IFWG) report and explored one of the reform recommendations:

> *Governments should utilise appropriate models to drive revenue from the broader benefits delivered by major infrastructure projects, such as value capture for transport infrastructure...*[1]

Many voices are recognising the fiscal challenge of an increasing funding gap facing all levels of government and the community, and the risk this poses to the delivery of critical infrastructure.

The Committee for Melbourne recognises that a large proportion of the community is yet to reach a level of understanding and acceptance around many of the concepts associated with the infrastructure funding debate. However, given Victoria's aspirations to improve its liveability and competiveness, this is a conversation that needs to occur.

This session seeks to continue the infrastructure funding and prioritisation debate within the context of Melbourne's critical city and nation building transport projects. Particular focus will be given to: alternate funding models supported by case study examples, barriers to funding and finance innovation, project prioritisation and governance.

Given the difficulties we have in Australia with urban rail projects, the Committee places a particular emphasis on trying to progress the discussions around rail funding. As such, the Melbourne Metro Stage 1 project - prioritised by Infrastructure Australia in the 'ready to proceed' category - will form a focal point of ongoing discussions.

Melbourne Metro Stage 1 Project Case

Headline facts:

- **A nine-kilometre rail tunnel which will have five new stations and run from South Yarra to Kensington.**
- **Expected to cost an estimated $9.2 billion[2].**
- **Infrastructure Australia has categorised the project as 'ready to proceed'**
- **$10 million allocated in the 2013-14 Victorian Budget**
- **$3 billion allocated in the 2013-14 Federal Budget:**
    - **$1 billion will be made available between 2014-15 and 2018-19; and**
    - **$2 billion between 2019-20 and 2022-23.**
- **Federal Opposition Leader Tony Abbott has said he will not fund urban rail projects.**

Patronage on Melbourne's trains has grown at unprecedented rates over the last decade and continuing strong growth is forecast in the years ahead. Major investments have already been made in response to these growth pressures and further projects are being delivered. However, significant challenges remain if the rail network is to meet the current and future travel needs of a rapidly growing city.

Population growth, road congestion, petrol price rises and greater environmental awareness have all contributed to more Melburnians using public transport. There has been an unprecedented 70 per

[1] Infrastructure Finance Working Group, Infrastructure Finance and Funding Reform (2012)
[2] Nation Building Program, Australian Government (2013)

cent growth in train patronage in the last decade and 40 per cent in the last five years alone, which has stretched the capacity of the current network.

Detailed transport modelling undertaken by PTV[3] underlines the challenge ahead - annual patronage across train, tram and bus services is forecast to hit one billion trips by 2031. On trains alone, average weekday boardings will more than double to 1.7 million passengers per day by 2031.[4] Based on current projections, the entire train network will reach capacity by 2021 if we do nothing now.

Project Description

Melbourne Metro (Stage 1) is a critical city-shaping project that will address the increasing demand for train services in Melbourne's growth areas in the north, west and south-east. It will also create the capacity needed for future expansion of the rail network.

The project requires the construction of a nine kilometre rail tunnel through Melbourne CBD that will link the Sunbury and Dandenong rail lines. The project will include five new underground stations to be located at North Melbourne, Parkville, CBD North, CBD South and Domain.

The rail tunnel will join the Dandenong lines south east of South Yarra station and the Sunbury line west of South Kensington station.

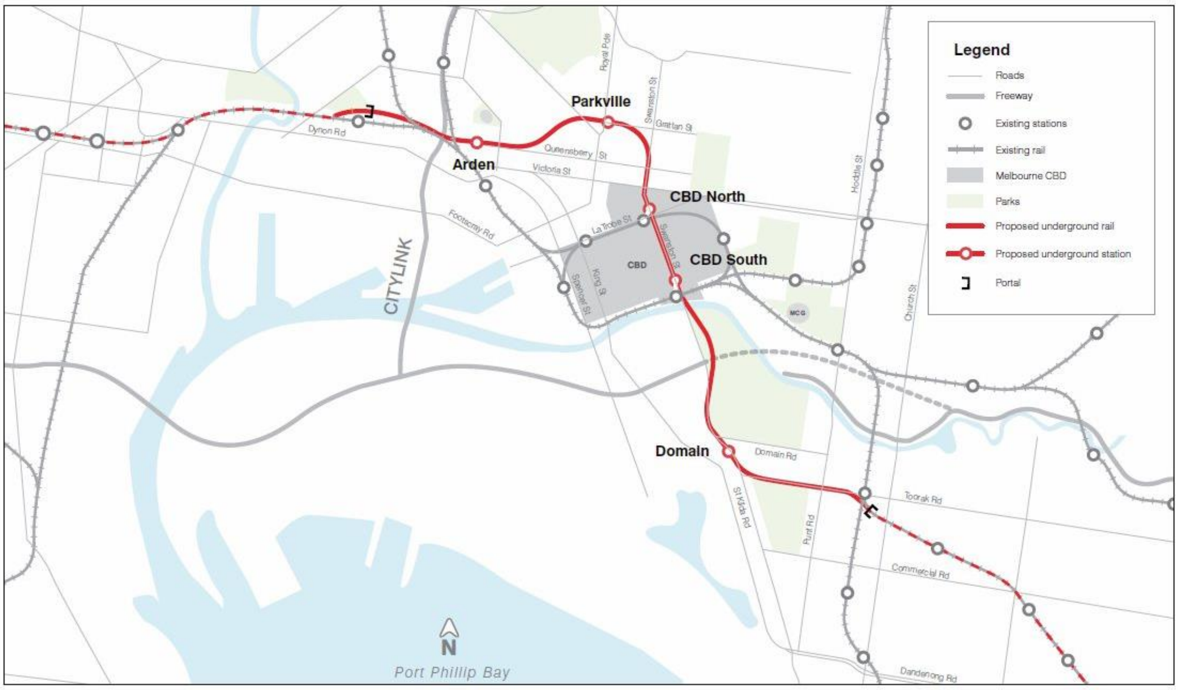
Along with additional rail works and operational changes to the existing network, Melbourne Metro Stage 1 will enable the creation of four independent rail lines which will greatly improve train punctuality and deliver increased passenger capacity across the network.

Melbourne Metro will create extra capacity to improve transport for Melbourne's key growth corridors in Wyndham, Hume, Sunbury, Casey and Cardinia.

Melbourne Metro will also improve public transport access to the commercial and education precincts in Parkville and along St Kilda Road, while also alleviating pressure on the St Kilda Road tram routes.[5]

[3] Public Transport Victoria
[4] PTV, Network Development Plan – Metropolitan Rail (2012)
[5] Public Transport Victoria (2013)

Melbourne Metro (Stage 1) Proposed Stations and Tunnel Alignment Map



Project Benefits:

- Untangle the inner core of Melbourne’s metropolitan rail network
- Create additional space for more train services on the Craigieburn, Sunbury, Werribee, Williamstown, Upfield, Frankston and Sandringham lines and allow longer trains to operate through Melbourne’s CBD on the Sunbury, Pakenham and Cranbourne lines. The additional capacity created will be able to accommodate over 20,000 passengers each hour on these busy lines.
- Improve train reliability and efficiency by creating independent lines
- Enhance access to the public transport network by constructing five new inner city stations
- Facilitate more effective use of land within Melbourne for housing and employment by improving access to key locations, such as North Melbourne.
- Deliver infrastructure vital for the future expansion of Melbourne’s public transport network.

Project Funding & Political Context

Given current economic circumstances and the budgetary positions of both State and Federal Government, the $9.2 billion project cost for Melbourne Metro is unlikely to be funded by government alone – or any other single funding source.

In the recently delivered 2013-14 State Budget, the Victorian Government committed $10 million to continue planning and development – clearly positioning the East-West Link as the highest transport priority by allocating $294 million[6].

Conversely, the 2013-14 Federal Budget delivered by the Commonwealth one week later committed $3 billion towards Melbourne Metro – providing no funding for the East-West Link – indicating $1 billion will be made available between 2014-15 and 2018-19, the remaining $2 billion between 2019-20 and 2022-23.

> *The Australian Government will commit $3 billion towards this project [Melbourne Metro], to be matched equally by the Victorian Government. The remainder of the project will be delivered through an availability public-private partnership (PPP).*[7]

The Commonwealth commitment directly opposes the prioritisation of the Victorian Government and the Federal Opposition – who have pledged $1.5 billion for the East-West Link if they win the election in September and have stated they will not fund urban rail projects.

	2013-14 State Budget	**2013-14 Federal Budget**
Melbourne Metro	$0.01 billion	$3 billion[8]
East West Link	$0.294 billion	-

Road Bias for Commonwealth Capital Payments

Under current arrangements, federal funding for the Melbourne Metro rail project would see Victoria's GST share decreased by hundreds of millions of dollars more than if a national road project was given the money.

Under Commonwealth infrastructure funding rules, the amount of GST given to a state is reduced significantly if money is given to a rail project.

But if a National Network Road (NNR) gets Commonwealth funding, there is a 50 per cent "discount" on the GST clawback.

A Victorian Treasury analysis shows that after a $3.2 billion federal cash injection for the Regional Rail Link, $2.2 billion will be ripped from Victoria's share of tax revenue.

If the money were spent on a national road instead, the clawback would only be $1.2 billion.[9]

[6] 2013-14 Victorian Budget, Budget Information Paper No. 2, Department of Treasury and Finance (2013)
[7] Budget 2013-14, Nation Building Infrastructure, Australian Government (2013)
[8] The Australian Government will also provide support to Victoria's availability payments
[9] Federal funding for Melbourne Metro rail project could slash Victoria's GST…, Herald Sun, April 23 (2013)

Excerpt from the Victorian Submission to the GST Distribution Review (August 2012)

Example of $1 billion increase in investment – comparison of road and rail

This example compares two options for increasing jointly funded Victorian investment in 2008-09. The first option has Commonwealth and State joint and equal funding of a road project, deemed to be a NNR. The second option is a jointly and equally funded rail project.

On the expenses side of the assessment, when the investment is directed towards a Victorian rail project, the $500 million Commonwealth grant is distributed across all States according to the net lending assessment. The Commonwealth grant for the road project on the other hand increases total investment by $500 million, with $250 million of that directly increasing Victorian investment 'needs' and the remaining $250 million distributed across all States according to the investment assessment. On the revenue side, both Commonwealth grants are treated equivalently.

Jointly funded rail and road project in 2008-09 — total change in GST for 2010-11,2011-12 and 2012-13 ($ million)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Rail funding GST impact	190.7	-438.0	120.2	67.1	39.8	11.3	9.1	-0.3
Road funding GST impact	94.0	-222.6	61.8	28.2	18.0	7.7	4.9	8.0

The table above shows that the GST impact from an investment is not equivalent for a road project and a rail project. Victoria is significantly disadvantaged as a result of undertaking a rail project, losing approximately twice as much GST revenue. The current treatment biases transport infrastructure decisions towards roads, even if there is a better economic case for increased rail infrastructure.

Moving Forward

Investment in the right transport infrastructure is vial to the Melbourne economy, not only does it create commercial activty but it draws down on scarce resources and diverts capital. At a time when funding is limited, it is expected there will be trade offs between competing priorities. It is crucial important decisions are taken that focus on delivering the best productivity return – from not just an economic perspective, but also a social and liveability one – as well as delivering value for money through a genuinely integrated approach. Wholistic prioritisation is therefore imperitve to maximising the benefits and improving economic and social well-being.

The Committee is seeking your input into how we can progress this thinking and is committed to furthering the debate. We look forward to hearing your thoughts as part of our discussion.