ENGINEERS AUSTRALIA POLICY NOTE

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INFRASTRUCTURE IN THE 2016 COMMONWEALTH BUDGET 4 May 2016

Main Points

So far as infrastructure is concerned the 2016-17 budget was a steady continuation of the past few years. The Commonwealth is well on the way to achieving its well-publicised $50 billion infrastructure plan. The cash allocation to the States and Territories in 2016-17 lived up to the promise of last year's forward estimate with the full $9.2 billion allocated.

However, this achievement is undermined by two issues; first, the specific purpose allocations to the States and Territories include a range of long standing programs that are embedded in infrastructure construction trends that have been falling since 2010-11. Additional funds in these programs are too small to have an impact on the direction of the trends. As well as this programs that maintain existing infrastructure assets are included. The second issue is that funding commitments remain geared to infrastructure as a year to year proposition. Engineers Australia has long argued that the Prime Minister's approach in his cities policy is the way to go—that is, infrastructure planning and delivery must be integrated with land use planning. Talking about this issue is not that uncommon. What we want to see is some action to do it.

Finally, the practice of dazzling the community with long lists of attractive infrastructure work persists. Although there is a lot to like in the list, this practice distracts attention from the importance of long term infrastructure planning and realistically engaging the community in this process.

Background

The past three or four Commonwealth budgets have featured conspicuous announcements about infrastructure, most notably the present Government's $50 billion infrastructure plan. Even though the establishment of Infrastructure Australia, almost eight years ago, brought with it a systematic and rigorous analytical framework to set infrastructure priorities and to differentiate the economic value of competing infrastructure projects, not much has changed so far as figuring out what the annual budget has in store for the nation's infrastructure. New and more creative ways to spin these announcements have emerged, for example, announcing seemingly large allocations over future periods of variable duration, sometimes two years and other times five or more year or large allocations with minimal cash in the current budget year and most of the allocation in

future forward estimate years. This is a practice that has transcended the political divide and is not confined to infrastructure.

Since relying on budget information is fraught, Engineers Australia has turned to reviewing trends in ABS statistics on engineering construction. These statistics report on infrastructure work actually completed on the ground for different classes of infrastructure assets, for States and Territories and for the public and private sectors. All budget announcements on infrastructure will feed into infrastructure completed once projects move beyond detailed planning and design stages and actual construction begins. At this point new infrastructure commencements should start to increase. Engineers Australia has just released the latest review of infrastructure trends[1] to the end of 2014-15 based on these statistics.

Government budgets primarily deal with public sector infrastructure. Infrastructure completed by the public sector peaked in 2011-12 at $31.2 billion and has fallen each year since to be 27.1% or $8.5 billion in real terms lower at $22.7 billion in 2014-15. This reduction in construction has occurred despite strong population and economic growth, the key drivers of demand for infrastructure services, before and during this period[2]. New infrastructure commencements peaked in 2010-11 and also fell each year to 2014-15 to be 18.4% lower. The fall in new commencements moderated last year but has not yet reversed.

It is important to acknowledge that the ABS statistics cover the three levels of government; about 63% of infrastructure construction is by the Commonwealth and the States and 37% by local governments. The Commonwealth budget is important because it provides a substantial proportion of the funds used by States and Territories and some of the funds used by local governments. Our analyses of ABS infrastructure statistics are also corrected for inflation and this is not usually done for budget figures.

This Policy Note examines specific purposes allocations to the States and Territories for infrastructure since the 2012-13 budget detailed in Budget Paper No 3. Although most infrastructure allocations are covered by specific purposes allocations, some are not and are often subsumed within departmental program budgets. There are also occasional ad hoc payments to particular jurisdictions, for example, the payment to Western Australia to compensate for the fall in that State's GST revenue share was earmarked for roads.

It is also important to note that the detailed breakup of specific purposes allocations published by the Department of Infrastructure following project by project negotiations with States and Territories is difficult to reconcile with the figures in the Budget Papers. This breakup also shows that as well as covering new infrastructure projects they cover repairs and maintenance on existing infrastructure and the asset recycling program. However, noting these issues, trends in specific purposes allocation give a sound indication of where infrastructure policy is headed.

[1] Engineers Australia, National Infrastructure Investment Update, 2016, www.engineersaustralia.org.au

[2] These figures are ABS estimates of engineering construction compiled under consistent protocols that mean the figures cannot be directly compared to budget allocations, for example, land values on which infrastructure is built is excluded. The engineering construction figures are usually lower than budget figures. However, engineering construction figures are reliable indicators of changes in infrastructure.

Budget infrastructure headlines

The main Budget infrastructure headline is the continuation of the $50 billion infrastructure program from 2012-13 to 2019-20. The majority of this program funds the National Land Transport Agreement agreed by COAG and covering road and rail projects.

Other headlines draw out specific large scale projects that are part of this program, for example work associated with the second Sydney airport under the Western Sydney Infrastructure Plan and the continuing work on the NBN. Another notable project representing a departure from past policy is the Commonwealth contribution of $877.5 million to Victoria under the asset recycling project primarily to fund the Melbourne Metro rail system. Other projects highlighted include the Black Spot roads program which has been in place for over a decade.

The Government also continues to highlight the asset recycling initiative. This program was the establishment of a $5 billion fund in the 2014-15 budget. The purpose of the fund was to provide States and Territories with a 15% top up for infrastructure projects funded through the sale of existing infrastructure assets. In the 2015-16 budget the fund was reduced to $4.2 billion. States and Territories were given until 30 June 2016 to conclude agreements with the Commonwealth. So far $3.3 billion of the fund has been used and there is unlikely to be any further agreements struck before 30 June. In the current 2016-17 budget the Commonwealth has withdrawn the remaining $853.6 million to consolidated revenue.

The Inland freight railway has been discussed for many years. The budget provided $594 million to the Australian Rail Track Corporation to acquire the necessary land corridor and for pre-construction activities. The Government intends to keep the Corporation in public ownership so that it can access funds on the best terms to assist leverage arrangements with private sector partners.

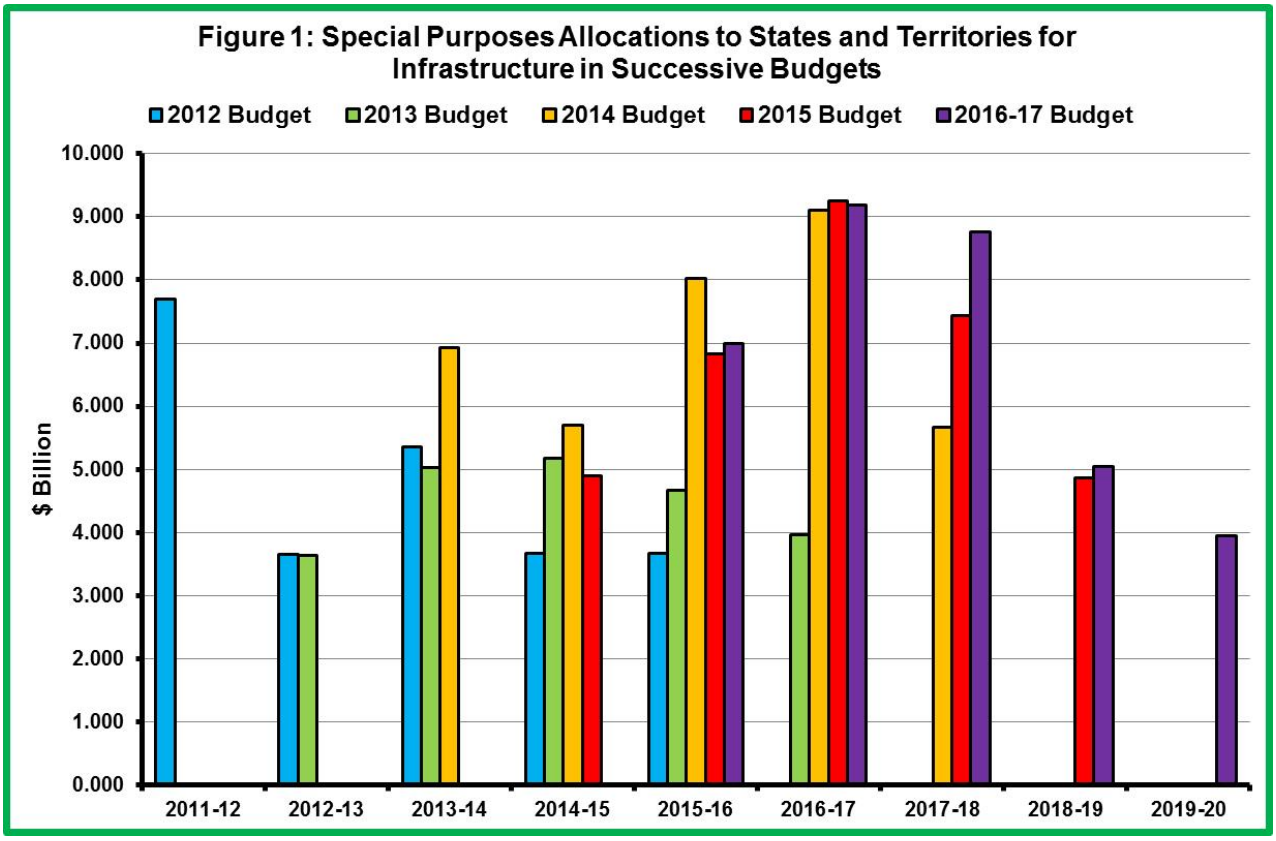
For years regional water supplies have been problematic. To assist local authorities the Commonwealth has established a National Water Infrastructure Loans Facility to provide concessional loans to build dams, pipelines and associated infrastructure so that rural communities have access to affordable water supplies.

Specific Purpose Allocations to States and Territories

Specific purposes payments to the States and Territories for infrastructure are provided in Budget Paper No 3. Information for the budgets since 2012-13 is illustrated in Figure 1. Typically information is given for the estimated outcome in the financial year just concluding, the cash allocation for the financial year about to start (the budget year) and projected estimates for three forward estimate years, for example, in the 2012 budget, the outcome for the year just concluding, 2011-12 is the first blue bar, the cash allocation for the 2012-13 budget year is the second blue bar and the forward estimates for 2013-14, 2014-15 and 2015-16 respectively are the next three blue bars. Since estimates are provided only for three forward estimate years, there are no blue bars beyond 2015-16. Corresponding allocations for following budgets are illustrated in the same way. The current budget is shown using purple bars.

Several observations can be made:

- The cash allocations for budget years have increased over time; from $3.66 billion in 2012-13; $5.03 billion in 2013-14; $5.70 billion in 2014-15; $6.82 billion in 2015-16 and $9.2 billion in the current budget.
- The Government's $50 billion headline infrastructure policy is represented by the cash allocations in the five budgets illustrated plus the three forward estimate allocations for 2017-18 to 2019-20 inclusive in the present budget.
- The cumulative total of the five years included in each budget typically include large numbers in out years substantially enhancing the total.
- The cumulative totals for the five years covered by the last three budgets are higher than those for the first two budgets.
- An important issue is whether the forward estimates convert into cash allocations in subsequent budgets; in the 2014-15 the forward estimate for 2015-16 was $8.0 billion which in the 2015-16 budget became a lower allocation of $6.8 billion; similarly, in 2015-16 the forward estimate for 2016-17 was $9.2 billion and this was the amount allocated in the 2016-17 budget.



A number of conclusions can be drawn from these results. First, the Commonwealth Government is on track to achieve its $50 billion headline infrastructure program. The cumulative value of the cash allocations in the five budgets illustrated in Figure 1 is $30.4 billion. Another $17.8 billion is included in the three forward estimate years 2017-18 to 2019-20 inclusive, bringing the total up to $48.2 billion which, as politicians do, has been

rounded to $50 billion. Full realisation depends on conversion of the forward estimates into cash allocations. These five years, of course, cover the last two Labour budgets as well as the three budgets brought down by the present government.

Many of the specific projects highlighted in budget papers and documents released by Ministers are welcome. However, the approach of highlighting projects diverts attention from the absence of long term infrastructure planning and its integration with land use planning. The cities policy announced by the Prime Minister indicates that the Government intends to pursue this direction. Unfortunately, such intentions are not uncommon and Engineers Australia would prefer to see decisive action.

Infrastructure allocations to the States and Territories of $9.2 billion would appear to restore the fall in engineering construction on infrastructure observed in Engineers Australia's review of ABS statistics[3]. However, these allocations include a number of programs to maintain existing infrastructure assets, a program relating to heavy vehicle safety and several programs that have been in place for well over a decade including roads to recovery and untied local roads. The former will not contribute to reversing the downwards trend in infrastructure construction and the latter are embedded in observed trends and allocations to them have not changed greatly over time. In 2015-16 these programs accounted for 17.4% of the annual specific purpose allocation.

Most infrastructure projects are multiyear constructions and financial allocations tend to follow construction patterns. The successive falls in estimates for forward estimate years suggests a financial pattern consistent with gradual completion of projects commenced in an earlier year. This is pattern is not consistent with long term infrastructure planning and instead points to infrastructure still being treated as a year to year proposition.

[3] See op cit

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