

Australia – from energy boom to infrastructure boom

DAVID HARDIMAN – DIRECTOR, DRIVER TRETT AUSTRALIA OUTLINES THE AUSTRALIAN GOVERNMENT'S RESPONSES TO THEIR GROWING POPULATION AND RELATED INFRASTRUCTURE INVESTMENT, HIGHLIGHTING SOME KEY PROJECT COMMITMENTS FOR THE COMING YEARS.

Australia was shielded from the global financial crisis of ten years ago by the continuing strength of the mining and energy sectors. As resource prices fell over more recent years, the construction industry has been sustained by a boom in the construction of residential buildings. Today, any spare capacity arising from the cyclical reduction in the residential work is taken up by what is becoming an infrastructure bonanza across the country.

Recent annual spending on infrastructure bottomed out in the 2015-16 financial year. Led by New South Wales and Victoria, the states are setting a fast pace, particularly for road and rail expansion.

New infrastructure projects are sometimes selected with less attention to their real value than on a need to create jobs. In Australia, there are many large potential benefits to be won from important projects catering for the needs of its growing population.

In 1995, the population of Australia was around 18 million, twice that of 40 years before. In June 2016 the population was recorded as being in excess of 24 million. The population is expected to grow by about 400,000 per year, reaching around 36 million in 2050. Although the average population density in Australia is relatively low at around three per square kilometre, in reality, Australia's population is concentrated in four main cities (Sydney, Melbourne, Brisbane and Perth) where almost three quarters of the population growth is expected to occur.

In its main cities, Australia is already seeing trends of increased traffic congestion, inefficient logistics, deteriorating amenities, housing affordability issues, and travel times that impact on the quality of the daily life of the inhabitants.

Infrastructure should not be valued

solely on whether the investors in the project will recover their costs. Good infrastructure has a value to the broader community through providing services and conveniences that can ideally adapt to the changing world. Infrastructure can transform local communities, regional economies, and overall national prosperity. These changes may be brought over the design and construction period and the life of the asset. Disadvantaged communities may be regenerated and more equitable and socially sustainable cities created. Private development may occur around the infrastructure even before it is completed. Socially responsible procurement for infrastructure projects leads to job creation, apprenticeships, direct and indirect local employment opportunities, and long-term skills development.

The Australian Government has estab-



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lished an ambitious spending programme and one of the world's largest infrastructure pipelines. New infrastructure projects are being stimulated by a move to create appropriate governance on project selection and on risk sharing. The government is establishing the Infrastructure and Project Financing Agency to identify innovative financing solutions and to advise on these. They will provide direct investment and equity participation in socially worthwhile major projects, when the private sector is unwilling to build because the period of return is not short term. The value of the asset can thereby

be recognised as being that to the broader community rather than just to the investor's interest.

In the past, the Federal Government has generally acted only as a funder, especially on those projects where the short-term reward failed to materialise, bankrupting the private investors. An additional benefit to the Federal Government from its investment programme will be greater credit for visible equity participation. In the past, the State Governments have received most of the credit and the project revenue. In time, the government can expect to sell (potentially with a profit margin) all or parts of an asset, once it is operating on a consistently commercially viable basis. It is likely to require the State Governments to commit to reinvest in infrastructure before permitting the sale of state owned assets.

In its last budget, the government made a distinction between 'good debt' (investment on projects offering potential capital returns) and 'bad debt' (recurrent expenditure). It has committed A\$70bn for a combination of loans, grants, and equity investments for infrastructure works to 2020-2021. It has established a 10-year allocation that will deliver A\$75bn in funding and finance to 2026-2027. Whilst interest rates are low, there is wisdom in locking in long term financing for investment in major growth producing infrastructure assets that also contribute to the generation of better cities, improved social fabric and quality of life. Health and well-being, mobility and development are all intrinsically linked to good infrastructure.

The Federal Government will directly fund rail and road projects across Australia and take full control of building a second international airport to the West of Sydney. It will also expand and upgrade a wide range of crucial roads, railways, supply chain infrastructures, schools and hospitals. Safeguarding electricity supply and its affordability are also recognised as high priorities.

Infrastructure spending is expected to rise to A\$33bn in 2018-2019 and then reduce to around A\$24bn in 2024-2025. At that time, the infrastructure bonanza may be over and a new cyclical driver for the construction industry will be needed. ■

NEW MAJOR INFRASTRUCTURE COMMITMENTS (VALUES IN AUSTRALIAN DOLLARS)

The government has made a number of high-profile commitments over the coming years. Further details of some of these major projects are outlined below.

Project: WestConnex and NorthConnex (Sydney)

Value: \$20bn and \$3bn respectively

Outcomes: These projects will relieve traffic congestion by extending the existing motorways from the west and north respectively into the city.

Notes: Improvements are in progress on a number of arterial motorways in Sydney. In addition, a further SouthConnex project is in planning.

Project: Sydney Metro

Value: \$12.5bn

Outcomes: A 50km metro which will run high-frequency, driverless trains from Rouse Hill to Bankstown, via a new rail connection through the city centre and a new rail crossing under Sydney Harbour.

Notes: The largest of Australia's new rail projects with the North-West section due to open in 2019.

Project: Inland Rail

Value: \$10bn

Outcomes: High-capacity freight link between Melbourne and Brisbane (length 1,700km).

Notes: The project is expected to take pressure off traditional road corridors through regional Australia.

Project: Pacific Highway Upgrade

Value: Estimated \$9bn

Outcomes: The highway between Sydney and Brisbane

is being upgraded to provide a four-lane, divided road over a distance of over 650km from Hexham in New South Wales (NSW) to Queensland.

Notes: This is the largest road project in NSW. Currently work is active on six separate sections. The completion dates for these range between 2016 and 2020.

Project: Rail Network Upgrade (Victoria)

Value: \$5-\$6bn

Outcomes: The removal of 50 dangerous and congested level crossings and associated upgrades.

Project: Sydney's Second Airport

Value: \$5.3bn

Outcomes: When it opens in 2026, the airport will have a capacity for 10 million passengers a year and a 3.7km runway.

Notes: The site is 51km to the West of the city and development will be accompanied by new rail and road links to join up with a new development under construction to the West of Sydney.

Project: Western Ring Road Upgrade and West Gate Tunnel Project (Melbourne)

Value: \$2.25 and \$5.4bn respectively

Outcomes: Will relieve traffic congestion in the west of the city.

Project: Brisbane Metro

Value: \$1bn

Notes: Planning is underway for the project.

OTHER PROJECTS TO NOTE (VALUES IN AUSTRALIAN DOLLARS)

Brisbane

- A \$1.4bn New Parallel Runway project at Brisbane Airport is in progress.
- The Cross River Rail Link to the Commercial Business District at a cost of \$5.4bn.

Melbourne

- The \$10.9bn Melbourne Metro is in progress. The tunnel contract has recently been awarded.
- The ongoing project of widening the Tullamarine Freeway at a cost of \$1.3bn to improve the airport to city road connection.
- A \$10bn project for a rail link to the airport is under assessment.

Perth

- A rail freight link, at a cost of \$1.9bn, to the industrial areas South of the city has highest priority.
- A new passenger terminal was opened in Perth airport last year.
- The ongoing Forrestfield Airport Link project at a cost of \$2.2bn will provide a long awaited rail connection to the airport.

Queensland

- A \$1.15bn extension of the existing rail system (Redcliffe Peninsular Line) was opened last year.
- The rail track between Brisbane and the Gold Coast is being duplicated.
- Construction of the \$420m second stage of the Gold Coast Light Rail is proceeding.
- A \$1.1bn Gateway Motorway Upgrade North.
- A \$1.6bn Toowoomba Ranges second crossing (highway).