



1 September 2017

Dr Bill Pender
Inquiry Secretary
Standing Committee on Infrastructure, Transport and Cities
PO Box 6021, Parliament House
Canberra ACT 2600

Dear Dr Pender,

RE: INQUIRY INTO THE AUSTRALIAN GOVERNMENT'S ROLE IN THE DEVELOPMENT OF CITIES

We welcome the opportunity to make a submission to the Standing Committee's Inquiry into the Australian Government's role in the development of cities. IPA has produced a number of papers relevant to your Inquiry and as such I am delighted to attach the following documents as annexures for the Committee's consideration:

- [*Re-thinking Cities: A Strategy for Integrated Infrastructure \(2012\)*](#);
- [*Driving Change: Australia's Cities Need a Measured Response \(2016\)*](#);
- [*Pre-Budget Submission on the Proposed Establishment of an 'Infrastructure Financing Unit' \(2017\)*](#);
- [*Third Pre-Budget Submission on National Reform Incentives \(2017\)*](#);
- [*Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia \(2014\)*](#);
- [*Doing the Important, as well as the Urgent: Reforming the Urban Water Sector \(2015\)*](#);
- [*Meeting the 2050 Freight Challenge \(2009\)*](#); and
- [*From Housing Assets, to Housing People: Fixing Australia's Social Housing System \(2016\)*](#).

Together, our submission and annexed policy papers and submissions relate to the themes outlined in the Standing Committee's Terms of Reference – focusing particularly on three key points:

1. Using data to measure the performance of infrastructure systems and cities themselves;
2. Appropriate funding and financing mechanisms for urban infrastructure projects; and
3. Long-term structural reforms to infrastructure service markets that will enhance the efficiency and performance of cities.

Using data to measure city and infrastructure network performance

Cities are many things – but to some substantial degree, cities are a group of people living amongst transport, water, wastewater, telecommunications, energy, community and social infrastructure systems.

However, the centrality of infrastructure systems – and their reliability, capacity, cost and quality performance – are not well understood and are rarely measured well, if they are measured at all.



This means that to an equal degree, urban policy is attempting to deal with problems that are not defined – meaning that success is very hard to achieve.

While there has been rich political and media narrative about the potentially substantial benefits and change offered by emerging technologies, for example the prospect of ubiquitous Autonomous Vehicles radically changing travel patterns; this future gazing risks neglecting more immediate opportunities to make infrastructure and cities ‘smarter’, through better data and information.

Our annexed 2012 major report *Re-thinking Cities: A Strategy for Integrated Infrastructure* discusses many of these issues – ultimately recommending that the Australian Government task the Productivity Commission to develop performance benchmarks for major cities – and infrastructure sectors.

We note that this has not been referred to the PC – and respectfully suggest that this could be a useful finding for your Inquiry.

Also in this regard, we have annexed our 2016 report *Driving Change: Australia's Cities Need a Measured Response* – developed in partnership with Uber. This paper and the wider Australian Transport Performance Metric, that will henceforth be published annually, shows the utility of ‘small but useful’ data.

These types of initiatives would represent a much more practical focus for the Commonwealth in divining its role in cities policy – that is, developing and defining actual ways to measure performance and condition of the infrastructure systems that together, enable a city.

The challenge is turning the huge quantity of available data into reliable information, to allow us new opportunities to better target infrastructure investment and regulatory changes.

The IPA Transport Metric is an example of the type of highly valuable information that is already available, at a very low monetary cost – and that can be used immediately to improve cities and transport.

Providing the appropriate funding and financing channels for infrastructure projects

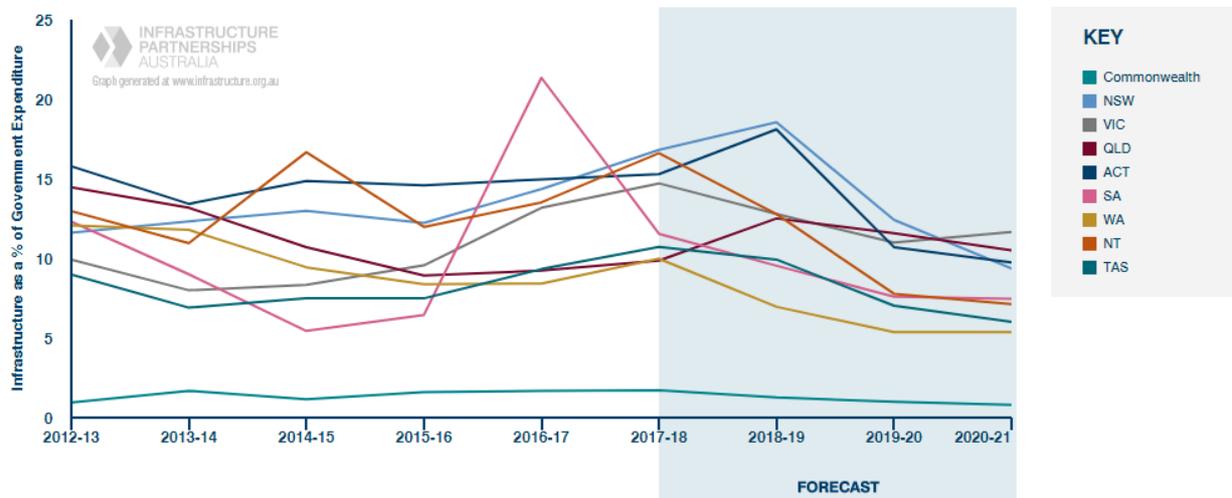
With better measurement and reporting of city performance will come the opportunity to better direct infrastructure funding and regulatory changes (discussed further in section 3, below).

This will see a return to the ultimate challenge in infrastructure (and wider fiscal, social and economic policy) – the capacity and ability to pay for (fund) what is needed.

Figure 1 below, shows that beyond NSW and Victoria, each other jurisdiction (including the Commonwealth) has materially reduced its capital funding contributions. We further note that the Commonwealth has also disbanded the Asset Recycling Initiative.

This sees Australia collectively funding less infrastructure, even while the requirement for, community expectation of, and political commitment to infrastructure each continue to grow.

Figure 1: Committed government infrastructure funding as a proportion of general government expenditure



A particularly strong theme in the infrastructure funding and cities debate is the Federal Government's stated desire to structure Commonwealth Government infrastructure allocations as either 'taxpayer equity finance' – or as 'taxpayer debt finance'.

We have annexed our pre-budget submission on this policy, which helpfully outlines a range of weaknesses and material risks that we see about this approach.

We also provide brief case studies of recent and historic versions of this kind of approach, such as the contemporary NAIF, and the historic state bank collapses in Victoria and South Australia.

We note that the key driver of this approach appears to be the improved appearance of the budget – improving the underlying cash balance (surplus/deficit), because it allows allocations to be structured as 'assets' on the balance sheet – so called 'off budget' accounting.

As the NBN, CEFC and historic examples show, this opens up a range of moral hazards and potentially exposes taxpayers to large risks that they cannot manage.

We note in our submission the observably (very) high levels of private equity or debt available for infrastructure investment.

Consequently, taxpayer 'investment' in responsible projects would by definition 'crowd out' efficient private finance. Again, by definition, if taxpayer finance is not 'crowding out' – then this sees the taxpayer serve in the unenviable role of the 'lender of last resort' to projects that are so risky, normal debt and equity will not touch them.

Either way, as we explain in our submission taxpayer provided finance solves a problem we do not have (effective capital markets) – and ignores the one we do – a shortage of commercially feasible or funded infrastructure, including in cities.

While not dealt with in our annexed submissions, we also question the benefit of the Commonwealth's 'City Deals' – which are named after a similar programme in the United Kingdom.

'City Deals' in the UK were designed as a mechanism to align the central government and local authorities, in identifying, funding and facilitating economic development projects in the UK's regional cities. They are about 'devolving' central government powers to local authorities.

Australia's material difference is that the Commonwealth has few, if any, relevant powers to 'devolve' – noting that Australia's sovereign states control and regulate effectively all aspects of city and infrastructure planning, operations and delivery.

Indeed, even if we had the same governance structures, a range of questions have been raised in the UK about whether City Deals were successful in achieving their stated aims (see UK National Audit Office 2015; et al). The main criticism from the UK National Audit Office is the difficulty in establishing causation between local growth and a 'City Deal', in the absence of robust and shared evaluation approaches.

This further strengthens our recommendation in section 1 that the Commonwealth would be well served by directing its urban agenda toward developing common metrics to identify challenges in the quality, capacity and condition of urban infrastructure systems and networks.

The UKNAO also found that UK City Deals create less efficient systems of sub-national government – an obvious risk in their application in Australia.

Australia's local authorities exist under state legislation and exercise powers granted by state governments.

Thus far, Australian City Deals have yet to prove a game changer for cities or for infrastructure – and appear to lack clear outcomes, goals or mechanisms to drive the results sought. While the Townsville City Deal and Launceston City Deal were agreed quickly, others like Western Sydney remain subject to ongoing negotiations.

We therefore submit that Federal Government incentives to improve urban and infrastructure function would be far better directed at the sovereign states that control these outcomes – an issue developed in the section below.

Infrastructure priorities for the coordinated development of urban and regional cities

Turning to positive options, we have also annexed our recent *Third Pre-Budget Submission on National Reform Incentives*, which outlines progressive opportunities available to an infrastructure and cities focused national government.

Our submission argues that by constitutional design and practical effect, the Commonwealth has little actual ability to plan for urban railways, urban development patterns, or the range of other systems that comprise a city.

Noting this, we argue that the Commonwealth should consider its role in infrastructure (including urban policy) as one based on using funding allocations to 'purchase' consistent reforms for sovereign states.

Canberra has little experience in urban utilities or urban design – but a lot of experience in designing effective national infrastructure and government service markets.

In practice, a national urban and wider infrastructure policy should be focused on identifying and measuring the capacity, quality and condition of (state owned and regulated) infrastructure.

With clarity about the problems, national policy could then turn to structural reforms that offer material solutions, for example via effective markets in transport, potable water, urban waste and recycling, human and government services and the like.

Indeed, many of the problems in the National Electricity Market could benefit from a developed national electricity policy – with substantial grants to states in return for sensible changes, for example, 'unlocking the gate' for gas exploration and extraction.

In time, structural reforms to road pricing, water market regulation, waste services and other matters could each benefit from national policies linked to national funding incentives, in return for implementation by states.

Constitutional, legal, fiscal and practical realities mean the Commonwealth Government cannot replace the role of the states in funding urban infrastructure or in planning for cities.

The national interest can only be met effectively through consistent national reforms to infrastructure markets and the fiscal settings of the states – but these changes must necessarily be implemented by sovereign state governments.

To assist the Committee to understand what we mean by infrastructure or public service 'markets', we have included a range of developed reports on these matters; including:

1. Road user charging – a 'market' for mobility;
2. Urban water policy – regulated water markets in towns and cities;
3. Freight market reform – outlining structural reforms to reduce supply chain costs and inefficiencies; and
4. Public housing reform – outlining structural reforms to develop an effective market for public and social housing.

The *Road Pricing and Transport Infrastructure Funding: Reform Pathways for Australia* report from 2014, considers a range of factors relevant to the Inquiry's Terms of Reference – including the development of an efficient, integrated and safe transport network by way of road user charging reform.

The report makes the case for successful reform to assist in achieving a more sustainable and fairer system of road charging and investment in order to enhance the abilities of Australia's cities and regions to compete in global markets.

The 2015 urban water policy paper *Doing the Important, as well as the Urgent: Reforming the Urban Water Sector* addresses the need for renewed national policy leadership, where reform objectives are linked to Commonwealth incentive payments.

The paper points out that although urban water infrastructure is largely owned and operated by states and local councils, the Commonwealth has a clear role to play in driving reform across areas such as regulation, competition frameworks and governance arrangements. Without sustained reform to the sector, governments will miss opportunities for innovation and efficiency – while also compromising the long-term financial viability of water utilities.

Our 2009 report *Meeting the 2050 Freight Challenge* highlights the importance of improved efficiency and where necessary, additional capacity to address the issue of congested key freight transport links. Supply chain costs represent a significant portion of business expenditure. If capacity constraints and inefficiencies in the freight transport network remain unaddressed, ramifications will be felt across the national economy.

The key recommendation of this report is the establishment of a national freight coordination body with responsibility for developing and delivering national freight policy, identifying key policy reforms and priority projects for investment, and providing strategic oversight of ongoing funding.

In our 2016 report *From Housing Assets, to Housing People: Fixing Australia's Social Housing System* we identify a new governance and funding model that would allow Australia's struggling public housing system to be rebased and reformed – and fundamentally refocused on the vulnerable households it is designed to serve.

The 'IPA model' developed in the paper recognises that on current settings, public housing is consuming itself because the funding model is debased. This sees the system providing less and less, even as affordability in our major urban centres continues to decay.

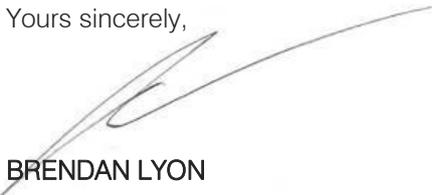
Conclusion

IPA welcomes the Standing Committee's Inquiry into the Australian Government's role in the development of cities and we hope that our enclosed papers inform your Inquiry on the proper roles and accountabilities that could be created to improve the nation's cities.

The political focus and narrative is welcome – and will benefit from your Inquiry’s observations about how this can be distilled into practical, actionable policies.

Should we be able to provide additional information please contact IPA’s Senior Policy Advisor Lydia Robertson on (02) 9152 6011 or lydia.robertson@infrastructure.org.au.

Yours sincerely,



BRENDAN LYON
Chief Executive Officer