

# CHAPTER 1

## INFRASTRUCTURE INVESTMENT PROGRAM - *Building the Future*

Chapter		Page
1.1	The Infrastructure Program	3



## 1.1 THE INFRASTRUCTURE PROGRAM

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### Introduction

Infrastructure is an important input to almost all economic activities. Its timely provision and optimal utilisation not only increases economic efficiency, but also serves the social needs of the community.

In general, infrastructure projects are ‘lumpy’ in nature and involve long lead times. An effective infrastructure strategy ensures that the capacity of the current infrastructure is sufficient to not only meet the needs of the current economy, but has ‘room’ to support growth. An effective infrastructure strategy also ensures that expansion of the infrastructure capacity is planned and undertaken well in time.

Across Australia there have been some significant changes in policy relating to infrastructure provision as part of microeconomic reform. In particular, there has been a move away from governments providing virtually all infrastructure, creating competitive markets for the provision of infrastructure.

This paper outlines the strategy underpinning the Government’s Infrastructure Investment Program. The investment program is essentially concerned with government-owned infrastructure, which is generally characterised by ‘public good’ or natural monopoly.

The paper does not deal with broader infrastructure policy reform. Efficient and effective means of providing infrastructure nevertheless will be an important consideration for all the projects under the program.

### Context of the Infrastructure Investment Program

Since self-government, the Territory has benefited from having relatively young and high-quality infrastructure, compared with other jurisdictions. The Territory has also benefited from a well-educated and highly skilled work force. The Territory’s economic growth has been underpinned by these two factors, besides a range of other factors.

The Government has made substantial investments over recent years in the Territory’s services to the community in health, education, disability services, child protection, community safety, and emergency services. Such investments were necessary to meet Government’s policy priorities. The benefits of these investments are evident in interjurisdictional comparisons of socio-economic and socio-demographic profiles.

The Territory’s economy now faces different challenges, as do the economies of other jurisdictions:

- a nationwide shortage of labour supply and skills has meant that prospects for future economic growth and prosperity are at risk;
- timely investments need to be made to ensure that infrastructure capacity is in place in time to support growth;
- health systems need to be reshaped to meet the needs of an ageing population and the commensurate higher morbidity and mortality rates in the next decade; and

- the effects of climate change pose significant risks for economies world-wide. Adaptation to climate change needs to be a core element of any effective economic strategy.

## **Objectives of the Program**

Enhancing the productive capacity of the economy is the most efficacious strategy in the face of the nationwide shortage of labour supply. This can be achieved by increasing the capacity of the infrastructure, making capital investments to increase labour productivity or substituting capital (in the form of technology) for labour.

Investments in health (as indeed in education) play an important part in developing and sustaining a skilled and healthy workforce.

In the 2008-09 Budget, the Government is adopting an Infrastructure Investment Program to provide for the future economic growth of the Territory, and in particular, to increase the productive capacity of the economy, and provide the necessary infrastructure solution to the challenges of the next decade.

The objectives of the investment program are to:

- increase the productive capacity of the economy by expanding infrastructure capacity;
- reduce future (social, environmental and economic) costs; and
- provide for the growth in the economy and maintain a competitive edge against other urban centres.

## **'Building the Future' Infrastructure Investment Program**

To implement the Strategy, the Budget provides \$1 billion for a five-year Infrastructure Investment Program. Key areas of focus for the investment program are to:

- establish a health system to serve the needs of the next decade;
- improve the transport system;
- meet the challenges of climate change;
- improving urban amenities;
- invest in public service infrastructure; and
- provide for the growth of the city and its economy.

### *A Health System to Serve the Needs of the Next Decade*

Improved health outcomes, including combating lifestyle diseases and mental health, are essential to maintaining a productive workforce.

Nationally, and in the ACT, there will be increasing demands on the health system from the ageing of the population. It is important that the health system is not only focused on meeting the emerging needs efficiently, but also on reducing the need for hospital care by improving health outcomes and providing care in appropriate settings.

An effective health system in the next decade will look quite different from the health system of today. There will be new technologies and different models of care. Infrastructure will need to be configured differently.

The Government is allocating \$300 million from the *Building the Future* Program as a first tranche of investment towards *Your health – our priority*. The investment will set up a health system for the next decade. The investment will provide for redeveloping and reconfiguring the hospitals and establishing a network of community health facilities.

Major projects to be undertaken through the *Your health – our priority* investment are:

- a suite of mental health facilities at The Canberra Hospital including a Young Persons' Unit, Adult Acute Inpatient Unit, Secure Adult Unit, and Mental Health Assessment Unit (\$37.6 million);
- construction of a Women's and Children's Hospital (\$90 million);
- construction of a Surgical Assessment and Planning Unit (\$4.1 million);
- a new Neurosurgery Operating Theatre, integrated with 'state of the art' imaging systems (\$5.5 million);
- an Intensive Care/High Dependency Unit at Calvary Hospital (\$9.4 million); and
- a new Community Health Centre in Gungahlin (\$18 million).

Provisions are being made for planning, feasibility and forward design studies (\$63.8 million) for the reconfiguration and redevelopment of the health facilities in the hospitals and in the community setting.

### *Integrated Transport System*

The Territory has excellent transport infrastructure. Its lower than average road length per capita (36 per cent of the national average) is only reflective of its small size. It does, however, have greater than average concrete bridges and tunnels per capita inherited with wider roads from the Commonwealth Government which were built before self-government.

The Government has made substantial investments in road services over the past few years with per capita expenditure increasing from around \$99 in 2001-02 to \$229 in 2006-07.

Public transport and non-motorised transport (i.e., cycling and walking) account for around 8 per cent of journeys to work. Canberra has one of the highest rates of cycling to work of all the capital cities, and also one of the highest rates of walking. Public transport use is relatively low compared to other capital cities, due in large part to the wide urban spread of the city and the use of non-motorised transport.

The Government's *Climate Change Strategy* and *Sustainable Transport Plan* are aimed at reducing the environmental impacts of the transport system and supporting alternative transport modes. To date, the Government is on track to meet its 2011 targets for alternative transport.

Notwithstanding the mode shift targets being met, there will be a continuing need to expand the transport system's capacity. A growing economy needs a dynamic and responsive transport system to provide for the efficient flow of goods and to meet people's transport needs. For example, between 2001 and 2006, the number of cars on ACT roads increased by around 10 per cent, outstripping the population growth rate, as a direct result of economic growth and prosperity.

Activities of residential, commercial, retail and industrial sectors are forecast to grow, and transport demand will grow accordingly. While the Government will continue to invest in infrastructure and programs to support alternative transport modes, and introduce measures to encourage better performing vehicles (for example, differential duty for new vehicles based on their environmental performance), a strong commitment to invest in the road network is vital to an integrated transport approach.

Congestion has clear economic implications through delaying the movement of people and goods around the city, lost productivity, and relatively higher costs of transport. Congestion also has negative environmental implications as decreased average speeds and longer travel times increase CO<sub>2</sub> emissions.

The Government has an integrated approach to enhancing the transport system with the objectives of:

- providing net benefits for the economy by improving the efficiency of the whole transport system;
- addressing traffic congestion;
- improving social outcomes for the community;
- minimising the level of transport emissions; and
- providing the community with better transport options.

The *Building the Future* Program supports these objectives with the allocation of \$250 million over five years for integrated transport system initiatives spanning roads, car parks, efficient and disability standard compliant buses, public transport services, and cycle paths.

Around \$110 million of this funding is being allocated to specific projects in the 2008-09 Budget, including:

- the upgrades of Tharwa Drive and Airport Roads to improve travel times (\$21 million);
- bus lanes and bus priority measures (\$0.5 million);
- 'Park and Ride' and 'Bike and Ride' Facilities (\$0.530 million);
- duplication of Athllon Drive and Flemington Road (\$22 million);
- replacement of 100 buses over four years with efficient and disabled accessible buses (\$49.5 million); and
- extension of Cohen Street and the construction of a new bus interchange in Belconnen (\$16.5 million).

Provisions are also being made for structured car parks, bus lanes, and future replacement of buses.

The Program also makes early provisions for future projects required to meet the transport demand as the result of urban growth. These include Parkes Way, Majura Parkway and the duplication of Gungahlin Drive Extension (\$83 million).

The initiatives relating to the transport system have potential economic, social and environmental benefits. For example:

- the Airport Roads improvement project followed by future grade separation is estimated to reduce travel times by an average of 10 minutes in peak hour for around 6,000 motorists, delivering benefits worth \$200 million over 25 years and reducing greenhouse gas emissions by around 2,000 tonnes per annum;
- ‘Park and Ride’ and ‘Bike and Ride’ Facilities will achieve an estimated reduction of vehicle operating cost (including fuel consumption) of around \$124,000 per annum, an estimated reduction of environmental costs (including reduction in greenhouse gas emissions and air pollution) of \$24,000 per annum, and an estimated reduction in road accident costs of \$27,000 per annum;
- the upgrades to Tharwa Drive will reduce travel time for around 4,000 motorists, reducing greenhouse gas emissions by around 1,000 tonnes per annum; and
- the replacement of the current Euro 2 standard buses with a fleet compliant with the more stringent Euro 4 standard will significantly reduce CO<sub>2</sub>, particulate and nitrous oxide emissions. The new buses will also be compliant with disability standards providing improved access for the disabled in the community.

### *Meeting the Challenge of Climate Change*

Climate change is a significant challenge facing all governments across the world.

*Building the Future* commits \$100 million to implement initiatives contained in *Weathering the Change*.

The funded initiatives are aimed at reducing our carbon foot print through reducing greenhouse gas emissions, carbon sequestration, and adaptation measures such as reductions in resource use (such as water) and the development of new solutions and technologies.

Around \$59 million is being allocated to specific projects in 2008-09 Budget, including:

- the ‘One Million Trees’ initiative, incorporating:
  - additional trees planting across the city (\$24.440 million);
  - the urban forest replacement program (\$0.731 million); and
  - the Canberra International Arboretum and Gardens (\$10.6 million);
- energy efficient street lighting (\$3 million);
- the East Lake Urban Renewal project - sustainable design and planning works (\$1.7 million); and
- the ‘Where Will We Play?’ sportsgrounds project (\$16 million for Stages 1 and 2).

The initiatives mentioned above mainly relate to the budget and forward estimates period. The Program makes a provision of around \$41 million for future investment in initiatives addressing climate change.

Climate change initiatives not only reduce the environmental footprint and help us adapt to the effects of climate change, they also have direct economic and social benefits. For example:

- the installation of energy efficient lights will decrease energy usage by 2.8 million kilowatt hours per annum resulting in a reduced energy bill, and reducing greenhouse gas emissions by around 3,000 tonnes per annum;
- the ‘One Million Trees’ initiative will result in carbon sequestration of around 3,300 tonnes per annum. It will also have significant benefits for the amenity and attractiveness of the city; and
- the ‘Where Will We Play?’ will help ensure the Territory’s sportsgrounds remain functional, through a range of initiatives including water reuse, drought-resistant grass surfaces and, where appropriate, synthetic surfaces. The ACT currently uses approximately 2 billion litres of water every year for government sportsgrounds and school facilities. In the event of Stage 4 water restrictions, only 47 out of the 229 ACT Government sportsgrounds and school facilities would be allowed to operate – about 21 per cent. The long-term goal of ‘Where Will We Play?’ is to have no sportsground in the ACT reliant on potable water, thereby not only reducing potable water use, but also ensuring that sportsgrounds and school ovals remain available for use.

Integrated transport initiatives also support the objectives of the Climate Change Strategy, by reducing the environmental impacts of traffic congestion, providing more efficient buses, and supporting alternative modes of transport, as highlighted in the previous section.

### *Improving Urban Amenities*

To continue to attract high quality skilled workers, it is essential that Canberra be a place where people want to live and work. Quality municipal services and infrastructure already set Canberra apart from other urban centres.

The *Building the Future* Program provides for a significant boost to the look of the city and its amenities, with \$100 million being allocated over five years.

A significant expansion of the capital upgrades program (\$53 million) is being undertaken, with investment targeted at community amenities such as public toilets, barbecue places and general recreation areas.

In addition, the program provides for pavement upgrades (\$6 million), shopping centre upgrades (\$6 million), lighting improvements (\$4 million), playground and park upgrades (\$8 million), urban open space upkeep and landscaping (\$8 million), and additional street signage (\$1 million).

### *Investment in Information and Communication Technology*

In view of the nationwide shortage of labour supply, increasing the productive capacity of the public service is an effective strategy to ensure the provision of high quality service to the community.

The ACT Government already operates world-class fibre network facilities across the Territory. The *Building the Future* Program provides for an investment of \$50 million over five years for Information and Communication Technology projects to support a program of improvements and replacements.

The investment program is not limited to “back end” systems and infrastructure, with significant initiatives related to direct service delivery.

For example, provision has already been made in previous appropriations for all secondary schools to be connected to the ACT Government network through the *Smart Schools Smart Students* Initiative. *Building the Future* provides an additional \$7.7 million to enable 95 per cent of ACT primary schools to also be connected to the gigabit fibre network.

In addition, a number of ICT initiatives relating to patient care, monitoring and diagnostics are included in the health system investment program.

### *Growth of the City and its Economy*

The Territory has been recording good population growth, owing to the strength of its economy. Annual net interstate migration is at its highest level since 1993.

The Government released its updated Land Supply Strategy in April 2008 in support of its economic and social objectives. Initiatives incorporated within the 2008-09 Budget reflect this updated strategy for land releases (further detailed information is provided in Chapter 4).

The Strategy supports the release of a diversity of land products across Canberra to ensure the housing needs of a growing population are met in a timely and affordable manner.

The 2008-09 Budget supports the release of around 3,300 dwelling sites per annum, an average of 110,000 square metres per annum of commercial sites, and around 100,000 square metres per annum of industrial sites.

To support this substantial program of land release, the *Building the Future* Program provides for a four-year augmentation of capital works provisions totalling \$200 million. This will primarily be targeted at supporting the growth of the city, in particular, future land releases.

Significant projects included in the 2008-09 Budget are:

- Molonglo Arterial Road to support planned land releases (\$11 million);
- North Weston Pond and Bridge (\$12 million);
- Horse Park Drive Extension to Burrumarra Avenue (\$5 million); and
- design for a number of infrastructure projects for future land releases (\$4.7 million).

The capital works program also includes projects relating to growth in the municipal infrastructure (highlighted in Chapter 6).

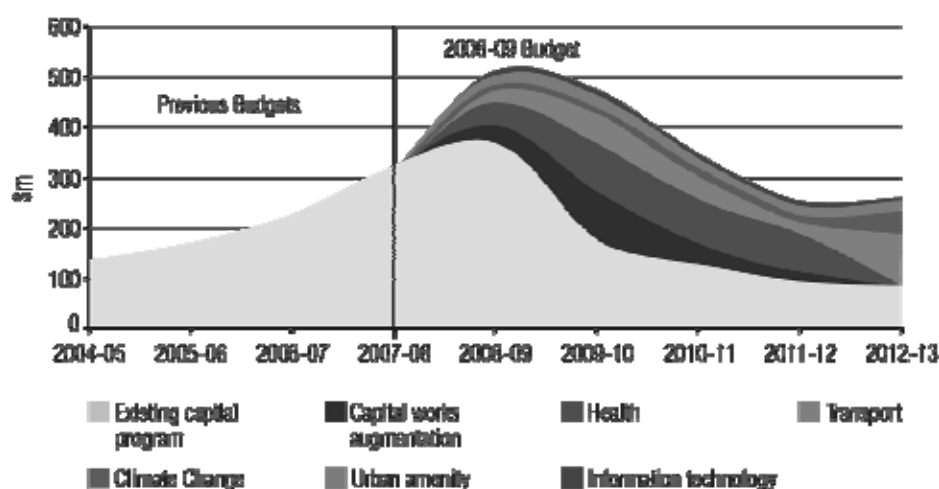
The following table provides a summary of the *Building the Future* Program for the Budget and forward estimates period. The table also includes annual expenditures under the capital works program. *Building the Future* Program and the annual capital works program combined provide for an investment of almost \$1.5 billion.

**Table 1.1.1 Capital Initiatives – by Theme**

Capital Initiatives	2008-09 Estimate \$'000	2009-10 Estimate \$'000	2010-11 Estimate \$'000	2011-12 Estimate \$'000	Future Provision \$'000	Total Investment \$'000
<b><i>BUILDING THE FUTURE</i></b>						
A Health System to Serve the Needs of the Next Decade	44,329	94,011	87,660	74,000	0	<b>300,000</b>
Integrated Transport System	24,920	59,750	46,000	23,500	95,830	<b>250,000</b>
Meeting the Challenges of Climate Change	10,065	13,518	14,919	13,947	47,551	<b>100,000</b>
Improving Urban Amenities	19,223	23,629	20,002	18,547	18,599	<b>100,000</b>
Investment in Information Communication and Technology	11,134	12,615	9,000	9,000	8,251	<b>50,000</b>
New Capital Works Augmentation	37,283	97,692	42,385	22,640	0	<b>200,000</b>
<b>Total New Infrastructure Program</b>	<b>146,954</b>	<b>301,215</b>	<b>219,966</b>	<b>161,634</b>	<b>170,231</b>	<b>1,000,000</b>
<b>Other Capital Works</b>						
2008-09 Capital Program	70,811	5,046	2,416	1,554	0	<b>79,827</b>
Capital Upgrades	32,861	33,682	34,525	35,388	36,273	<b>172,729</b>
Future Capital Works Provision	0	48,480	48,480	48,480	48,480	<b>193,920</b>
<b>Sub-Total</b>	<b>103,672</b>	<b>87,208</b>	<b>85,421</b>	<b>85,422</b>	<b>84,753</b>	<b>446,476</b>
<b>Total Infrastructure Commitment</b>	<b>250,626</b>	<b>388,423</b>	<b>305,387</b>	<b>247,056</b>	<b>254,984</b>	<b>1,446,476</b>

The *Building the Future* Program is a significant addition to the existing capital capacity of the Budget, and a significant increase in comparison to past years. The following figure shows by the end of 2008-09, capital expenditure will be around \$500 million, which is significantly more than any time since self-government.

**Figure 1.1  
Profile of Expenditure on Infrastructure**



## Financing the Infrastructure Program

Creation of infrastructure requires capital (cash). It also entails recurrent costs. The ACT has sufficient balance sheet capacity and a healthy operating budget position to support the capital and recurrent costs of the infrastructure investment.

The ACT has one of the strongest balance sheets of any government in Australia, on any measure. Chapter 1.2 in Budget Paper No. 3 provides a comprehensive comparison of financial measures across jurisdictions.

The ACT has strong net worth, which as a proportion of revenue is one of the strongest in Australia. The Territory has negative net debt, equivalent to around 15 per cent of revenue. Net financial liabilities (calculated as total liabilities less financial assets such as cash reserves and investments) as a proportion of revenue are lower than most jurisdictions, and well below the level of other AAA-rated jurisdictions.

It is widely recognised that it is not inappropriate for jurisdictions with strong balance sheets to incur debt to finance quality infrastructure. The Territory's balance sheet has the strength to support borrowings to invest in infrastructure that supports economic growth, meets community needs and reduces future costs.

However, the Territory has sufficient cash holdings now, and forecast over the Budget and forward estimates period, to fund the *Building the Future* Program. In effect, around \$700 million of the investment will be funded from past surpluses, and around \$300 million will be funded from future surpluses.

This does not imply a policy of financing all infrastructure investments from cash holdings. The Government may consider borrowing or Public-Private Partnerships as appropriate financing and/or delivery methods, depending upon the nature of the project, and with a view to achieving value for money and taking into account inter-generational equity considerations.

