

INFRASTRUCTURE STATEMENT

AUSTRALIAN CAPITAL TERRITORY

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Infrastructure investment is the centrepiece of the 2008-09 Budget.

The Budget includes a five-year \$1 billion *Building the Future* Program of investment in the Territory's assets to increase the productive capacity of the economy, reduce potential future costs, and support the growth of the city. The result will be a more than 10 per cent increase in the fixed asset base of the Territory – the collective asset base of every Canberran.

Infrastructure is an essential input to almost all economic activities. For state and local governments, infrastructure is an important vehicle for delivering services to the community. Its timely provision and optimal utilisation not only increase economic efficiency, but also serve the social needs of the community.

The Territory inherited quality infrastructure with sufficient excess capacity for growth at the time of self-government. Over time, there have been some necessary additions and replacements. However, the capacity of the inherited infrastructure has served well to support growth.

That capacity now needs to be expanded, in an orderly manner and over time, to ensure that not only the needs of the current population are met, but that there is capacity for growth. Circumstances have also changed - climate change, ageing of the population, advances in and changing models of health care, and labour supply constraints all require reconfigured, expanded and new infrastructure to ensure continued prosperity and sustainability of services.

Such an infrastructure program supports a Government's economic, as well as service delivery strategies. It ensures that existing infrastructure is maintained to appropriate standards, commensurate with service delivery requirements, and 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.

In general, infrastructure projects are 'lumpy'. There are long lead times involved in the planning and delivery of infrastructure projects. An effective infrastructure strategy also ensures that replacement or expansion of the infrastructure capacity is planned and undertaken well in time. It sets priorities and it involves scheduling.

The Government has always placed an emphasis on the maintenance and provision of high quality infrastructure to support the economy and services to the community.

Building on these previous investments, the Government embarks in the 2008-09 Budget, on a major plan of infrastructure enhancement, as part of its strategy to increase the productive capacity of the economy; ensure infrastructure is ready to meet the needs of the future; reduce potential future costs; and support growth of the city.

This Statement provides a context and outline of the infrastructure investments supported in the 2008-09 Budget.

The Territory's Existing Asset Base

Canberra is characterised by quality infrastructure built to high standards befitting the nation's capital.

The total value of the Territory's assets is around \$12.9 billion. The majority of the assets consist of roads and bridges, stormwater infrastructure, public housing, schools and health facilities.

Unlike other States, the Territory does not have ports or rail infrastructure. Public utility assets mainly relate to water and sewerage infrastructure and dams held by ACTEW.

Roads and stormwater assets combined comprise around 31 per cent of our asset base, with public housing constituting a further 29 per cent of assets. Health and education infrastructure (schools, hospitals, community health facilities) comprise around 9 per cent of the assets.

Since coming to office in 2001, the Government has made substantial investments in the Territory's infrastructure, with record capital works programs particularly in the past few years. The annual capital works expenditure has increased from around \$100 million in 2001 to a record \$314 million in 2007-08.

Our school system has benefited from the single largest investment in the education system since self-government. Soon we will have our own prison; the first in Australia to be built on the principles of human rights, and to be operated according to those same principles. Infrastructure investment reflects a Government's priorities and its values.

Assets last a long time. Asset management needs to be based on a plan that takes a whole-of-life view, strikes a balance between an ongoing maintenance effort and periodic capital upgrades, and identifies when assets need to be replaced. Appropriate maintenance defers, or even obviates, the need to make more costly replacements. Linear assets, such as roads, in particular need sound management plans.

During the transition to state financing following self-government, gaps began to appear in the Territory's maintenance effort to upkeep its assets – saving on maintenance was in some years the short-term solution to fiscal pressures.

The Government has significantly increased maintenance effort during its term in office. Annual maintenance expenditure has increased by more than 25 per cent at over the past four years. Three years ago, the Government established a separate capital upgrades allocation in the capital works program, to make timely capital investments in existing assets. We now spend around \$128 million per annum on looking after the assets we have.

Indeed, the structural reform of 2006-07 actually increased the allocation for maintenance rather than decreased it – as many a government may have done.

Planning for the Future

Since self-government, the Territory has been well-served by the infrastructure it inherited, and the investments that have been made. 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 ingredients, besides a range of other factors.

Now, the ACT's economy, faces new challenges – as do economies everywhere.

A nationwide shortage of labour supply and skills has meant that prospects for future economic growth and prosperity are at risk.

Health systems must be reshaped to meet the needs of an ageing population and the commensurate higher morbidity and mortality rates we will experience in the next decade.

Climate change poses significant risks for economies world-wide and adaptation must be a core element of any effective economic strategy.

The Government has planned for and is ready to meet these challenges.

Enhancing the productive capacity of the economy is efficacious 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.

Health systems of the next decade will be different too. Models of care will be different. Technology will be different. This calls for investment, and the Government has been planning for it for the past two years.

The Government released its Climate Change Strategy – *Weathering the Change* - last year, with long-term targets and practical measures. Adaptation to climate change will reduce future costs.

Building the Future

To be ready for the future, the Government is committing to a major program of targeted investment in the Territory's infrastructure. The 2008-09 Budget provides \$1 billion for a five-year *Building the Future* Program. Key focus areas 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;
- improve urban amenities;
- invest in public service infrastructure; and
- provide for the growth of the city and its economy.

The Government is allocating \$300 million from the *Building the Future* Program as a first tranche of investment towards *Your health – our priority*. This 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).

Planning work will continue. Provision is 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.

A growing economy needs a dynamic and responsive transport system to provide for an 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.

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 through differential duty for new vehicles based on vehicle environmental performance - a strong commitment to invest in the road network is vital to an integrated transport approach.

Congestion has clear economic implications, delaying the movement of people and goods around the city, reducing productivity and imposing relatively higher costs of transport. Congestion also has negative environmental implications as decreased average speeds and longer travel times increase CO₂ 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. Major projects committed in the 2008-09 Budget are:

- 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);

- the 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).

Provision is made for structured car parks, bus lanes, and future replacement of buses.

The Program also makes provision 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 (\$84 million).

The ACT Government has made a commitment to meeting this challenge through its climate change strategy, *Weathering the Change*. Today, in the billion-dollar *Building the Future* program, the Government commits \$100 million to address climate change.

Initiatives are aimed at reducing our carbon foot print through reductions in greenhouse gas emissions, improvements in carbon sequestration, adaptation measures in areas such as water use and the development of new solutions and new technologies. Some of the significant projects are:

- the 'One Million Trees' initiative, including:
 - additional tree planting across the city (\$24.440 million);
 - the urban forest replacement program (\$0.731 million); and
 - more forests for 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).

To continue to attract high quality skilled workers, it is essential that Canberra is 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 (\$43 million) is being undertaken, with investment targeted at amenities in community use areas 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 (\$6 million), urban open space upkeep and landscaping (\$6 million), and additional street signage (\$1 million).

Given the nationwide labour supply shortage, increasing the productive capacity of the public service is an effective strategy to ensure high quality service provision 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, plan for replacement, and to avoid obsolescence.

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

For example, all secondary schools are already scheduled to be connected to the ACT Government network through the Smart Schools Smart Students Initiative. The Program now provides an additional \$7.7 million to enable 95 per cent of ACT primary schools to also be connected to the gigabit fibre network.

A number of ICT initiatives relating to patient care, monitoring and diagnostics are also funded as part of the historic health system investment.

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 (housing affordability) objectives. Initiatives incorporated within the 2008-09 Budget reflect this updated strategy for land releases.

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 a year, around an average of 110,000 square metres a year of commercial sites, and around 100,000 square metres a year 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).

This is an integrated program. Its benefits span economic, social and environmental domains.

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

Reducing road congestion benefits the environment, besides delivering economic benefits. The Airport Roads and Tharwa Drive projects will reduce travel times for more than 10,000 motorists and reduce CO₂ emissions by 3,000 tonnes per annum – that alone is equivalent to taking around 1,000 cars off the road. Economic benefits are estimated at around \$10 million per annum.

Getting the Basics Right

The *Building the Future* Program supplements rather than substitutes for the annual capital works program. Including that supplementation, the investment in the Territory's infrastructure will be almost \$1.5 billion.

There will be a significant increase - of more than 10 per cent - in the Territory's fixed asset base. Maintenance costs, along with other recurrent costs, associated with commissioning new assets need to be recognised. A prudent government does so. The recurrent budget supports these costs.

It can be appropriate for jurisdictions to incur debt to finance quality infrastructure, if their balance sheets are strong. The Territory's balance sheet has the strength to support borrowings.

However, the Government has sufficient cash holdings now, and forecast over the Budget and forward estimates period, to fund the *Building the Future* Program outright. 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 signal a policy of financing all major infrastructure investments from cash holdings. The massive investment in water security infrastructure now under way, for example, has been funded through borrowings. The Government may consider borrowing or Public-Private Partnerships as appropriate financing methods, depending upon the nature of the project, with a view to achieving value for money, and taking into account inter-generational equity considerations.

Building the Future will be delivered through the procurement systems and processes that the Government has reformed and established over the past years. Further reform will continue, with the aim of making procurement simpler for industry, while keeping the system robust and accountable.

A review is under way on the suite of template contract documents used for ACT Government tendering. These will help simplify and shorten the procurement and tendering process and provide greater clarity to contractors about what is required.

The Asset Management Framework has been reviewed. Although the fundamentals of the current framework are sound, a model set of Strategic Asset Management Plans will be developed and used across Government to ensure consistent approaches are being applied to Asset Management Planning.

This program will be managed by Treasury, with \$5 million being allocated in the 2008-09 Budget for this purpose.

In summary, the current systems and structures are demonstrably capable of delivering large capital programs. They will be further strengthened. Further planning will continue. Indeed, the Program itself has \$31.5 million built in for future feasibility and planning studies.

