

Address to NSW Public Accounts Committee
Garry Bowditch – 9 May 2014, Parliament House, Sydney

Check Against Delivery

Thank you Mr. Chairman, for your kind invitation today to address the PAC.

The SMART Infrastructure Facility and UOW are honoured by the opportunity to address the Committee and the members of Parliament present here today.

The SMART Infrastructure Facility is one of the largest infrastructure research institutions in the world, and that has been made possible in part through generous funding from the NSW Government.

SMART is defining a new area of research called 'integrated infrastructure planning and management'. That means we are concerned with the health of the whole infrastructure system over the very long term.

So our focus is concerned with understanding the infrastructure system from the perspective of 40,000 feet rather than at a microscopic level.

The practical implication is that we are seeking to better understand how these networks (ie roads, ports, rail, electricity, gas, water, schools and hospitals) can work together better and seamlessly to meet the needs and expectations of the both community and business today and of course well into the future.

The community simply expects these systems to work; for example roads to get you to hospitals quickly and safely, availability of water for cooling electricity generation plants, telecommunications to control the management of traffic in the peak and respond to accidents; and so the list goes on.

The research and policy development effort at SMART is helping governments and business in Australia and around the world to make more cost effective and astute infrastructure decisions, drawing on the deep collaboration SMART has with the NSW Government.

This is evidenced by landmark research projects such as "Cost drivers of infrastructure' and path breaking land use and transport planning model titled "Shaping the Sydney of Tomorrow".

All these investigations look beyond specific projects, to the broader infrastructure network and helping policymakers to being sure interventions make the best possible improvement to peoples lives and the competitiveness of the state and in turn the nation.

NSW

NSW as Australia's first state has from the beginning been at the frontier of the nation's infrastructure provision. Carving out the arteries and veins of the vast array of networks across transport, energy, water and telecommunications to drive growth and prosperity.

The quality of NSW infrastructure is often seen as a bellwether of the nation's health.

And of course, they are right to do so, as NSW measured by population or size of the state economy is the engine room of the nation.

NSW's frontier status today is undiminished; as it currently spends more on infrastructure than at any stage in its history.

Yet governments are unable to meet demand and don't expect ever to do so.

The question we will be discussing today is what can governments do about this situation and can we do it better?

While the 22nd Century feels a very long way into the future, it is not. A child born today at Royal North Shore Hospital can expect that their life will reach into the next century.

And for policymakers concerned with infrastructure, this is exactly the timeframe that we must be planning for.

Of course, no one can pretend to know what the 22nd Century has in store for us, particularly the challenges and opportunities for economic growth, living standards and fairness.

Uncertainty to the future we face today is of course no different than what our forbearers faced.

Just as Bradfield when he supervised the construction of the Sydney Harbour Bridge, he would not have had any inkling to the notion that Sydney was to become a global financial centre to the world.

On the other hand, Bradfield's transport system blueprint (that was never activated) is a reminder to all here today, that wise decisions taken or, for that matter, not taken on infrastructure can and do shape the cities and regions we live in for a very long time.

I am sure we will hear more on this during the Expert Panel discussion.

Our Task Today

Our task today for this workshop is to avoid the pitfalls of trying to predict the future of NSW and Sydney in the 22nd Century.

Instead we have to ensure that the right building blocks for growth are in place so we can adapt and thrive in whatever circumstances the future throws at us.

To that end, we have much more to do.

While the task is large we have the benefit of INSW being a fundamentally important institution for the future of the State. It must provide the necessary scaffolding to assist policymakers in three ways:

- i. to ask the right questions about infrastructure – ie. what, where and when
- ii. bring independent evidence based arguments which has been missing for too long to help correct deep bias in the system that new, large and shiny infrastructure is always better, and
- iii. ensure transparency of decisions, so the community can build-up confidence in the process, and where government and industry supporting infrastructure are held to account for the proper allocation of the state's scarce financial resources.

It is fair to say I think that the subtext of today's workshop is concerned with ***are we as a community, and is this Parliament doing enough to plan for the long-term prosperity of NSW?***

The Case for Long Term Planning

To put this in context, the population growth of NSW has increased in the past 100 years from 1.9m to 7.4m, or by 5.5 million people. That dramatic increase however represents less than half of the growth about to occur in the next 100 years as NSW's population potentially approaches 17-20m people.

Yet, our forbearers made plans for the future, including:

- building a state highway, rail and arterial road systems,
- creation of metropolitan water and sewerage networks, and
- laying out a network of energy generators and distribution systems to span the entire state

to name just a few.

Today, we have a much bigger job to do, and one that I think will be different to our past.

The future model of growth will be different because the availability of land on the coastal fringe, and the requirements of people and industry will differ to that of our parents and grandparents. This reflects changing technology and the [pervasive] impact of the value of scarce time.

The case I would like to make is that planning for the 22nd Century today, brings profound benefits to the current generations we serve.

It helps citizens and institutions alike to see a future with more confidence and purpose.

When these conditions are present, the sooner we are prepared to invest in the future that brings immediate benefit today!

Greater confidence that the State can sensibly accommodate and adjust to bigger populations and more intense economic activity, then more investment and dividends of planning can be achieved much sooner.

The urgency is to demonstrate good planning to the community, and that governments from all political complexions value it, and will stick to its principles.

Reality Check

Historically, NSW is a large investor in infrastructure.

Real per capita gross fixed capital formation estimates adjusted to better reflect infrastructure investment is currently estimated at around \$13,200 per year; up from \$7,888 per year in 1990. Compared to the OECD average for industrialised nations, this compares favourably.

So you might ask, what is the issue?

Infrastructure NSW in its 20 year strategic plan accurately summed up the situation that ...'NSW problem is not so much the quantity of the investment but the quality.'

This is where the infrastructure debate must focus.

Foremost of NSW's challenges is the need to extract more value for each infrastructure dollar invested.

This was the focus of the recent SMART Green Paper, titled 'Infrastructure Imperatives for Australia' setting out 18 best practice recommendations to inform the future reform agenda. [Copies available at back of room].

Meeting the expectations of the community by providing more infrastructure but with less financial resources is fundamentally important to the future.

To do that means NSW must embrace sooner the significant benefit from improving existing infrastructure before prematurely rushing into commitments for more greenfield expansion.

Planning for the future is not a license to waste taxpayers dollars on 'white-elephant' projects, which so often emerge when lack of transparency enables policymakers to go on a 'random' walk.

The message for NSW is crystal clear.

NSW requires a vision and a plan for the 22nd Century that is built on solid foundations. Respect for transparency and accountability to the community along with extracting the maximum value of the infrastructure dollar each and every time.

This will do more to lift productivity and the competitiveness of the state than any other type of intervention.

Delivering better value for money

Governments trying to fix the infrastructure backlog face a number of constraints including money, suitable land access, securing community buy-in and setting proper user charges. But it is also a timely reminder that policymakers should be more circumspect with proponents that argue for the abolition of the so-called infrastructure deficit or infrastructure gap.

The additional dollar required to eliminate the so-called 'gap' becomes increasingly prohibitive, especially when demand is unconstrained by either free access or pricing well below cost. Such an investment would not represent the best use of taxpayers money, or that of the private sector.

Government's should be concerned instead with the best possible allocation of public funds, to the highest benefit for the smallest cost.

When highest benefit and lowest costs is the driving force behind infrastructure planning, intractable problems such as traffic congestion can be approached in a new light, without resorting to ever-bigger dollar projects with diminishing impact of that money.

Congestion in Sydney continues to escalate with gridlock on roads impacting passenger and freight logistics. The persistence of this situation reflects poorly on project selection and asset management processes, along with distortions that have arisen from poor interactions between the Commonwealth and the states.

Reform is urgently needed where there is less focus on ribbon cutting and more use of well-targeted 'pinch point' interventions.

For example, decongesting and debottlenecking existing infrastructure along with shifting a small amount of demand from the peak to the shoulder period can often have superior productivity impacts compared with building expensive greenfield assets.

The school holiday effect in Sydney is an example of this point. Better traffic flow when less than 5 per cent of traffic is absent in the peak. Surely there must be a way to win the community's confidence that we can make the peak hour work better by shaping demand through means other than just pricing, such as changing school opening times and retail operating hours, could be a starting point.

While NSW has a strong case to build more new infrastructure like WestConnex and North Connex; it must use these once in a lifetime opportunities to do much more than build a new road.

These mega projects must kick-off the new forces that can shape and form the new Sydney of tomorrow.

The reality is that the Sydney of today and yesterday is simply too 'land hungry' to be sustainable into the 22nd century.

The appetite for land, unchecked with proper pricing signals for the provision of infrastructure has seen an un-virtuous cycle demanding ever more capital and diminishing return.

For many Sydney-siders they have sought relief from escalating land prices on the city fringes, and have done so without the benefit of any genuine choice on where else they could live. Spacious residences on the fringe compare poorly in their mind to the expensive 'compact' living of the inner areas.

NSW is in urgent need of finding Australia's unique solution to higher density living. Just as the Akubra Hat and Hills Hoist were unique innovations to deal with unique Australian conditions; so must we for higher density housing.

For this innovation to occur, NSW must strip away the unnecessary complexity and exorbitant cost of land use regulation; and make it simpler and less costly to experiment with market driven design and amenity for medium and high density housing.

In the same vein, important projects like WestConnex can be a catalyst for triggering a new wave of innovative investment by optimizing the interaction between the two personalities of WestConnex. That is, WestConnex the road project and WestConnex the urban revitalization project.

A critical question that needs to be answered is how much extra housing and urban revitalizing can and should we expect from WestConnex?

Despite the best of intentions of those tasked with delivering WestConnex the public documentations suggests that the \$[11.5] billion price tag of will only deliver [25,000] new strategically located residences for Sydney over 20 years.

Sydney requires at least 800,000 new residences by 2050.

Given that WestConnex is developing such a valuable artery for the city, can it do more?

Are we aiming high enough in making the most of WestConnex in addressing the urgent affordable housing challenge?

To answer these questions will help to set up WestConnex as the benchmark project for 22nd Century planning for NSW.

The first step will require governance model that breaks down traditional administrative silos and enables integrated land use and transport planning to occur.

Mega projects like WestConnex can be great projects too. The litmus test will be focused on its ability to deliver Sydney much more than a road, by making a large installment in clarifying the future urban shape and form of Sydney for the 22nd Century.

Productivity matters

Better infrastructure for NSW should be anchored by a clear objective of lifting state productivity. This clarity of objective has been missing, which has made it difficult for

governments to be purposeful and consistent in their infrastructure decisions in recent decades.

To accommodate the extra 3 million people by mid-century in NSW, the stock of transport infrastructure will need to either expand by 60 per cent or its productivity must lift by a similar magnitude.

Obviously, it will be some combination of the two.

But anyone flying into Sydney can see that there is not a lot of room for new roads and rail systems. So productivity is going to matter a great deal!

To that end the regulatory system requires reform, as it must provide the right price signals and incentives to make the best use of existing infrastructure. This means a willingness to allow prices to reflect full cost recovery for the infrastructure provided, permit prices to reflect the incentive to invest.

Tolls and user charges can have a more fundamental role to play in shaping demand and helping to direct where investment is needed to lift productivity growth.

Of course a toll should always be a fee for a defined level of service, and the community has the right to expect choice in the services available. The problem is that infrastructure often fails this test to the detriment of business and community confidence.

Tolls need to be justified

It is notable that the M1, M2, M4 and M5 toll roads in Sydney all originally demonstrated great benefit to commuters with faster travel time. But the reality is that now each of these toll roads has a peak hour exceeding 10 hours per day; slow speed and uncertain travel time is the norm.

To address this situation, state and federal infrastructure agencies need to enshrine customer service benchmarks that govern lifetime performance of major assets and networks. Government and the private sector concession holders will then require a framework to sustain them together.

Citizens living in our only global city expect globally competitive transit times during the peak hour. But the reality is Sydney has an average commute speed in peak hour that is 17% lower than London, at just 50km/h.

Given Sydney is a small city by comparison to London, this is a concerning signal about the health of the road transport system.

Using tolls to help fund transport infrastructure is reasonable but without service benchmarks such as minimum speed guarantees in the peak then commuters are not assured of value for money; a toll becomes just another tax.

Tolls and user charges are not a panacea without fundamental institutional reform. Infrastructure must perform a service to the community that is relevant and compelling in

order to justify a user charge in the first place. This is one of the missing ingredients to a successful infrastructure future.

Conclusion

In conclusion, there is much to do and time is short.

I am reminded of a conversation between the great French Field Marshall Hubert Lyautey and his gardener.

Standing in front of the Field Marshall's grand estate the gardener was inspecting a small tree in a pot that the Field Marshall had recently purchased on a trip.

After inspecting it, the gardener protested immediately. Saying that the tree species was slow growing and that by the time it would reach maturity the Field Marshall would be long dead.

The Field Marshall responded, "if that is the case then there is no time to waste, plant it this afternoon!"

Thank you

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