

INQUIRY INTO CROSS CITY TUNNEL

Organisation:

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Theme:

Summary

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The Roads Ahead

Let me begin with the economy. I am very pleased to be here and I thank the International Roads Federation and the Australian Roads Federation for the invitation. This is an important conference and I am particularly glad that Australia is able to host so many guests from Asia and the Pacific.

The questions you are discussing here are genuinely interesting ones which affect the lives and social amenity of almost every person in every country. They touch on technology, the environment, economic efficiency, community safety, regional development, globalisation and many other issues.

I want to start the conference off from a different angle. Not, if you like, from the road surface up, but from the policy and political angle of any central government down. Because when governments think about roads and their funding, they think of the overall economic and social objectives first, then of transportation services and finally of the roads themselves. I admit, though, that looking at some rural roads in Australia, and the suspicious timing of their construction around the dates of elections, you could be forgiven for thinking that, sometimes at least, it was the other way around.....

.....Let me say something about the private provision of public infrastructure. We're doing a lot of it, but very little of it is properly defined. I believe this is one of the most important debates we are yet to have in the area of public policy. Our priority has to be an efficient and competitive economy, but that is not necessarily the same thing as simply moving public sector monopolies to the private sector.

In the early 1990s to lift economic activity I introduced things called infrastructure bonds. These were introduced with the express desire of seeing an acceleration of public infrastructure provision by providing funding off budget. When properly applied, this bond program was a useful complement to public and conventional private sector financing. But the financial engineering industry sought to distort the use of the instrument and the Treasury sought to curtail its use. Nevertheless, it did kick start a new way of looking at public infrastructure and indeed many projects but I do believe the time has arrived to reconsider how important public infrastructure ought best be provided.

There are two major criteria for the provision of public infrastructure, especially in roads such as cross city tunnels, ring roads and motorways. And those criteria are cost and risk.

Nobody can borrow in Australia as cheaply as the Commonwealth and the State governments. No business has the cash flows of the Commonwealth and the State governments.

Perhaps I should make the risk point first. No organisation in Australia can more competently or more safely handle financial risk than the Commonwealth or the State governments. A set of private individuals investing through a trust or a set of financial institutions is not in anything like the same position as governments in these respects.

The relevance of this is that tunnels and motorways are currently being designed to minimise the financial risk to private investors. They are not being designed for optimal transport or flow efficiency. The traffic flow, route choices and mode of construction inherent in these undertakings are, I believe, seriously compromising traffic flow, road amenity and community standards as to construction and design.

Not one of these projects does not lead to incongruous road closures and traffic pressure designed to funnel traffic through projects in ways that minimise risk to investors. Road and traffic authorities became caught up in the developers' and financiers' schemes; indeed they are too often conscripted as the lead agents or surrogate promoters of the schemes. Once a developer and a financier have a road and traffic authority on the hook, that authority becomes their Trojan horse into government.

In the long run the public and the transport operators pay the price for these compromises.

And of course the major compromise is price. The operating costs of these projects are driven up by the fact that it is not the Commonwealth or the State financing them. Developers, their investors and financiers require somewhere between 200 and 400 basis points of extra financing costs than that which would obtain from Government. I could be corrected on those amounts, in some cases it could be much higher.

In part, this is to cover the risk I have just mentioned. But the obvious point here is the Commonwealth and the States are in an unassailable position to cover risk as to usage and revenue. This is not so for property trusts and institutional investors.

The other issues in respect of price, are the ambitions promoters have for fee-based arrangements with projects of this kind, and the demand for profits. Profit is not the driver in road construction by government, it is systemic service and efficiency. I did not build the tunnel through the Adelaide Hills for profit or upgrade the Hume Highway for profit. It was done for reasons of national efficiency.

We are into profit-based schemes because the Commonwealth and State Treasuries want these major capital construction works off the budget and out of the public sector borrowing requirement.

And we have to know, indeed we all know, it is in the end, a financial ruse.

At that fork in the road of national income, you do not need a doctorate in economics to know what is being allocated for a private purpose and what is being invested in for a public purpose. What is truly public and what is truly private.

Roads and tunnels of the kind I am mentioning, are, without exception, for public purposes. It is spending, that bar tricky definitions, would otherwise be a solid part of the public sector borrowing requirement. Seeing through the ruse or pretext that the spending is private by virtue of the user pays principle, because these works are mostly part of a public network or system of traffic. They are the tagliatelle in the spaghetti bowl of our transport system.

This is not to say that they cannot be subject to the principle of user pays. That users enjoy the value of having them and that they have to pay for them. But they can pay or reimburse the public purse just as easily as they might pay a property trust or a set of financial institutions.

I am very much in favour of our city roads, in particular, being upgraded because the economic return from a dollar spent sensibly improving the flow of traffic in our cities tends to be greater than the same dollar spent in the regions, because it cuts travel time for a greater volume of traffic.

I am in favour of well designed cross city tunnels and motorways but I am not in favour of massive design compromises, traffic funnelling and high tollway prices simply because the Commonwealth and State governments want all this to be done off budget.

We can't pretend that this is user pays investment of a private kind when it really is user pays for a very public purpose just because we are being urged to do so by a clutch of merchant banks, property trusts and large banks looking for slabs of easy returns at high margins.

I believe there is a pressing role for the Commonwealth and the State governments to invest tax expenditures directly into these projects. If they are to see these projects built off budget, to use the device of government contribution to minimise financial risk. In this way, the public is not ripped off and their ordinary right to free traffic movement within cities is not flagrantly compromised.

When the State and Commonwealth Treasuries boast about their debt levels to GDP, you can be sure they have managed to massage the statistics, so that all this major construction in roads and tunnels is not brought to the public sector account. The rating agencies should have more to say on these matters.