



Australian Government
Department of Infrastructure
and Regional Development

Northern Australia Roads Programme

Encouraging Private Sector Investment – Discussion
Paper

December 2015

Purpose of the discussion paper

Objectives

The Australian Government wants to use this discussion paper to explore ways of maximising the efficiency and value for money for the taxpayer dollar from its investments in northern Australia's infrastructure.

In particular, the Government is looking for innovative solutions that can be offered in delivering the \$600 million Northern Australia Roads Programme.

The Australian Government recognises that innovation through private sector procurement and delivery models, private funding contributions or the application of user charging towards remote and rural roads in the north won't work on all roads. However, the Government is keen to test the market to see what the appetite is for delivery and operating innovation and investment in road transport infrastructure in the north.

Through this discussion paper, the Australian Government is looking for proposals to maximise the value of its investment through the \$600 million Northern Australia Roads Programme. The Government is keen to source private sector expertise and innovation to facilitate greater competition and investment through this programme.

Our vision for northern Australia cannot be achieved by governments alone. Through the White Paper on Developing Northern Australia, the Government is looking to engage with the private sector to maximise our investment in the North, across all infrastructure sectors, including roads. This will build on existing national approaches to increase private sector participation in the provision of infrastructure more broadly.

Investment in Northern Australia

Northern Australia, despite having both a dispersed population and industry over a large land mass, contributes significantly to the Australian economy, providing over 11 per cent of Australia's GDP. However, significant, untapped potential remains in the north; facilitation of which requires the right planning and policies to support growth.

The Australian Government is committed to harnessing the full potential of northern Australia, building on its abundant resources and its prime location as a trade gateway to Asia. That is why, recognising its importance to the nation's economic development, the Australian Government released the White Paper on Developing Northern Australia on 18 June 2015.

The White Paper outlines the Government's policy agenda to develop the north, outlining a suite of initiatives to reduce barriers to development across six key areas: simpler land arrangements to support investment; developing the north's water resources; growing the north as a business, trade and investment gateway; investing in infrastructure to lower business and household costs; reducing barriers to employing people; and improving governance.



Infrastructure is critical to growth and supporting the development of new locations or industries. A key focus of the Australian Government through the White Paper is supporting provision of the right infrastructure which will improve productivity and accessibility for current and future developments.

Challenges for delivering infrastructure in northern Australia

Developing infrastructure in the north faces unique, but at times, similar challenges to those confronting the southern states. Demand for infrastructure funding is high, both in the north and nationally, with challenges facing all levels of government in delivering the infrastructure that we need now and into the future, across all infrastructure sectors.

The sheer size of northern Australia, coupled with a relatively low population, can sometimes make it harder to build a case to compete for infrastructure funding. However, current and future growth will place increasing pressure on northern Australia's infrastructure, magnifying inefficiencies already existing in the network, such as those identified in Infrastructure Australia's Northern Australia Infrastructure Audit (Northern Australia Audit).

One of the key conclusions from the Northern Australia Audit, which formed part of the broader national audit, was that the community and the private sector should drive provision of infrastructure to ensure that it meets the needs of users and that Government's role should focus on the creation of an environment in which this can be achieved. This includes engaging with the private sector and communities on infrastructure planning, development and delivery in order to maximise public sector investment.

Private Sector investment in the north

As stated in the White Paper, it is recognised that the north is already home to some of the largest private infrastructure projects in Australia, with such investment driven by the global resources boom. Most northern economic infrastructure is funded by business (such as the resources industry) or by charging users (such as electricity generation). However, similar investment in public infrastructure such as roads has not been explored in the north, given the smaller dispersed industry and low population density in the north.

Hence, road infrastructure in the north has historically been funded directly by governments, given the distance, remoteness and the north's unique climate which adds to the challenges of obtaining commercially viable infrastructure at competitive prices.

Current Investment in the north

Outside of the \$600 million Northern Australia Roads Programme, the Australian Government is already investing over \$5 billion of its \$50 billion commitment in transport infrastructure in the north. These investments include over \$3 billion for the northern sections of the Bruce Highway, over \$200 million for the Cape York Region Package, \$172.2 million for the North West Coastal Highway and over \$650 million for road infrastructure in the Northern Territory.

The Government has also established the Northern Australia Infrastructure Facility, which will provide up to \$5 billion in concessional loans to help deliver major economic infrastructure projects in Australia's north in partnership with the private sector.

Northern Australia Roads Programme

As part of the White Paper, the Australian Government committed \$600 million towards priority road projects in northern Australia. These are the Government's strategic priority investment corridors. Roads identified in the Northern Australia Audit along with roads identified as priorities by jurisdictions, such as those connecting communities or regional towns to ports and airports will also be considered under the Programme.

In line with Government Policy, any projects considered for Australian Government funding of \$100 million or more will also need to be evaluated by Infrastructure Australia.

The Australia Government will provide a maximum of 80 per cent of agreed project costs; the co-contribution may comprise a combination of state/territory/local government and private sector funding.

Submissions for the programme from the northern state and territory governments closed in mid-November 2015.

The Government is also calling for expressions of interest from the private sector through this discussion paper.

Submissions received to date range in cost, size and complexity, from cost ranges of between \$2 million to \$30 million for smaller projects, and for larger projects or packages of works up to around \$700 million. The type of works proposed to be undertaken includes safety and productivity improvements, such as widening, sealing, overtaking lanes and pavement renewal, along with new links, realignments, flood immunity and duplications.

The time frame for a response to the paper will be by the end of January 2016, as the Government is seeking to announce selected roads projects under the programme in early 2016. The Government is open to extending the time frame if a compelling idea for a project is put forward, if this is necessary to ensure that it can be implemented.

Key Facts

- ❖ **Australian Government funding \$600 million committed through the White Paper on Developing Northern Australia**
 - ❖ **Funding available from 2015-16 to 2019-20**
 - ❖ **Australian Government contribution of up to 80 per cent of project costs**
 - ❖ **Submissions have been put forward from northern jurisdictions**
 - ❖ **Successful projects to be announced in early 2016**
 - ❖ **Projects vary in scope, cost and complexity**
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What is the Government looking for?

The Australian Government is keen to test the appetite from the private sector for innovation in procurement, delivery and operation of new and upgraded road infrastructure in northern Australia, specifically through the \$600 million Northern Australian Roads Programme. The Government wants to find out the extent of interest in such investment opportunities from investors, construction companies, or from major road users in industries in the north such as agriculture, resources and tourism.

The **size and scope** of projects developed under the Northern Australia roads programme is expected to vary. The majority of the projects traditionally brought forward for Australian Government consideration involve packages of safety and productivity improvements, such as widening, overtaking lanes and pavement upgrades or renewal, rather than major new standalone projects on a corridor. The Australian Government wishes to explore the scope and capacity to develop upgraded major freight corridors which drive new investment and economic development in northern Australia. Accordingly, it is seeking innovative private sector solutions to building major freight corridors in the north.

In order to maximise the investment through this Programme, the Australian Government is looking for realistic and workable concepts and innovative models that will deliver more efficient and effective projects and leverage the investment or assist in delivering better outcomes. For example, if an upgraded road can deliver faster or more reliable transport times, contributions from commercial users, either through an upfront **co-contribution** to the capital cost of the upgrade or through **innovative financing structures** may present a good investment if it delivers faster transport times or better procurement and construction approaches. It may be the case that private sector co-investment would make the project more cost-effective for the government and therefore enable it to be prioritised above other proposals with less financial support from the private sector.

The Government is also keen to look at **innovative delivery and procurement models** that might work in the north. For example, this could be in the form of **bundling a series of smaller projects** together into a larger contract that crosses jurisdictional boundaries to find **economies of scale** or a delivery model through a strategic partnership approach between the government and the private sector in order to maximise efficiencies and innovative ideas for delivery.

While the Government is looking for innovative ideas and concepts from the private sector, it is imperative to ensure that these ideas can be implemented in a viable and practical way for governments, without imposing additional time or cost. In responding to Government, it is advisable that the private sector provide **realistic strategies** and examples on how road projects in the north could be financed and delivered. Ideas on new technologies and techniques would also be welcomed.

Key Points

- ❖ **Innovative financing structures**
 - ❖ **Co-contributions from the private sector**
 - ❖ **New and alternative delivery and procurement models**
 - ❖ **Economies of scale through strategic partnership**
 - ❖ **Realistic and workable strategies for implementation**
 - ❖ **New technologies and systems for road construction in the north**
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Examples of potential private sector involvement

Due to the long distances and low traffic volumes on roads in less populated areas in the north, it is recognised that securing revenue streams through user charges may only have very limited commercial viability.

However, there may be opportunities for private sector proposals to provide better procurement and delivery options for government than traditional public sector design and construct contracts for sections or corridors of roads. For example, it may be possible to identify major new road upgrades on key road freight links which can be built using innovative government build and maintain contracts by the private sector.

The Australian Government is looking for innovation through potential opportunities for:

- Contracting private delivery and financing for design, build and operate for significant upgrades of major road corridors;
- Public-private partnership approaches to key major road upgrades;
- Innovative public funding support for key road upgrades through access to long-term public loans and/or project revenue payments;
- Service contracts for road upgrades and maintenance of all weather access on key routes for heavy vehicles; and
- Opportunities for innovative private economic developments which include road upgrades providing for improved public access through regions of Northern Australia.

Additionally, there may be cases where the private sector could contribute to upgrades and improvements to an existing road or construction of a new road that is of benefit to a particular industry and where traditional government grant funding alone would not meet full project costs. For example, if a new economic development opportunity arises, which requires a new or an upgraded road, there may be incentives for the primary user of this road to invest, if benefits exceeded costs. Alternatively, if the private sector was to build a new or upgraded road that will also be of benefit to public users, the Government may consider contributing funding towards the road. Demand forecasting could include making the same financial calculations as potential users of the new or upgraded infrastructure to gauge whether the project would lead to profitable investment opportunities¹.

¹ Based on BITRE's Overview of Project Appraisal for Land Transport, November 2014 -page 14



If there are multiple users of the infrastructure, it may be appropriate for the piece of new or upgraded infrastructure to be subject to an **access charge**. For example, if a particular road link or bridge was upgraded to allow for heavy vehicle access, avoiding long detours and providing travel time efficiencies, there may be appetite for users to pay to use the upgraded road link or bridge. Demand forecasts for such models would need to be carefully considered to ensure commercial viability. Information about the current state of the asset and future costs of maintaining the level of service demanded by industry and/or the community will also support consideration of proposal commercial viability. Successful models could prove to be beneficial to both government and the private sector, as well as encourage economic development that may not otherwise take place.

The Austroads Framework for Guiding Private Sector Participation, developed by all levels of government in consultation with industry and approved by Transport Ministers in November 2015, outlines an agreed process that the private sector and road managers can use in negotiating and paying for improved high productivity heavy vehicle access. The Government supports the use of this framework by both industry and road owners (especially local government road owners) in determining the benefits and costs of improved access and negotiating for improved access.

Rationale for seeking expressions of interest

The ability to fund and finance road infrastructure projects exclusively under a traditional Commonwealth and State/Territory grant funding model is increasingly coming under pressure under the current fiscal situation for all levels of government. As the pressure mounts, and governments face less headroom in their budgets to fund the level of infrastructure needed, increased focus on private sector involvement should be explored. However, this does require a revenue stream, and this can only come from two sources: either increased payments from taxpayers or from users/beneficiaries.

The Australian Government considers a range of alternative financing mechanisms when considering whether to support major infrastructure projects. Existing examples include a concessional loan to support the WestConnex Stage 2 in Sydney, targeted payments in support of a market led proposal for NorthConnex in Sydney and the provision of Australian Government land and equity investment in a corporate entity to support the Moorebank Intermodal Terminal.

Approaches such as these open up opportunities for private sector involvement in public infrastructure. The Government wants to build on these successes to create more mutually beneficial opportunities nationwide.

In addition to seeking feedback on how to optimise spending under the Northern Australia Roads Programme, the Government is open to exploring what more can be done to increase the use of innovative financing more broadly.

Choosing the right projects is the first step

The Australian Government wants to ensure that the right projects are supported. This means identifying and selecting those projects that will provide the maximum benefit to efficiency and safety of the road transport network in the north. The Government is already working closely with the northern jurisdictions and industry to identify projects that will provide improvements to productivity and accessibility for current and future developments.

The Government's commitment of \$600 million for the Northern Australia Roads Programme is aimed at high priority projects essential to the movement of people and freight in order to support the North's development.

Building on the Northern Australia Audit, the Government is looking to align priorities that are consistent with audit findings. The audit is the first of its kind and outlines northern Australia's current infrastructure asset base and potential long term needs. The audit identified specific road infrastructure needs and this information will help to inform project selection, however, submissions are also open for road projects not identified in the audit.

The audit found that the northern regions are challenged by limited population, small industry size, distance, remoteness and climatic conditions. It also noted that northern Australia's economic development requires, among other things, links between the growing urban economies of Darwin, Cairns, Townsville and Mackay and their hinterlands.

The audit also identified some key roads in the north as warranting further investigation, with many seen as priorities by jurisdictions. Consideration will be given to upgrades to the north's key freight routes and the roads that offer alternative north south, east west and inter jurisdictional links, adding to overall network connectivity and capacity. Other roads identified as priorities by jurisdictions, such as those connecting communities, or regional towns to ports and airports, will also be considered under the Northern Australia Roads Programme.

Investors are welcome to bring forward bids if they can build the right infrastructure projects better, cheaper and faster.

YOUR Views

The Department seeks expressions of interest and workable models for private investment and delivery of road projects under the Northern Australia Roads Programme.

We seek your views on issues arising from this paper including:

- The issues and challenges for private investment and funding and financing road development in northern Australia;
- Ensuring the right projects are chosen which maximises the public return from investing in northern Australia's roads;
- Workable models and proposals for private investment opportunities in key freight roads;
- Alternate delivery models for road upgrades and on-going maintenance for key economic development roads; and
- Innovative funding and financing options to maximise the value of public investments in northern Australia road infrastructure.

Timelines for response

Expressions of Interest in response to the discuss paper will close on Friday, 29 January 2016 at 5pm.

The Department of Infrastructure and Regional Development will be holding a roundtable forum over the coming weeks in December 2015 for interested parties to discuss potential opportunities for the private sector involvement in the Northern Australia Roads Programme.

Registrations for the roundtable forum should be made by **11 December 2015**.

To register interest in attending the roundtable forum or to seek further information on putting forward a proposal, please contact:

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