Property Council
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Raymond Spencer

Thank you for the opportunity to speak today about the critical importance of continued investment in infrastructure in South Australian.

I believe that South Australia is at a pivotal time in its history. This is the decade when it will be decided whether South Australia becomes a glowing example of one of the world's greatest places to live or a 2030 Harvard case study entitled "Lost Opportunity."

My message today is simple. If the public and private sector are unwilling to invest today in the critical economic, digital and social infrastructure that is needed to underpin our State's development we will not increase opportunity and prosperity for all the people of the State. And we will not preserve the environment and sustain the liveability that we all treasure.

We live in an increasingly competitive globalised world. A world in which technological advance is becoming ubiquitous. Where low cost developing economies are advancing rapidly up the economic ladder. Our ability to maintain and increase our prosperity depends on staying ahead of the game: adding more value in our economic activity; continuously driving up productivity, which by any measure, Australia's performance in the last decade was abysmal; and putting into place social and environmental programs that protect our way of life. In short, we have to work smarter. We cannot depend on our Asian neighbours to pay at the high level they have in the first phase of the mining boom for our resources and assume that the benefits will trickle down to South Australian households.

If we are complacent, take our good fortune for granted and do not change, South Australia will be surpassed by the Indonesia's and Malaysia's of the world and we will not be able to provide for our children and grandchildren the lifestyle to which we have grown accustomed.

I do not want to be known as a member of the South Australian generation that lived just before the great decline in our living standard.

It is doubly urgent because at this time in its history our State has so much going for it, and if we are bold and show courage we can be successful.

Mobilizing to fight the war of opportunity is urgent in order to capitalize on the current strengths of our broad-based economy. South Australia is the home to some of the world's leading companies in the sectors of agriculture, food and wine, defence, resources, information and communications technology, bio-tech and automotive.

We have excellent education and health services, world leading research and development in institutions such as the Waite Institute, CSIRO and SAHMRI and strong elements of a knowledge economy.

We are blessed with a wonderful climate and environment.
Our size is an asset and our relative isolation is no longer a problem in today's virtual world.

We are named by the Economist as one of the top 5 most livable places in the world, are one of Lonely Planet's top 10 places to visit and our collective history of economic, social and environmental creativity, innovation and industriousness, has positioned us well to flourish in the twenty first century.

And yet we find ourselves at a threshold. We must act NOW to counter the challenging times ahead.

South Australia's population is older than the Australian average and the number of people over 65 is growing faster than the national average. It is estimated that by 2036 we will have nearly 500,000 over 65. This is almost one quarter of the State's projected total population, compared with approximately 16% today. The number of people aged 85 and over will more than double from just over 40,000 today to an estimated 99,000 people in 25 years, and I am planning on being one of those! Another way of looking at this is for each older person today, there are five working age people, while in 2036 at the current rate there will be about three working-age people for every older person. If no action is taken to increase the working age population future generations will be unable to provide health and related services to the aging population.

SA's competitive advantage relative to other states was historically based on lower labour costs, which in turn reflected lower housing costs. This has been substantially lost, having been eroded over the last ten years.

And we too often succumb to a laissez faire mentality – she'll be right mate

For me, Dickens classic opening line from the Tale of Two Cities – It was the best of times, it was the worst of times – captures something of the paradox in which we find ourselves in South Australia.

Any conversation about investing in infrastructure is irrelevant without fundamental consensus on a vision for our future.

Providing all South Australians with a long-term vision allows for better communication of complex infrastructure issues and appropriation of both the risks and positives before us.

As I envision standing as an 83 year old in 2033 I see a South Australia having successfully transformed our economy to a knowledge economy, where businesses moved up the value chain, building knowledge-intensive, high-value adding service, technology and manufacturing industries.

I see a continuing expansion of our resources industry and the building of businesses in South Australia to service the mining and natural gas value chain.

I see expansion in agriculture and supporting industries with South Australia helping to meet the world's food shortage and doing it in a way that is clean, green and high value.

I see a State that leads the world in education and research, where our health and medical research not only improved health outcomes for South Australians but also was commercialized through the creation of pharma, bio-science and medical device companies.

I see South Australia having unlocked the power of the silver dollar positioning South Australia as a living laboratory for research and application into successful ageing, ensuring wellbeing and productivity across the life course. In South Australia in 2034 we not only will provide leading edge services and programs for our own residents in their final years of life but we will have also built world-leading businesses that are exporting to the world our programs, technologies and products focused on the senior market.

I see a vibrant Adelaide and thriving regional centers. A State that has reduced red tape, and is the most competitive place in Australia to do business. Whose planning system is not about "control" or "gatekeeping" but "enabling" and "facilitating" economic growth, balanced with other policy objectives such as sustainability. A State that has a modernised and efficient public service.

This vision CAN become the reality of 2033 if we are bold NOW, and frankly if we do not invest today in the infrastructure to make that vision real we will not sustain the prosperity and lifestyle we enjoy.

What is it about the urgency of our current situation we do not understand?

So, **what infrastructure should we invest in** today to help attain this vision?

Infrastructure is a generic word which covers different types of assets within different types of sectors and all to often there are inadequate assumptions when it comes to delivering, funding, operating & maintaining infrastructure!

Social infrastructure like hospitals and schools and sports stadiums is quite different from Energy infrastructure such as electricity network, pipelines or wind farms, not to mention Transport infrastructure such roads and ports and airports. The common denominator however is that by essence, Infrastructure is "political" as it touches the lives of citizens. It is a lever in the hands of politicians to make a long term difference. Too often is seen only as a hot potato and, therefore, tough decisions get passed along to the next generation.

Infrastructure is a key lever in terms of the economic growth it generates - and this has been vetted by numerous unquestionable studies. The IMF uses a 1.8 multiplier to measure the magnitude of the effect of each dollar of infrastructure spending on economic activity. Infrastructure is also a key enabler in terms of productivity. For example, time spent and lost in traffic gridlocks is now, in developed economies, a measure of "productivity".

The sentiment among world infrastructure experts is that " the cost of indecision is far greater than bad decisions" when it comes to implementing long-term visions.

We need to begin by elevating the debate. For example, reducing the debate about the South Road transportation artery to which end is most important is infantile. It's not a question of investing in one end or the other but in getting it all done as soon as practical to create an efficient North-South corridor.

I am not equipped to say specifically what infrastructure we need to invest in but I can say how we should decide.

The Economic Development Board has presented to Treasury a recommended set of guidelines and processes for the evaluation of, and investment criteria for, public sector initiatives that depoliticizes the infrastructure decision making process. It is built around

- developing a common understanding and consistent framework for evaluating proposals on a comparable basis
- facilitating the provision of high quality business cases that support sound and accountable decision making processes
- establishing a basis for undertaking a post-implementation review of a proposal and reporting its outcomes

All infrastructure projects need to develop an investment proposal and later a business case, which contains objective, relevant and meaningful information including a sound analysis of return on investment. The investment evaluation process requires that accountability for the information contained in the investment proposal and business case are signed off by lead agency officers.

How do we prioritise and decide? We need to look at the areas in our economy where we can get the quickest uplift and make sure we have the infrastructure in place to support that.

There are two significant infrastructure challenges for the State that will improve productivity and support future economic and population growth – freight and public transport not just for Adelaide but also for all Regions of South Australia!

A world class freight transport network including regional ports, roads, rail, airports is critical to ensure our state remains an attractive option for business investment, development and expansion activities into the future.

Transport costs are a component of the price of all products and services that we purchase. An inefficient transport system can add significantly to the cost of business and cost of living for consumers, and diminishes the State's competitiveness. It is even more of a lever in the economic cost benefit analysis when one accounts for the high cost of labour and cost of energy.

Freight logistics is an enabler of almost all economic activity in the state. Improvements in freight logistics, such as those included in the recently released

Integrated Transport and Land Use Plan, are required to service increases in demand, and increasingly globalised supply chains and industries. Our mining, food, bioscience and advanced manufacturing sectors all rely on efficient and effective freight networks to reach their export markets.

Public transport ensures our mobility and access, which impacts choices on housing, employment, shopping, education and leisure activities. Good public transport delivers economic and environmental benefits along with improving quality of life, reducing traffic congestion, travel time and stress. Australia's cities are generally behind their international counterparts for providing timely, accessible and convenient transport services. For this reason we, need to invest more heavily in public transport infrastructure.

The Integrated Transport and Land Use plan combines transport, land use planning and economic development strategies for the development of the South Australian transport system. While the major components are to numerous to mention here, a benefit-cost analysis of each of them should be mandatory.

Clearly components such as the light rail system, the sealing of the Strezlecki track and the completion of the whole of South Road seem to me to be obvious. I will be surprised if the undergrounding of the heavy rail system will pass the cost benefit analysis in the near future – perhaps later.

The plan is currently out for consultation and I urge you to review the draft plan and participate in the debate. I think it should be initiated ASAP and delivered within the next 10 years (not 30 years) to have a significant impact. The implementation should be more front loaded which will provide an immediate boost to the economy. We need urgency and boldness.

So you ask, "**How can we afford to pay for the investments we need in our future**?"

We must seek new and innovative ways of funding infrastructure. There is an urgent need to educate the public and elevate the debate on debt, funding and financing because with limited state and government budgets, funding infrastructure becomes an allocation and prioritization exercise for governments and a political challenge!

As we know, the State budget is under enormous pressure and our State debt levels have bumped up against the governments self imposed limit of 50% of the annual budget. However, the debt (which is $9.5 billion and projected to grow to $10.3 billion including general debt and public debt like workcover and SA Water) is running at roughly 10% of GSP which is $91 billion. This can be compared to debt of more than 35% of GSP when the State Bank crisis happened and over 70% of GSP when Sir Thomas Playford used debt to transform the State's economy and build a manufacturing base in the mid fifties. His use of debt was instrumental in our States growth for many decades and demonstrates the positive impact where debt is used for productive investment purposes. Investment in infrastructure and utilizing debt to build that infrastructure makes sense in the context of putting in place the foundations upon which to build a new society. Debt to fund operational inefficiency and waste in the public sector is unacceptable.

The debate comparing the State's debt to a household mortgage is wrong. It is much more like business debt and any business that wanted to grow and thrive that had debt at 10% of revenue would immediately go to the bank for a loan. I was talking to my friend Rick Allert the other day and we are in violent agreement that taking the State debt to at least 20% of our $92 billion GSP could well be the responsible thing in order to take advantage of the opportunity before us today to transform and grow our economy.

Funding is not financing. Funding means public funds allocated to pay for a piece of infrastructure. Financing means utilizing the right financial tools to pay for it. This requires a debate on assessment of risks and the appropriate allocation of risk to the party best equipped to take on and mitigate that risk. Only then can a proper price tag be precisely calculated against that risk and the best financing technique decided. This includes options such as:

- project finance, using the long-term financing of infrastructure based upon the projected cash flows of the project rather than the government balance sheet;
- asset base Finance, a method of providing structured working capital and term loans that are secured by accounts receivable, inventory, machinery, equipment and/or real estate;
- and non recourse finance where repayment is from the profits of the project the loan is funding which captures financial instruments such as debt including bonds, equity, and mezzanine finance using subordinated debt or preferred equity,

We are lucky to have the expertise and experience of Corinne Namblard in the State and on the EDB and she is more qualified to discuss the details on the panel.

Let me say though that in the funding of state infrastructure today, it is important to leverage the public funding component where it is provided to maximize private finance in projects.

Frankly, the use of sophisticated and complex modes of financing is unlikely without an elevation of the debate and ad hoc financial literacy within the public sector.

The PPP used for funding the new Royal Adelaide Hospital is one form of financing but is not a panacea! In the UK, which has very successfully driven a financial literacy program for its public sector under the Private Finance Initiative, PPP financing only amounts to 18 % of all deals which were delivered subsequently. The UK has developed a number of sophisticated analytical tools as well as better reporting on the real price of Infrastructure.

The Dutch Government has for example a "Public only" and a "Public Private " Comparator Model which it applies to all projects in order to better inform the cost/benefit analysis to be conducted, justify funding and/or financial choices and allow correct reporting from the Finance Ministry to Parliament.

The Integrated Transport and Land Use Plan provides a perfect platform to:

- Educate the Community and engage in a genuine consultative communication process;
- Engage in a much needed **bi-partisan** approach to addressing the technical as well as the financial challenges to meeting the State's future vision;
- Do a clinical assessment of public and private sector's capacity to deliver; and to
- Engage in an open assessment of the level of funding available in both monetary terms (such as public funds from the budget; funding from private national and international sources; Federal funding) and non monetary terms through the use of non financial guarantees; tax driven incentives; and land use reallocation. It is also an opportunity to assess how to engage with the private sector to find innovative financial options such as identifying revenue producing assets such as the existing Tram revenues that could be collateralized to allow for the operation and maintenance of the current line AND finance the construction, operation and maintenance of new lines. There are numerous examples of these approaches being successfully implemented in other jurisdictions.

Once the communication is well engaged with the community, various other options need to be openly discussed such as "timed user pay" to pay for a specific asset which the community would consider critical. This has already been done in South Australia, for the dredging of the Flinders Ports channel via a specific levy on containerized grain.

I also believe the new South Road infrastructure is a good example of where a user pay model makes sense because there are other very viable alternatives that people can utilize if they do not wish to pay for the efficiency such a corridor will provide.

In conclusion, we all need to "Live the Future Now," Embodying the Confidence of the Renewed South Australia

To compete in an increasingly competitive global economy, we need to be outward focused, understanding what the world's real problems are for which real people will pay real money for the real solutions we can create here in South Australia. And we need to trust our strong history of creativity, innovation and industriousness and invest aggressively in the infrastructure that is needed for us to fulfill our potential.

Clearly I think this is a wonderful time to live and invest in South Australia, and at a time when cities, states and nations all over the world are struggling to engineer solutions to the challenges of economic decline, social dysfunction, and environmental degradation South Australia can again act as the incubator of the essential ingenuity the world so desperately needs.

If business, government, social agencies and the community invest and work together, South Australia can reach even greater heights of prosperity and strive to be the most liveable place in the world and a global model for twenty first century living and well-being.

Why would we want anything less?

Do we have the courage to work hard and take the risks that can make the difference?

Let's seize the Opportunity.   I believe we have no choice.

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