How to overcome our biggest hurdle to growth

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Australia faces a potential infrastructure crisis. There are concerns that our infrastructure services, a key determinant of growth, may not meet future economic challenges.

These concerns stem from Australia's unique social context; the nature and types of investments in public infrastructure; and the expectations of our private sector as a key partner.

Our population is expected to grow 27 per cent from 24 million in 2015 to 30.5 million in 2031 mainly in urban areas of Sydney, Melbourne, and Brisbane. This growth of 6.5 million people will trigger a high demand for infrastructure services including energy, water and transportation infrastructure.

These are at the core of Australia's success in industry and trade, and may not sustain or keep pace with new demands.

Currently, the gap between the quality of service expected from local infrastructure, the cost of service levels, and the willingness to pay and source of payment has not been adequately analysed. That is to say, our infrastructure and logistic networks will not meet future expectations if nothing is done at the government and private sector levels.

Through strategic interests and trade, Australia has built strong and enduring ties with many countries. In addition to being a founding member of the United Nations, Australia is also an active member of the World Trade Organisation, the Association of Southeast Asian Nations, the Asia — Pacific Economic Cooperation, and the Commonwealth Organization for Economic Co-operation and Development (OECD). Among its major trade partners in ASEAN are China, Japan and the Republic of Korea.

Australia's people links, strategic trade and investment interests in the Middle East are also expanding. The 2014 World Economic Forum ranked Australia 20th in terms of infrastructure quality. This suggests that Australia's infrastructure must reach the same level of standard of its partner countries.

Infrastructure is a special type of investment opportunity; its financing is delicate. The general perception is that there aren't appropriately designed projects that deserve private investments.

The private sector expects contracts, equity and loan financing in order to be attracted into infrastructure projects. These elements are the exception, rather than the norm.

The safety net in any infrastructure investment is a sound legal system to support governance of infrastructure. The primary requirement to attract private sector investments into public infrastructure is an appropriate policy framework. Governments and their administrations have a crucial role in the creation of the policy and institutional environment that stimulate private sector investments in public infrastructure.

Policy regimes with the expected clarity, transparency, stability, predictability and long-term visibility are more likely to attract the private sector. More specifically, a sound and strong legal system should act as platform for the governance and ownership of the proposed infrastructure. The main role of government in leveraging private sector finance is to provide the assurance of a trustworthy environment by reducing or mitigating the risks related to projects.

Government can also help facilitate a number of important reforms or changes that will help promote a more sustainable pipeline of infrastructure investment.

There is a desperate need for integrated infrastructure and sound policy planning process and better connecting the priorities at both state and a national level.

http://www.businessspectator.com.au/article/2015/12/18/industries/how-overcome-our-biggest-hurdle-growth

A decision-making process within government requires some essential elements such as:

•'Best practice' principles for infrastructure planning, procurement, delivery and operation;

•Infrastructure project appraisal and project selection;

•Improved framework related to demography, technology, economy, environment;

•Community engagement in the decision-making process.

There is currently insufficient government funding to meeting expectations for continuously improved infrastructure assets. This gap needs to be filled by the private sector. Infrastructure Australia pointed out in its June 2011 report to the Council of Australian Governments, that there is a 'profound disconnect' in communities' willingness to pay for and their expectations in quality infrastructure they want to use.

Although institutional market reforms have improved the energy and telecommunications sectors, there is still not sufficient funding for the essential transport sector among others. Priority should be given to funding in infrastructure in transport, ports and telecommunications.

While the Australian government remains a key player in infrastructure investment, it is important to appreciate the contribution of the private sector in infrastructure creation is necessary. The private sector's engagement in public infrastructure operations is likely to improve efficiency through improved risk allocation, better accountability, cost effectiveness and financial discipline. For example, airports and ports appear to be among the best return on investment opportunities for the private sector.

The clock is ticking as we fall behind our trading partners in infrastructure investment. We risk constraining the rate of future economic growth. We only have a short time to catch-up — let's make it a national priority.

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