

Forward Thinking – *Road to riches: how to drive our transport dollar further* – Sydney 9 June 2016

Too much of the unprecedented sums spent on transport infrastructure in the past decade has been spent on the wrong projects, and in states and electorates where elections are won and lost. In the current election campaign, both main parties are once again making promises that breach principles and processes designed to ensure value for the infrastructure dollar. Nick Greiner, former NSW Premier and former chairman of Infrastructure NSW, discussed a better approach with Grattan Transport Program Director Marion Terrill, author of our recent report, *Roads to riches: better transport investment*. This Forward Thinking event was hosted by John Watson, Cities and Policy editor of *The Conversation* in Sydney.

Moderator: John Watson – *The Conversation*

Speakers: Marion Terrill – Transport Program Director, Grattan Institute
The Hon Nick Greiner AC – Former Premier & Treasurer of NSW

JOHN WATSON: Welcome everyone, thank you for coming to this event. It's a *Forward Thinking* event run in conjunction with the State Library of New South Wales and the Grattan institute. The starting point for it is a report that Marion Terrill here wrote, I think the report itself was called *Road to Riches: better transport investment* and the question we're looking at tonight is how to drive our transport dollar further. We actually have two panellists here, one in Marion from the Grattan Institute and one in The Hon. Nick Greiner, who both come from an economics background in training, but they've certainly engaged with the real world complications of applying that knowledge since.

So just to give you a quick background, Nick Greiner is probably best known, across Australia at least, as a Premier and Treasurer in his own government of New South Wales from 1988 to 1992, but then he's also been very heavily involved in the business world as Chairman, Deputy Chairman and Director of many large companies. He's Chairman of The European Australian Business Council, he's a member of the board of governors of the Committee for Economic Development of Australia and he's also been awarded a Companion of the Order of Australia. For those sins, he's come tonight to explain how he sees the often peculiar world of transport infrastructure investment. Marion too has worked in both the public and private sectors. Her public policy experience included working on the 2010 Henry Tax Review, so she's well aware of the gap between recommendations and implementation. She also led the design and development of the MyGov account and she has advised the Commonwealth Government, the Business Council of Australia and the Australian National University on labour market policy. She's now at the Grattan Institute where she produced the report on transport infrastructure in Australia.

As someone coming from the media I should introduce myself. I'm John Watson. I'm in the increasingly non-exclusive club of Fairfax refugees. I'm now at *The Conversation Australia* as their cities and policy editor and we're now in the middle of an election campaign that perfectly illustrates many of the problems that are described in Marion's report. In the past decade, a little over that, the spending on infrastructure has actually increased massively, it's almost doubled as a proportion of the



economy. At the same time, we clearly see a lot of projects that don't make a great deal of business or economic sense and despite all that expenditure we have people talking about infrastructure deficits running into the hundreds of billions of dollars. So the question is what's going on? After the discussion there will be time for questions, so we'll have the discussion then you'll be free to ask any questions that arise from it.

To start with I'll ask Marion to give us a few minutes on what she sees as the main points to come out of her report.

MARION TERRILL: Thank you John. Some of you might have seen the report but I'm sure some of you haven't, so I just wanted to give you a bit of a sense of the key findings of *Roads to Riches* and particularly how they're relevant to today's discussion. As John said, the report started with the observation that there's been an unprecedented level of spending on transport infrastructure over the past decade. It's actually been the highest spending since records have been collected on this. In 2003 spending on transport infrastructure was 0.6% of GDP and was 1.2% by 2011. Not only did the spending grow a lot, but also it was markedly stronger in Queensland and New South Wales. What the report is about really is trying to make sense of that spending, what did we get for it and why was it distributed that way across Australia? There are two main points I'd like to explain to you about this.

I started out with the expectation that the high level of investment was really about preparing Australia for the next two or three decades and particularly improving the functioning of major cities. Australia is very urbanised by world standards and prosperity is higher as a result of that. Big cities are particularly important, partly because around two-thirds of Australia's population lives in Sydney, Melbourne, Brisbane and Perth, and also because the cities' centres are very important as well. A quarter of all Australian jobs are within 5km of the CBD and 40% are within 10km. But what I actually found was over the past decade investment in Sydney, Melbourne and Perth was lower than I'd expected given how important they are to the national economy and given that they house most of Australia's population growth. Instead, investment was really high in regional New South Wales and regional Queensland. So that was one thing that I found.

The other main rationale I thought that might explain this high level of investment was bringing some states up to the same standard or a national average standard of infrastructure. Queensland is very dispersed in its population; perhaps that meant it needed more. New South Wales and Victoria have got big cities where it's expensive to build; perhaps that meant that they needed more spending to reach the same standard. But in fact what I found was that investment was not going towards equalising the states. The New South Wales spending was about right from this perspective, but Victoria's was significantly too low and Queensland's was significantly too high in terms of a national average. This was based on a very detailed assessment of needs that the Commonwealth Grants Commission does. In other words, historically high investment has not been primarily about improving the efficiencies of the major cities and it's not been about bringing the states to an equal standards. Instead, it seems to have been about politics.

Since we're here in the middle of a Federal election campaign I'd like to give you an idea which is not in the report, but a sense of what's happening right now. Both the ALP and the Coalition are committed to getting independent advice on infrastructure investment from Infrastructure Australia, and so are the Greens. Infrastructure Australia's role is to advise the government both about the merits of individual projects and also about the strategy as a whole. So what's happening at present,



at this midpoint is both major parties are focusing on specific projects more than the overall strategy. The Coalition is promising projects at a rate of around two to every one from the ALP, but the alignment of the Coalition's plans is slightly better than the ALP's. So Infrastructure Australia has a priority list and in the top two categories there are six projects. The Coalition's committed to four of these, the ALP one. Then there's a longer list of things that are yet to be fully developed but have promise, and about 50% of the Coalition's promises are in this category, about three-quarters of the ALP's. Both parties have got some promises that haven't even been submitted to Infrastructure Australia. The Greens have taken the approach of recommending a major public transport proposal for every capital city; here in Sydney it's a billion dollars for light rail connections. None of the Greens' promised projects have a fully assessed business case.

In summary, what we have got is, even though we've spent very large amounts of money over the past decade and we did get some useful infrastructure, a lot of the money was not spent wisely. Instead it was spent in key marginal electorates and in Queensland and New South Wales where Federal elections are won and lost. Even in the middle of an election campaign, I think it would be reasonable for us to expect that ministers and potential ministers stop promising to spend public money on projects unless they address a nationally significant need and have a fully assessed business case with a tick from Infrastructure Australia. I'll hand back to John now to kick off from here.

JOHN WATSON: The first question is after all that spending, how do you reconcile that massive investment in infrastructure with the claims of an infrastructure deficit and how what would you look for to assess that there was an infrastructure deficit? I think I neglected to mention that you were the inaugural Chairman of Infrastructure New South Wales, so you did look at it from the other side as well.

NICK GREINER: I must be the fount of all knowledge.

JOHN WATSON: You must have some ideas.

NICK GREINER: Infrastructure New South Wales concluded the problem was more the quality of the spending, which is sort of similar really to Marion's conclusion at a high level. It was more the quality than the quantity of the spending. It is easy to produce a deficit in infrastructure partly because there is an insatiable appetite for projects and if you don't have a rigorous screening as to the economic merit, leave the political merit aside, there is almost an as long as a piece of string situation. There are numbers, you may them there, but there is an infrastructure deficit number that is in the hundreds of billions.

JOHN WATSON: \$700 billion.

MARION TERRILL: \$770 billion is the top one that I've seen.

NICK GREINER: Yes. I mean, I think that is a completely useless number, but what I would say is where we felt the starting deficit was – these conversations and no doubt our conversation, they get dragged immediately to projects. It's a natural understandable thing, yet it's perfectly obvious that one ought to start with the system, the network. Whether it's a metropolitan how do people get around Sydney, get them home to jobs; whether it's freight, and Marion did some work on the merits or otherwise of investment in some of the country highways; you really need the big picture. First you



need the system, because without that it's very hard to determine where a particular project fits. It's not exactly rocket science, but the natural tendency of most people frankly, of journalists, academics, politicians, business people, is to go to a project. Projects make money, they make money for companies, they create jobs, and they have political impacts, positive and negative.

So the natural tendency in terms of the deficit question, John, is to say there are all these projects we could do, whereas where you should start, perfectly obviously, is in land use planning. You shouldn't even start with the transport network, you should start with what is the big picture for Sydney. I mean, for the broader Sydney metropolitan area, what is the freight plan for, say, New South Wales or the east coast, because the three states on the east coast are only lines on the map, they're really one marketplace? So I think you can conclude that there will always be a demand for infrastructure, that hanging your hat on those big numbers is a nonsense, but that the real task, and I think this is where Marion's work was going, is to try and find ways of improving the quality of what ultimately gets built. What I'm thinking of adding is you've got to improve the overall system, whether that's people transport, freight transport or whatever, rather than simply trying to do it on a project by project basis.

JOHN WATSON: To turn around a bit to the attitude towards a deficit, Marion also came up with what I think is a fairly radical but logical recommendation that if you properly assess all projects on their business case and you get a clear benefit, shouldn't you then proceed with the project where the benefits clearly outweigh the cost? I might let Marion explain that a bit more.

MARION TERRILL: I guess in principle I think what should happen is the government is acting on behalf of the community, so its job really is to build things that the community would value, assuming that things are priced appropriately. So if things are priced at zero we've got an endless appetite for new things, but if we were paying the costs of what we had then there'd be a point where we would say that's enough infrastructure, we want more of something else.

So it seems to me that if we could be confident that the assessments were of a good standard then whenever there were proposals, projects or network enhancements of one kind or another that had the characteristic that the benefits outweighed the costs, then I think it's absolutely the government's job to provide them to the community. I think the way this works in practice is quite different and so it's quite a challenging thing if you're in government and managing a budget to think about this way, so the way it works really is that essentially the government sets a spending cap and allocates within that spending cap hopefully not too badly. But as a matter of principle, if things are more beneficial than costly then they're good to have and we want as many of them as we can have.

JOHN WATSON: As someone who had to administer the finances?

NICK GREINER: Well that was a long time ago. What Barry O'Farrell did when he set up Infrastructure New South Wales was to say, "We're going to depoliticise infrastructure - that was a very high level barrier to set - we're going to get hard-edged economic advice, we're going to make it public, but we, the government, are going to make the decision". And that's inevitably right, I mean, you can't take the politics out. Governments are elected to govern. Governments don't always do simply what's economically rational, I was accused of being too economically rational, but governments of course have a mixture of motivations and one of them obviously is political, it's about getting elected and staying elected. That's not a bad thing, that's the nature of the democratic process. I think the question is how transparent do you make the assessment?



I think what Barry outlined was fine. It hasn't perfectly been implemented. The idea was that Infrastructure New South Wales would produce a list of priorities from one – one incidentally was WestConnex which has all sorts of people supporting it and not supporting it. But we produced a list which was essentially prioritised on what we thought was the favourable economic impact. Clearly if you take that project the opponents aren't really arguing about the economic impact, they're arguing about the residential amenity of the inner western suburbs which they say, and perhaps correctly in part, will be adversely affected. So you can see people looking at these things through different prisms. I think the idea that Infrastructure Australia or Infrastructure NSW make a fair dinkum assessment as best they can and that this becomes public, and then that the government says, "Well, we don't agree with that. We're going to build a road to the moon rather than a road to the port of Sydney", for whatever reason and the government would have to explain it, I think that's perfectly okay as long as the economic assessment has been made public and the government says, "We've got other reasons and that's what we're doing" and people can assess them as they like.

Let me add one more point about the assessments. Frankly, the quality of cost-benefit analysis is not as good as it ought to be and I think creating meaningful benefit-cost ratios for public transport is something that academics, economists and policy makers struggle with because a lot of the advantages or claimed advantages for public transport are side effects there. They might be to do with the environment, they might be to do with congestion, there are social costs and benefits, particularly benefits claimed for public transport, which traditional cost-benefit analysis finds difficult to quantify.

JOHN WATSON: Yes, I take your point. You're actually the meeting point of a whole lot of considerations when you're in politics. To go to another recommendation of the report, that is that as a starting point when you announce an intention to proceed with a project you table the assessment and it will be open to scrutiny from the start, so at least you have a benchmark to work from.

NICK GREINER: I think that's a good idea. I think that is what was intended and Victoria's now created Infrastructure Victoria, the Andrews' government has created that and it's only just starting. I think politicians struggle, to be honest, with the notion that they've got elected and suddenly they're finding that their favourite project is getting a bad economic assessment, yet it's part of their election platform. So I don't know how you resolve that easily. I do think what you both suggested is not a bad thing, which is to have a threshold of having every project assessed, whether it's at State or Federal level and whether the two get together, and the government then makes a decision. The reality is that lots of projects happen, including in New South Wales, but simply there isn't a requirement for them to go through Infrastructure New South Wales.

To give you an example, perhaps a non-controversial one in this room, Newcastle light rail has never gone through much economic assessment to my knowledge and certainly didn't go through Infrastructure New South Wales, but there are lots of others that are dealt with through the political process. I think if governments are fair dinkum then they should do what the legislation suggested, which is to be open about it, table the report, and then make their own decision with whatever reasons they want to use.

JOHN WATSON: So when you talk about the legislation setting up the body in the first place, what would you suggest be done different now to really enhance that kind of independent advice tabling role?



NICK GREINER: John, there are now such bodies pretty much in every state, they've got different names, something called Building Queensland, they've got different names, but certainly the Federal body in New South Wales and Victoria have very similar conceptual structures and they are about having rational lists of prioritisation of projects and so on. I don't think you can bind the government, at the end of the day. I think if you could make it as compulsory as possible, if I could put it that way, for the project to be assessed. In other words, not have the capacity or the discretion for the government simply to say, "We don't want that project assessed" or "That project was part of our election manifesto" which is what happened I think in the election of the O'Farrell government. The northwest rail line and it was one of their major promises and they said to us, "Well look, it's a major promise, thanks but no thanks, we don't really need you to look at it". You can understand that in a sense because they got elected promising to build this and the project had been talked about for 20 years.

So I think you could certainly make it as mandatory as possible, if I could use those terms, for a government to have to put every project over a certain value - \$50 million, \$100 million – through the infrastructure bodies and that they were required to table in parliament the reports. Beyond that I don't frankly think you can take the politics out of politics. Some of you are old enough to remember Ros Kelly had a whiteboard and she lost her job because she had a listing of which sporting projects were in Labor electorates or Liberal electorates. I always thought that was terribly unfair. I mean, it is part of the political process, politicians amazingly make political decisions and they decide to favour marginal seats or whatever or their own people's seats. I think as long as they do it in a reasonably transparent way.

This is I suppose where we come from different perspectives a bit. I think Marion's report goes a bit hard on that because, at the end of the day, I think Ros Kelly or Barry O'Farrell or whoever's in the position is entitled to make a decision based on political judgement, rather than economic judgement. I just think they would make better decisions if they had to be open about what they were doing.

MARION TERRILL: I think that too. I don't think that there's a way to take the politics out, but I think there's a way to put the accountability in. So I understand that politicians do have an eye to re-election and I also understand that the economic assessment is not everything, but it's also not nothing. It seems to me a lot of these decisions are made as if it's of no importance and all and then you get some magnificent road to nowhere, meanwhile cities are clogged up with congestion and there are plenty of good things to spend this money on and not every country property needs a guttered road next to it.

So in the end for every road to nowhere that gets billions spent on it, there is a cost to that, but the way this seems to me is that the beneficiaries, they know about it and they're happy about it and why wouldn't they be, and then the people who are not the beneficiaries are very dispersed and their interests are not collected, so there isn't really a voice for them, and that seems to me the imbalance in the system. I guess that I have thought tabling an assessment in the parliament before being able to commit public money is a way of increasing the cost for politicians without removing basically the job of a ministry, which is to make these decisions ultimately.

JOHN WATSON: I'd also add, as a sort of mea culpa, it would stop a lot of the media going off on wildly speculative claims about a project.

NICK GREINER: Yes.



JOHN WATSON: Because nobody really knows what kind of modelling has been done or what calculations have been done. Let's move on, so assuming we've got a "you beauty" project that really stacks up, ticks all the boxes, is great, we still come down to the cost or the source of the financing. We've got governments in a position where they are starting to become concerned about accumulated debt again. We now have talk of value capture particularly for transport projects because it seems to go quite well together, they built the American railway system basically on a model like that, or the alternative is user charges, which we already accept when it comes to things like airports and so on, but roads are a far more sensitive issue. So how do you see the future financing options?

NICK GREINER: People always say there's enough money and why don't the super funds pay. There is enough money, the question is the quality of the projects and the super funds, or anyone else, want a return. Governments don't always want a return in the financial sense. Let me say on value capture, and I noticed the Prime Minister and his ministers have taken this up and the project, Geoff Lee down here, the State Member for Parramatta, the Parramatta light rail is a case where I do think value capture might have some legs, but it's frankly a small part of the total.

I think the notion that value capture is going to be the silver bullet for funding infrastructure is frankly ridiculous. It happens in Hong Kong, it's the current example, rather than the US railroads, where the MTR creates new land effectively because they fill the harbour, they've got a railway station underground and they build very high density towers and it does raise a lot of money. I think you need to accept that value capture is a useful supplement and I do think in the Parramatta light rail there are particular obvious landowners, some of them have got what you might call stranded assets, they've got land which at the moment's not worth much and if the light rail happens it'll be worth more, and I think it's fair to say business has been reasonably forthcoming in saying, "We'd be willing to contribute". Everyone likes a silver bullet.

I don't think value capture is going to be the new thing that provides the majority of funding, but it may provide an element of equity, which is not a bad thing, in terms of who benefits and it would be a nice add-on in some cases, but not more than that.

MARION TERRILL: If I could add to that, I totally agree with you Nick. I'm preparing my next report on value capture. So a couple of things I'd say. One is we do actually value capture already, so property taxes are a form of value capture. Capital gains tax, developer charges, land tax, they're funding sources that where the value of the land goes up there's an increase in those taxes, either transaction taxes or ongoing taxes. So often value capture has got a financing element, some sort of mechanism to spread it over time, so that's all very well, but essentially this is talking about betterment levies or an increase in an existing tax and it seems to me that the scope to do that is not that high.

So it could be an addition to general revenue and user charges, but it would be very surprising if it was a substantial share for any project, and for many projects I don't think it would work at all because you've got to be able to define your beneficiary catchment. That's quite hard, it would be quite contested. I think probably you could imagine it might work for urban rail, but roads? Very hard to imagine how you can define a beneficiary catchment. So the implementation of a more substantial approach to value capture I think is fraught with difficulty and it's hard to see that we have a lot in common with Hong Kong, which is the great example people like to cite.



NICK GREINER: User charges, of course the other part John, I'm guilty, I'm responsible for the urban road network becoming substantially a toll road network. I did that against the advice of the then RTA and frankly if I hadn't have done it I'm not sure what would have happened in terms of the development of the network. Unfortunately it only gets done in bits and pieces and it's only now that the present Baird government is completing the network. But I think user charges as a substantial part are important not only in terms of toll roads, I think that it's plausible that we would charge for trucks for the national freight network not just on toll roads. I think the technology exists and frankly those people add-on, if you've got a truck and you're doing a job for Woolworths, well the truth is Woolworths pay, the customer pays, and if you save money because you're saving time that ought to reflect itself in the competitive pricing.

So whilst governments tend to be a bit wary of it, indeed, I lost the seat of Parramatta I remember in 1991 because there was a bit of a road that now had a toll on it which was previously free. But I think we've got to accept that user charges are part of it.

JOHN WATSON: There's another element of that that's really going to put the squeeze on in terms of at the moment we have fuel excise and, correct me if I'm wrong, I think the fuel excise is about \$70 billion a year, which is just short of what we've been spending on infrastructure. If we get electric vehicles fuel excise disappears, suddenly we're caught massively short and that's a user charge anyway.

MARION TERRILL: So it's an approximation of a user charge. There are two main things that you do road user charging for, one would be for wear and tear, and that's mainly heavy vehicles and we have a scheme in place already, it's been around a long time, and it's by no means a perfect scheme but it does exist. Then the other thing that you would charge for is congestion, so the distance that you travel matters, but the location really matters and the time really matters. So there are possibilities I think for user charging at least as a way of creating a revenue base and it's true that fuel excise is the declining. Fuel excise is not hypothecated to roads by the way; I think people often think it is.

NICK GREINER: Well it was in New South Wales between 1988 and 1991. It was the famous three by three: we added 3c and people loved it. People like hypothecation, just Treasury offices don't. But people actually like the fact that if they're going to have to pay they know that the 3c extra goes to a particular purpose.

MARION TERRILL: Yes, so the pragmatic way through this is probably to do some hypothecation, I think that's probably right.

NICK GREINER: I think hypothecation is a very menial sin and it does help get public support for things. I think you can understand the way the public think and I think Mike Baird was doing that in part with GST. I don't want to divert the discussion, but you remember when he opened the GST debate he did it in the context of the fact that there was clearly a long term gap in terms of funding the sort of health system that people apparently want and I think that was at least a plausible argument. We've got this very rapidly increasing cost and this is a way of funding it and all the money would go there. That's at least an intelligible proposition that the public can like or not like.

JOHN WATSON: There's another problem which is related to the technological changes in transport. I think we'd still probably be using projects that you initiated in government 24 years ago now, but can



we be equally confident now on multibillion dollar investments that are supposed to be usable and durable for decades. If we start them now, are they still going to be useful to us in 2030, 2040? So in a way the question is do we maintain our options by actually making the most of the infrastructure we've already got rather than building new infrastructure that may become a strangled asset?

NICK GREINER: When the then head of the Transport Department came to see Infrastructure New South Wales we said to him, "If you had \$X billion what would you spend it on?" and he said, "I've got a list of projects, they're all \$100, \$200 or \$300 million, they're pinch points, they're small projects where – he was saying – the bang for your buck is very much larger than it is on some of these major projects". Again, you come up against politics. I mean, you don't get as much bang for your political buck in the sense that you fix an intersection. For example, there is now a program that if you fix roundabouts which are stopping trucks going through you can actually get more benefit than building a whole new road in some country area if you simply make an existing road usable for trucks. So I do think that doing the high priority/high return/smaller projects is the rational thing to do. It's not either/or at the end of the day, but it's certainly true that small projects almost always, there's a long list and the government's done some of them in this state but there's no doubt more, they are the rational thing to do.

The other thing you should do of course, it was part of Marion's last answer, is it is insensible to price road space in some way. Again, that's politically sensitive, but I think that using pricing as part of the infrastructure policy makes great sense.

MARION TERRILL: I think people do look ahead and see autonomous vehicles and perhaps that they'll platoon together and they won't need much road space and perhaps we won't need parking space and these kinds of things, and I think all of that may well come to pass. It is pretty hard to predict the future and what the path will be, so even if you think you can see the destination it's extraordinarily hard to predict. So I think it's good to work with what you do know and have an eye to the fact that things can change, but I also do think the idea that they'll change really fast seems to me to be not that plausible.

NICK GREINER: I'll just add one point, because we're mostly from Sydney, in terms of the Sydney congestion situation to some extent it's simply a catch-up. The road network in Sydney, which is now mostly toll roads, was in the Gregory's the year I was born, which is 1947, which is a long time ago. The ring road and what is now called the M4, the M5 and the M2, they actually were lines on the map in the Gregory's in 1947, not as toll roads but as plans. So what we've done is we didn't do anything for a long time and then, mostly for political, partly for funding reasons, we built bits and pieces. I built the M4, but I couldn't get it pass Strathfield coming in because Neville Wran had sold off all the land through Glebe and whatever. Now things have moved on and the government is able to build tunnels because tunnelling is cheaper than it was a quarter of a century ago and so on.

But my point is you should complete. If you've got a network, having half a network tends to be a really stupid thing to do. You should complete it and, to some extent, what we're doing in Sydney now is catching up by completing what was planned a very long time ago.

JOHN WATSON: The final question is the perpetual question of Commonwealth/State responsibilities. Does the Commonwealth, which now ties a lot of its grants to set projects, should it be having that much of a say in how a State builds and manages its infrastructure?



MARION TERRILL: I have got plenty of views on this. The Commonwealth does not put as much funding into infrastructure as the States by far, but the way it does it does influence State decisions because there'll be often some matching arrangement depending on the exact thing. I read today about the Commonwealth having a nation-building bus stop at Tuross Heads, so I think that's not a good thing for the Commonwealth to do. I think the kinds of things that the Commonwealth should legitimately do are fund things where the benefits extend beyond the state that the infrastructure is in or where the thing is important, so that would be, for example, the Newell Highway that connects Queensland and Victoria and goes through New South Wales. I think Sydney Airport or the Port of Melbourne are really important national infrastructure assets that serve more than just the state they're in.

I think because infrastructure is used to help manage the economy at large, such as the stimulus spending that looks like a job for the Commonwealth, but I think if there's harmonisation across states of heavy vehicle standards or that kind of thing, that's another job. But beyond that it's hard for me to see that much of a role for the Commonwealth and, in fact, I think what it does is it skews state decision making in a way that's probably pretty unhelpful. You would think the states on the whole would be closer to what they're doing and therefore better able to make decisions about priorities.

JOHN WATSON: And to be even more pointed about it, I would say that Commonwealth electorates sway the funding more than State electorates.

NICK GREINER: That may well be. It's a really vexed question, but the whole of the federation is a vexed question and there's no appetite on either side of politics really to fix it. Bob Hawke and I tried a long time ago. Paul Keating became leader of the Labor party mostly by attacking Hawke for being too nice to the states and wanting to have a co-operative, sort of, federalist approach. I think it has clearly gone too far. Because all politics is local you now get things at Federal elections saying, "I'm the Labor candidate for Woop-Woop and we've fixed your street down the road". The view is, and I think it's correct, that that's politically more relevant to a group of people than fixing a major highway somewhere, which they tend not to be that connected to. I think the Federal Government has clearly gone way overboard, you can see it in this election, both sides and, sort of, the showers at girls' netball courts have been -

JOHN WATSON: It's no longer thought remarkable when it should be.

MARION TERRILL: Hmm.

NICK GREINER: So at one level I do think the fact that Abbotts' federalism paper got jettisoned by Turnbull was a great pity. It is one of the serious constraints in Australia for the next long after I go to wherever I go. You do need to sort out the Federation. It was created for 1900, it clearly is dysfunctional in all sorts of ways; there is duplication and triplication.

Now that's a general statement. In the infrastructure space I agree pretty much with the notion of nationally significant projects, the sort of thing that Marion was describing. I do think you're probably now in for a period, whoever wins the election, of the Commonwealth having a clear view about cities and the way they function. The justification they have for that has some merit which is that if Sydney, to take our city, is congested and people can't get around and goods and services can't get around, we're a large part of the national economy and so Sydney being constipated in terms of movement of

people and things is a national issue. That's the argument and I think whether we like it or not, you're going to get a national Federal cities policy.

What that tells you is that you therefore need at least governance structures that are meaningful. I think there's a chance out at Western Sydney Airport, at Badgerys Creek, it could be three levels of government out there. If they created a single entity or a ministerial whatever and some organisation that gave you co-ordinated development not only of the airport, but of the aerotropolis and the transport that goes with and the employment creation, it cries out for the three levels of government.

JOHN WATSON: Conceptually that's where they're heading with talking about city deals which is bringing together private interests, all tiers of government. The organising unit is the city, but it also requires - which is the part they haven't talked about - devolution of power to that organised city from the Commonwealth. Do you see it happening?

NICK GREINER: I think it is an opportunity to do something like that, that's I think a British idea essentially. You could certainly do that at Badgerys Creek, you could have a Western Sydney Airport Authority – probably not a word I like, but you could have an entity that was responsible for the overall, otherwise the State railways will put in corridors and the Commonwealth will negotiate with Sydney Airport about the airport, and local government and these large private landholders out there will naturally pursue their own interests, that's what you'd expect them to do. So it does need some form of governance idea, it could be the sort of city deal thing, that forces these two or three levels of government and the private sector a) to be transparent with their interests and b) to try and produce a public interest outcome, rather than an outcome that's good for this interest or that interest.

So I do think that's important, if you could achieve that. It's harder if you're in an existing, if you're in a brownfield area, if you're around Parramatta where there's already lots of existing activity it's a little bit harder to create that sort of thing, but the government's doing it in Newcastle. The State Government has put out all of Newcastle's public transport essentially to the private sector to express how they would run it and for what cost, and I think that's a very interesting and sensible idea. But one way or another, you need to force the levels of government to work together better and more transparently than they've traditionally done.

MARION TERRILL: But Nick, doesn't that go to what we were talking about before where it would require a suspending of the electoral politics and in the end it's just not clear to me that that will not be the thing that trumps the idea of a location-based governance structure?

NICK GREINER: I think directionally the first thing to do is to work out what's the right policy and then you may have to step back. Western Sydney Airport seems to be bipartisan, they're playing silly games about will there be a curfew? Everyone knows there'll be no curfew, but they're talking a bit about it for election reasons. There I think you've got a chance because there's bipartisan support for the project, so it comes back to some of your stuff in your paper. If you could get projects, WestConnex, for example, when it was announced the Labor Party said, "Yes, we're completely for this project". They're less for it now because they're playing local politics, but if you could get bipartisan support to a rational Infrastructure Australia or Infrastructure New South Wales or whatever report at least at the in principle level, then I think you might get progress. Otherwise it will devolve into party nit-picking and the media will be in there as well trying to ferment conflict because that's what the media likes.



JOHN WATSON: You have it in Victoria too with the slightly ludicrous situation of East-West Link where the Coalition identified with the East Link, Labor is now proposing the West Link part of it, but actually it's two arms of the same project.

NICK GREINER: Yes.

JOHN WATSON: We've reached the time for opening it to the floor.

AUDIENCE: My question comes back to the thing Nick has mentioned, the principles behind planning versus a project-related approach. What are our objectives in transport planning? There can actually only be two and that is reduced dependency on oil and reduced CO2 emissions. On the cities I'm asking is it really worthwhile to let Sydney grow? Take the \$10 billion WestConnex and use that, and I had a discussion with John Alexander from Bennelong who invested in Goulbourn in a completely new city from scratch. So my question is which project would reduce oil dependency and reduce CO2 emissions?

NICK GREINER: Good question. You're right, there are clearly some issues, both about oil and about carbon into the future. I suspect that public transport is going to be a greater part of the future partly because its environmental impacts are less than cars, but I don't think you can dramatically change the existing Australian addiction to cars. I think in time and economics, depending on you've got views and I've no idea, they may well be right about where oil goes, but my sense is you shouldn't get up on modal, you know, "I'm for trains" "I'm for cars" "I'm for light rail". You need to get the best possible combination of modes and, as I say, I don't think you could have stopped the road network being completed because you might be concerned about the future of certain fuels. I think you actually need to try and take the city as a whole, and that includes of course where you put jobs.

I was in Parramatta at lunchtime, because they're talking not about moving jobs from here to Western Sydney, that isn't going to happen in large numbers. You've actually got to create jobs from within, that's why the aerotropolis around Western Sydney Airport is so important. I think you've actually got to create jobs that are near where the people live. That's a bad way of saying I don't know the answer to your question, but I do think that one should, as far as possible, try not to get cornered into saying this is the right project or the right type of project. One should look at, as best one can with scenario planning, the future of the metropolitan area and you will come up with a range of answers, some of which will go to your issues about the future of oil and carbon and some of them will react to other issues.

AUDIENCE: I wonder with respect to Badgerys Creek if it's the function of the Greater Sydney Commission under Lucy Turnbull to come upon with some answers on that particular issue, either by making the recommendations herself, as have been made in the past as you identified, by the Institute of Transport and so on, or whether that requires a special authority?

My second point is, are you concerned about the quality of economic advice in Australia? I have a long-standing view that Australia would benefit from the establishment of a council of economic advisers, similar to that which existed in the United States. There has been expression of interest in the quality of economic advice from both political parties and I think it stands out not only at the Commonwealth level, and Malcolm Turnbull is certainly aware of it I know, but also at the State level. When we look at various projects that have come forward I think that there's been a significant



absence of critical cost-benefit analysis and this is partly due to I think the availability of qualified economists to undertake that. I think that's a serious issue.

My final point is that I don't draw a sharp line between economics and political science. I think that modern democracy depends on the working and formed public opinion and the role of the press is quite vital in this connection. So I agree with you about transparency, but there has to be a greater recognition by politicians that they have to be able to justify their decisions. Thank you.

NICK GREINER: The answer is the Greater Sydney Commission does have an explicit responsibility for the area around Badgerys Creek Airport. My point is that the Federal Government actually can do what it likes with the airport and what you therefore need to do is, given that there is this huge Federal project, if you want to call it that, and it's in the midst of a large mostly greenfield area where the State's responsible and where the State's responsible for the transport planning and, indeed, the land use planning, and where the local council's very rapidly growing, Liverpool and Penrith, I think common sense suggests that yes, I do think the Greater Sydney Commission's got a key role. But you've somehow got to bring the three levels of government to work as far as possible in harmony or consistently, because it's not really possible to make rational decisions about where to put a rail line or where to put some new residential fairly high density areas in absence from where the airport's going and how it's going to function, so it's sort of obvious.

I think the Greater Sydney Commission, incidentally, is a really good idea, partly because there hasn't been strategic land use planning in Sydney for a long because councils, by and large, were not capable of doing it. Really this has taken the strategic planning away from councils and, indeed, in part from the Department of Planning, which has become a bit of a detailed nit-picking sort of organisation, rather than a strategic one. I do think there's a problem in terms of quality of economic advice and I think I mentioned earlier I think cost-benefit analysis globally is actually an underdeveloped science. I think a council of economic advisers has some merit. It's a bit hard to see why the national government in particular wouldn't go for it. I think it has some merit, but certainly you do have to keep improving the quality of cost-benefit analysis and how you cope with externalities that aren't all that susceptible to very direct economic assessment is just a tough question I think. You probably tend to get the answer you want at the moment.

AUDIENCE: I'd just like to talk about the CBD and southeast light rail. In talking about the congestion earlier, the light rail is going to take up two complete lanes of Anzac Parade from Alison Road down to Kingsford. Transport for New South Wales just came out with some figures in the paper and a correction to Elizabeth Farrelly's article a couple of weeks ago and the whole reason for doing the CBD and southeast light rail project was to remove 220 buses from the city, so 220 buses per hour with the carrying capacity of 16,000 people per hour are going to be removed for the light rail. These are to be replaced with 15 trams per hour with a carrying capacity per hour in peak of only 6,750 people per hour. So it's a real reduction of passenger capacity per hour coming into the city of nearly 60%. I was just reading the Infrastructure New South Wales report *First things first* from 2012 which basically recommended against having light rail in the city.

My question to you is, are you happy with the outcomes of a 60% reduction in public transport capacity coming into the city or do you think, like some people in the community, that the project should be immediately paused and that there should be a full parliamentary inquiry so that the public can be fully across the facts about this whole project, which seem to be being kept in the dark?



NICK GREINER: I think I could get into more trouble than I need to by answering this question. I think the factual parts are that Infrastructure New South Wales did think that the George Street part, the city part, was very difficult to recommend as a public transport option. I did get into trouble once saying I thought it was more an amenity issue, in other words people thought George Street would look nice, and it will, but that it won't really improve and may in fact cause problems in terms of the CBD's mobility and congestion in the CBD. So I guess I'm long removed from it. I haven't really changed my views about that, I don't think light rail retrofitted into the city is going to make a huge impact on public transport and I think there are some issues about what it will do to vehicular traffic, both east-west and north-south.

We were never actually asked to review it, it comes back to one of those did the government want it reviewed, did the city council want it reviewed? We actually thought that there was a better case instinctively rather than in detail for the part from Central to Kensington and Randwick, although we also did talk at the time about the option of heavy rail, extending it from Bondi Junction south round. As I say, I'm long removed and there's not much point trying to go back. So look, the project's going to happen, I think that's clearly the case. I think, at the end of the day, it will be a great improvement in terms of I think George Street will be an attraction. I think it'll be roughly even Stevens as far as moving people in the city. People will have to change their travel options, their travel habits, they'll have to learn to transfer at places, which other countries do.

So I guess we've got to wait and see. Leaving aside the emotional understandable issues about trees, I think light rail will help the development of Southeast Sydney, which it frankly needs. I think the area from Kingsford South will eventually be a major area of urban renewal and I think that's a good thing.

AUDIENCE: I come to the point, unlike the toll roads where it's easy to see where you're getting the money because there are toll booths and whenever a car goes through the toll booth goes off or you put money into the toll booth, that's how you get your money and that's why private investors were keen to invest in toll roads. You don't see that or you don't see that so obviously with public transport, and that's why I think it's hard to find private investors or even super funds willing to invest in it and I don't think the debate has really been had about the idea of super funds getting their investment into public transport. I also don't understand how these infrastructure bodies, be it Infrastructure New South Wales or Infrastructure Australia, would give the thumbs down to some projects, such as the now seemingly permanently derailed completion of the Parramatta-Chatswood rail link via Epping which, if it had been completed, would have directly connected 30 western Sydney stations directly to the north shore and vice versa, thereby reducing a lot of needless congestion on the existing CBD and inner city railway lines and lured lots of people out of their cars now clogging the M4 and M7. And I mean lured rather than forced, which is what I think this light rail thing is.

It's just all part what I think is a rubbish plan by Mike Baird with his light rail and metro with tunnels 40cm too small for Sydney's existing trains, so it's not a good utilisation of our resources at all. But what I'd like to ask is about ten years ago the Sydney Morning Herald put out a report and commissioned a study, it found that an absence of good public transport was costing the city something like \$18 billion a year in lost productivity as people were stuck in their cars. That was the cost of traffic congestion. Nobody to my knowledge had ever put a price tag on traffic congestion and the cost to the economy and that was the equivalent of \$1.5 billion a month and that's from governments not spending money on public transport. We're actually losing money for the sake of maintaining a budget surplus and AAA credit rating which I think is a complete façade or a mirage.



So I ask what is the point of having this budget surplus and AAA credit rating when people are stuck in traffic for the sake of preserving it due to the government's fear of short term debt to spend on necessary public transport to make it functional? Why worry about the AAA credit rating when people are stuck in traffic?

NICK GREINER: I think if I was Tony Jones I'd say we'll take that as a comment. There are a couple of things in there. I don't know that anyone ever evaluated the missing link of the Parramatta to Chatswood rail line. The O'Farrell government decided to build the northwest rail line on the route that he did. I think at the time the Labor Party had a different view and it was a bit academic. The truth is the incoming government decided that the route that's now being built was the route. I think there is a substantial case for the other route, that's as much as I'd say about that.

On the AAA credit rating, that's become in many ways a surrogate for good economic management. Right or wrong, that is what's happened and it goes back quite a long time. It's now become not so much simply about does your interest cost go up, which it does, it's essentially seen by the public as well as by stakeholders as if you lose your AAA credit rating it's an indication you're not managing very well. To be fair, and I'm not a spokesman for the Baird government, they're putting more money into public transport than has been put in in 60, 70, 80 years. I'm no longer involved, I can't have a view on particularly where, but I generally think that the rail network will come out of this as long as it has a north-south link at Penrith.

I think it is very important that the heavy rail link exists between Penrith or even north of Penrith down to Badgerys Creek and down to Liverpool or Luddenham, but I think the government is doing a really good job, an unprecedented job of fixing the heavy rail system in which there's been no investment, as you were suggesting, or very little investment for a very long time. I don't know if I've got any more to say, I think that's probably as much as I can say.

MARION TERRILL: The only thing I'd add to that is I think your point is very valid, that there's a lot of benefits to cities in terms of people having a bigger choice of jobs and employers having a bigger choice of people, and that is part of what makes us better off. But that's only true if we're not a set of disconnected villages, if it does function as a city. So that kind of investment in getting people around by whatever means is really critical and it is investment, it's not recurrent spending. If they're quality projects then it is actually investment for the future and it should legitimately be paid for over a period of time, not in a single year.

JOHN WATSON: We're out of time, thank you for coming along and I hope you've all got something out of it. Thanks very much to our guests, Nick Greiner and Marion Terrill.

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