



16 April 2020

To: all Australian governments

## **INFRASTRUCTURE RESPONSE TO COVID-19**

Infrastructure Partnerships Australia is the nation's infrastructure think tank, providing independent policy research focused on excellence in social and economic infrastructure.

I write to offer you and your government the support of the infrastructure sector in response to the COVID-19 crisis. The position of Infrastructure Partnerships Australia is – and will continue to be – that we stand ready to provide the advice and assistance you and your government require over this period. We know that the recovery from this crisis is likely to be long and require many tough decisions by your government. Infrastructure Partnerships Australia will seek to support you as best we can for the duration of the recovery.

As a first step, Infrastructure Partnerships Australia has sought the views of senior leaders across the sector. Having consulted with some of Australia's leading infrastructure constructors, operators, investors and advisors – and our extensive public sector membership base – we have compiled the below advice. The significant growth of the infrastructure pipeline in recent years, and the accompanying development of the sector's capacity, means the sector is well placed to provide support during and after the COVID-19 crisis.

In providing this advice, we have outlined numerous actions and measures that can be implemented by governments. It will be critical for governments to balance immediate-term responses with longer-term recovery efforts and carefully consider how, where and when these actions are deployed. Governments should be cognisant of the need for decisions to be made swiftly and in collaboration with industry. Coordination across the states will also be vital.

### **Infrastructure can help to soften the immediate impacts of COVID-19**

We have been encouraged by your government's measures to ensure infrastructure operations and construction remain essential services over this period. Keeping construction sites running and infrastructure operating will help to maintain direct economic activity, while also supporting demand throughout infrastructure supply chains.

As global events impact supply chains, or regulations to curb the spread of COVID-19 change, so too do the steps required to ensure project delivery can continue. Keeping in close contact with the industry will be imperative to understand the impacts of these changes and put in place further measures to avoid project disruptions and delays.

### **Continuity of the infrastructure pipeline is essential**

Your government has worked hard over recent years to establish an infrastructure pipeline of unprecedented scale. It is essential that governments commit to the delivery of this ambitious program, for the benefit of not only the sector but also the broader economy. The sector recognises the importance of ensuring the safety and wellbeing of the construction workforce and the broader community throughout this period, and will work closely with you to ensure these outcomes remain our collective first priority.

For projects that are under procurement, it is important that these processes go ahead without delay. And wherever

possible, the sector welcomes measures to streamline bidding and approvals processes. This could include using alternative procurement models that simplify processes, allow greater flexibility and promote collaboration between the private and public sectors. This would help to move projects to market faster.

### **Infrastructure should be a core element of stimulus**

Beyond the next few months, infrastructure can and should play a pivotal role in underpinning economic recovery.

Clearly, there is no 'rulebook' or precedent to guide recovery from COVID-19. However, we know that well-directed infrastructure investments can not only provide vital stimulus to the economy in the short term, but also boost the productive capacity of the economy and the workforce over the longer term.

### **Stimulus should be directed to the right projects**

There is broad consensus within the sector that maintenance and smaller capital projects (in the range of approximately \$50 million to \$500 million) could be accelerated and commenced most easily. For these types of projects, approvals could be sought almost immediately, planning work can be progressed even with current lockdown controls in place, and resources could be deployed within months. Clustering similar smaller projects as part of programs could help to build scale and deploy stimulus faster.

For projects with funding and planning approvals underway, these should be brought to market as soon as possible. Where there is the potential to accelerate larger, more complex projects, it will be vital to apply the usual rigour and discipline to decision-making processes.

Beyond these priorities, existing government plans and strategies provide a menu of options for investment that could be brought forward to aid recovery. Governments should assess where funds will have the most impact and consider which sectors will benefit the most from stimulus. Governments should also be mindful of existing market structures and funding sources for each form of infrastructure, and ensure that steps taken through stimulus do not unduly distort markets over the longer term. For instance, direct public funding for largescale electricity generation in private markets would be likely to distort investment incentives over the longer term, and have negative implications for the flow and cost of capital in that sector.

### **Steps taken now can underpin a more productive economy beyond recovery**

The current crisis will undoubtedly have deep and long-lasting impacts on Australia's economy. Governments can take steps now to support recovery efforts, and importantly, place Australia in a strong economic position on the other side. There is also an opportunity to undertake much-needed economic reforms that improve the efficiency of markets, better align regulation with users' interests, remove impediments to private investment, or shift the burden of funding towards users and away from taxpayers. These kinds of reforms can support Australia's recovery over the coming months, and should be retained to strengthen the nation's prosperity into the future.

Reforms should be considered based on their ability to boost productivity and provide increased revenue streams to governments. In terms of infrastructure, consideration should be given to potential reforms to funding models. User pays models could offer increased revenue streams to governments, particularly in light of some revenue streams waning, such as fuel excise.

Consideration should also be given to undertaking a second wave of asset recycling and implementing tax incentives that promote increased private sector investment.

### **The infrastructure sector is up for this challenge**

In speaking with senior infrastructure leaders from across the sector, it is apparent they remain upbeat about Australia's future and the role of the sector during and after the current crisis. There is optimism amongst these leaders that if governments adopt a cohesive and coordinated strategic direction, make the right decisions at the right time, and keep an open dialogue with industry, Australia can forge a path to recovery.

The sector is appreciative of the support from and collaboration with governments during this time. Going forward, the sector will continue to engage with and provide feedback to governments, and will remain ready to assist governments in the efforts to rebuild the economy.

**Infrastructure Partnerships Australia has prepared a menu of potential actions**

I also have attached a summary of potential actions discussed with and drawn from senior leaders of the infrastructure sector. These are framed around responses that fall into immediate, medium and longer term timeframes.

Noting that this table provides only limited detail on the actions we believe could assist with the response to COVID-19 and recovery from it, my team would be happy to provide further details or a briefing on any of the proposed actions and suggest direct industry contacts to provide additional insights.

Should you require further information, please contact Director of Policy and Research, Jon Frazer on 0422 688 430 or [jon.frazer@infrastructure.org.au](mailto:jon.frazer@infrastructure.org.au).

Yours Sincerely



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# INFRASTRUCTURE STIMULUS IN RESPONSE TO COVID-19

## Summary of potential actions



<b>Immediate response</b> (0-3 months)	<b>Initial recovery</b> (3-12 months)	<b>Longer term response</b> (1-3 Years)
<p><b>Ensure continuity of the existing pipeline</b></p> <ul style="list-style-type: none"> <li>• Governments should seek to deliver all projects in the pipeline in line with existing forecast timeframes.</li> <li>• Key government personnel who administer the pipeline should be retained in their usual positions where possible.</li> <li>• Planning and approval processes should be streamlined where backlogs currently exist.</li> </ul> <p><b>Support constructors and operators to keep working</b></p> <ul style="list-style-type: none"> <li>• Governments should look to expediate payments to alleviate cash and liquidity issues facing contractors and sub-contractors where appropriate.</li> <li>• Government should administer existing contracts collaboratively, recognising the unavoidable delays and constraints caused by COVID-19.</li> <li>• The government should maintain ongoing dialogue and collaboration with the industry.</li> <li>• Governments could consider staggered work starts and 24-hour worksites to assist with avoiding delays while adhering to health and safety restrictions.</li> </ul>	<p><b>Focus on accelerating smaller projects over coming months</b></p> <ul style="list-style-type: none"> <li>• The government should prioritise smaller projects (nominally ranging from around \$50m to \$500m) that hold sufficient scale but pose limited delivery or scope risks. Examples could include maintenance and minor capital works, education, public and social housing, small-scale health infrastructure, industrial solar and storage rollout, technology on transport or small-scale water, waste and recycling projects.</li> <li>• Look for opportunities to support projects in regional areas to mobilise a broader section of the workforce and contractor base.</li> </ul> <p><b>Draw from existing plans and strategies</b></p> <ul style="list-style-type: none"> <li>• Look to accelerate projects already identified in long-term strategies of infrastructure bodies and various government departments.</li> <li>• Avoid rushing projects outside these plans, as they could risk yielding lower net public benefits.</li> <li>• Expand the pipeline through institutions with the systems and planning power to deliver their own projects, such as larger councils, ports and universities.</li> </ul>	<p><b>Prioritise projects with strong strategic merit</b></p> <ul style="list-style-type: none"> <li>• Fast track projects that respond to population growth and sectoral transformations, for example public transport, waste and recycling, water and transmission upgrades to renewables.</li> <li>• Consider the lasting impacts of COVID-19 on demand for some types of infrastructure, and whether some projects need to be de-prioritised.</li> </ul> <p><b>Consider tax-based incentives to stimulate investment</b></p> <ul style="list-style-type: none"> <li>• Use tax-based incentives to encourage private investment.</li> <li>• Consider potential reforms to stamp duty and GST.</li> </ul> <p><b>Consider a new wave of asset recycling</b></p> <ul style="list-style-type: none"> <li>• Governments should consider asset divestments to pay for new infrastructure investments that will stimulate the economy through construction and underpin improvements in productivity through operation.</li> <li>• The Federal Government should consider re-introducing incentives for asset recycling.</li> </ul>

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<b>Immediate response</b> (0-3 months)	<b>Initial recovery</b> (3-12 months)	<b>Longer term response</b> (1-3 Years)
<p><b>Monitor supply chains and respond quickly to issues</b></p> <ul style="list-style-type: none"> <li>• Monitor domestic supply chains, including the effects of interstate border closures.</li> <li>• Monitor overseas decisions and the global supply chain, consider domestic impacts and respond quickly.</li> <li>• Consider a shift to localised supply chains where there are risks of disruptions to long-term international supply.</li> </ul> <p><b>Ease the sector's burden where possible</b></p> <ul style="list-style-type: none"> <li>• In order to enable staff of construction firms to remain focused on project delivery, rather than bidding for projects, tender timeframes and requirements should be streamlined where possible.</li> <li>• Examine alternative procurement methods that shorten procurement periods where appropriate.</li> </ul> <p><b>Set policy objectives and establish governance</b></p> <ul style="list-style-type: none"> <li>• Provide clarity of the government's objectives, tied to broader policy goals where possible.</li> <li>• Establish governance and a team to oversee the response, monitor progress and coordinate agencies.</li> </ul>	<p><b>Look for larger projects that can proceed now</b></p> <ul style="list-style-type: none"> <li>• Draw from projects already planned, approved and funded across a number of sectors that require minimal work to bring to market.</li> </ul> <p><b>Consider measures to support industry capability</b></p> <ul style="list-style-type: none"> <li>• Governments should consider building industry capability to deliver the future pipeline by investing in (re-)training workforces, particularly in emerging sectors.</li> </ul> <p><b>Monitor capital market impacts to ensure industry has the capacity to deliver pipeline</b></p> <ul style="list-style-type: none"> <li>• Governments should seek to foster private investment to supplement stretched balance sheets by bringing forward investable projects funded by users.</li> <li>• Private investment through PPPs or other forms of contracting can accelerate delivery, noting shifting limitations in capital markets.</li> </ul>	<p><b>Lock in reforms and stay the course</b></p> <ul style="list-style-type: none"> <li>• Governments should look for opportunities to introduce reforms alongside investments that will boost long-term productivity.</li> <li>• Take the opportunity to consider and implement important reforms that raise revenue, such as road user charging for electric vehicles.</li> </ul>

