

## FEDERAL BUDGET 2017-18 CONFIRMS A STRONG PIPELINE OF INFRASTRUCTURE PROJECTS

The Australian economy was boosted by increased residential construction as activity transitioned from resource sector lead construction. However with the residential construction cycle now peaking, greater public investment in infrastructure is required.

### June 2017

The long-awaited **Inland Rail** will proceed following commitment to **\$8.4 billion of equity funding into ARTC**.

The Federal Government will **facilitate delivery of the new Western Sydney Airport** through a **\$5.3 billion** investment over 10 years.

The recent budget outlines a total of **\$75 billion in funding allocations for rail and road infrastructure** in the **10 years 2017-18 to 2026-27**.



**JENNELLE WILSON**  
Senior Director – Research QLD

“With many engineering and construction companies now much leaner than three to four years ago these companies may now be on the brink of a new phase of expansion thanks to a healthy pipeline of infrastructure projects emerging across Australia.”

The recently released March 2017 construction data for Australia (ABS), indicates further weakness in private sector construction (down 2.8% year on year) and highlights the requirement for more public sector expenditure to support the economy, already up by 8.8% year on year. While not expected to return to the post-GFC stimulus high of 2010/2011 there is a greater political will to invest in major infrastructure which has measurable productivity benefits.

The trend estimates for total construction across Australia showed a fall of 0.6% in the quarter and 6.8% for the year. Residential building work was stable over the March 2017 quarter but represented a fall of 3.5% on an annual basis and is expected to continue to moderate from the current cyclical highs. Engineering works increased slightly over the quarter with a 0.1% increase, however on an annual basis this remained 12.4% lower than a year ago as major private sector projects were completed and few new projects commenced.

The 2017-18 Federal Budget made a number of announcements regarding the funding for infrastructure. While many of these were for longer term funding structures, the increased focus on “productivity boosting” infrastructure investment and associated borrowing is a positive for the economy.

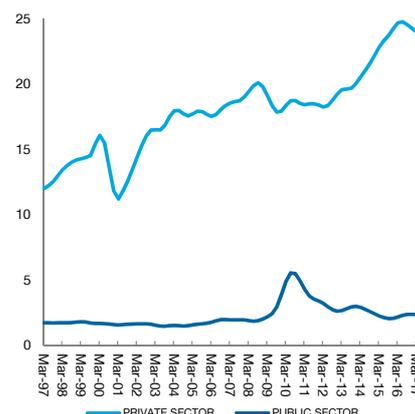
### Inland Rail

The Melbourne to Brisbane Inland rail project received specific funding in the 2017-18 Federal Budget, bringing some certainty to the long-mooted project. With the idea for inland rail first put forward by the then prime minister Andrew Fisher in 1915, the 1,700km rail link has long been on the infrastructure “wish list” for Australia.

The recent Federal budget has promised an equity investment in the government entity, Australian Rail Track Corporation (ARTC) of \$8.4 billion to deliver the project. ARTC have been working in the background for a number of years to finalise the route and undertake some preliminary works for the project. Work to upgrade the first section of track will begin in 2017-18 with the project to encompass upgrades to 1,000km of existing track and the construction of some 700km of new track.

Funding will be ramped with an initial \$200 million investment in 2019 and \$400 million in 2020, with the remainder of the equity slated to be provided in the years beyond. The Inland Rail Programme was determined in 2015 and has been broken into 13 separate projects, subject to final alignment sign-off and relevant planning approvals, the new line is scheduled to first operate in 2024-25.

FIGURE 1  
**Construction Work Done**  
\$million value per quarter



Source: Knight Frank Research/ABS 8755

Along with the \$8.4 billion equity funding from the Federal Government the ARTC will also undertake part of the development through a Public Private Partnership. Specifically, the 126km section through the Great Diving Range from Toowoomba to Kagaru (42km South West of the Brisbane GPO), connecting with the existing ARTC infrastructure, will be funded through this model. Overall the route will use the existing interstate line from Melbourne to Illabo (NSW) which will be upgraded to accommodate double stacked container freight trains. From there the route is a combination of new and upgraded track via Parkes, Moree and Toowoomba before terminating at Kagaru, meeting the existing interstate line.

The Inland Rail project is expected to provide the necessary freight capacity to facilitate the forecast 80% growth in freight movements in Australia to 2030 (ARTC), with road infrastructure unlikely to be able to provide this level of capacity. Additionally the route of the Inland Rail, through regional Victoria, NSW and Queensland will allow greater options for agricultural freight and short term delivery to major airports (Melbourne, Avalon, Wellcamp/ Toowoomba and Brisbane) for potential international delivery of perishable goods.

## National Rail Plan

A \$10 billion national rail fund was also announced to fund priority regional and urban rail projects. Already proposed projects such as Adelink (Adelaide), Brisbane Metro, Tullamarine Rail Link (Melbourne), Cross River Rail Brisbane and the Western Sydney Airport Rail link will all be likely to compete for Federal funding under this structure. At this stage \$1 billion will be made available during the four year estimates period with the remaining of the announced funding not available until 2020+.

With many of the above metropolitan passenger projects subject to advanced plans and also have demonstrated need in the community it is expected that competition for this funding, particularly within the four year estimates period, will be particularly high.

## Second Sydney Airport

The Federal Government has announced the creation of WSA Co which will facilitate construction and delivery of the new airport at Badgerys Creek. The Sydney Airport Corporation, which had a first right of refusal to build the second airport, declined the opportunity to construct the airport, located in Western Sydney.

In the 2017-18 Federal budget a total investment of \$5.3 billion over 10 years was announced to fund the construction of the new airport via an equity investment in WSA Co. The WSA Co entity will be established early in 2017-18 and will deliver the facility which will have a 3.7 kilometre runway and a terminal with the capacity for up to 10 million passengers per year. Construction is slated to begin on the site by the end of 2018 with the airport to be operational by 2026. It is expected that the Federal Government Agency (WSA Co) will not be a long term holder of the asset and will offer it to the market soon after completion and/or accept private sector investment and ownership of WSA Co during the construction period.

Aligned with the delivery of the new Airport the Western Sydney Infrastructure Plan is in place to deliver new and upgraded roads to support integrated transport in the region and enhance business development in the region. The \$3.6 billion, 10 year investment in transport will also be supported by Western Sydney becoming one of the first regions to be supported with the City Deal programme.

## Snowy Mountains Scheme 2.0

The Federal Government has commenced discussions with the NSW and Victorian Governments to acquire a larger share or outright ownership of the existing Snowy Hydro infrastructure to facilitate a planned "Snowy Hydro 2.0". The new scheme is slated to increase the generation capacity by 50% with up to 2,000 megawatts of additional renewable energy added to the grid.

## Additional Measures

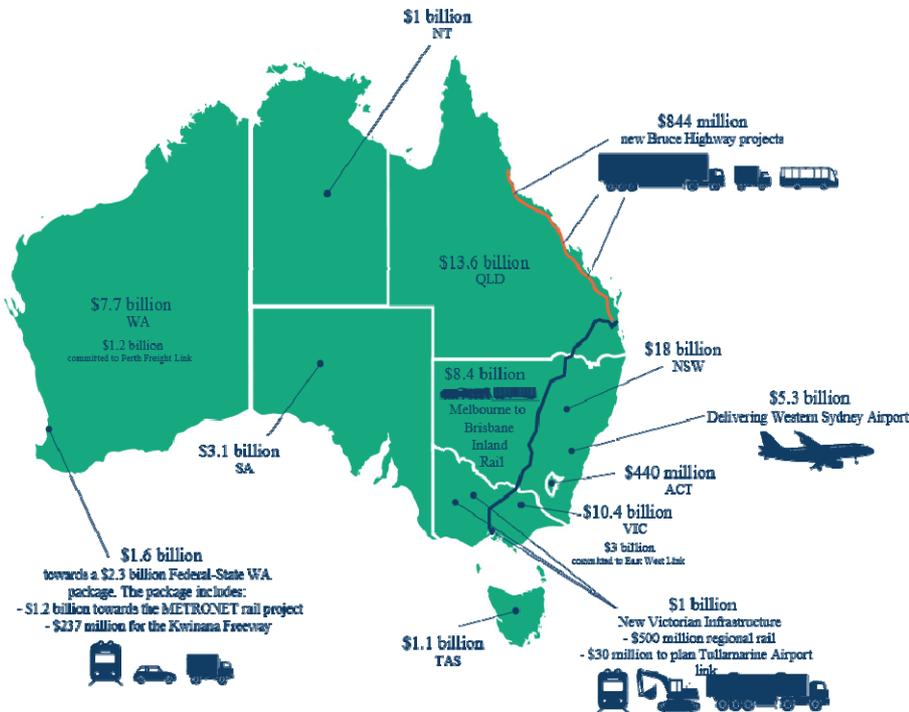
- Including projects outlined above there is a \$75 billion funding allocation for road and rail projects over the ten years from 2017-18.
- \$844 million for additional improvements to the Bruce Highway in Queensland, particularly for the Pine River to Caloundra section (Sunshine Coast).
- In Victoria, a \$1 billion package which includes \$500 million for regional passenger rail supporting Geelong Rail Line upgrades (\$100m), Murray Basin Rail (\$20.2m) and Tullamarine Airport Rail Link business case (\$30m).
- The concept of fast rail projects will continue to be explored with \$20 million available to partner with proponents of up to three fast rail projects to develop business cases to better connect regional centers with the major cities.
- Regional Growth Fund will be supported by \$472 million for local infrastructure projects for regional communities.
- In WA the Federal Government will contribute \$1.6 billion to a \$2.3 billion Federal-State package which will provide \$1.2 billion for the METRONET Rail project and \$237 million for the Kwinana Freeway which provides access to the Fiona Stanley Hospital and links Perth with Mandurah.

## Outlook

Following the resources boom the engineering and civil construction sectors have faced downsizing as the pipeline of major construction projects was greatly reduced. With many engineering and construction companies now much leaner than three to four years ago these companies may now be on the brink of a new phase of expansion thanks to a healthy pipeline of infrastructure projects emerging across Australia. With both Victoria and New South Wales already in the midst of strong infrastructure construction the recent Federal Budget has consolidated this with additional long term investments across Australia.



# Infrastructure Spending Highlights



Source: Budget Papers 2017-18

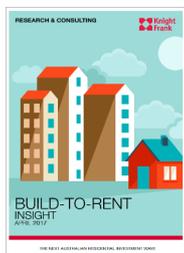
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