

Submission to Inquiry into infrastructure and the development of Australia's regional areas

Introduction

This submission is presented by Warrnambool City Council

The City of Warrnambool is the regional centre for the south west region of Victoria. Warrnambool is a city of some 28,000 located on the coast 260 kilometres west of Melbourne. The population growth rate is 1.5% per annum which compares to population declines in all other municipalities in the region. Whilst manufacturing is still a significant employer in Warrnambool, service industries account for 43% of employment and wholesale and retail trade 27%. The unemployment rate is around 8.5% with youth unemployment running at double this rate

Warrnambool sees its future prospects as inextricably linked with the South West region and this submission provides a South West perspective.

In 1997 the five municipalities comprising the south west region undertook a regional economic development strategy. This strategy identified a number of deficiencies in regional infrastructure:

- Water supply infrastructure requires upgrading to safeguard water quality and wastewater management
- Market failure in the regional power infrastructure investment opportunities The South West Power Infrastructure Study which has identified a range of potential solutions to power infrastructure problems is about to be released.
- Lack of competitive telecommunications infrastructure
- Sub-standard state of regional roads and bridges and long lead time for major improvements
- Low quality of the Warrnambool rail line and generally high charges and uncertain service standards
- Required upgrading of commercial fishing port facilities at the Port of Portland
- The run down of infrastructure capacity including social infrastructure, in a number of towns within the south west region
- Lack of standard gauge rail, linking the Port of Portland

The effects of National Competition Policy reform on infrastructure provision in regional areas have recently been considered by the Productivity Commission. In general the outcomes in the sectors surveyed (electricity, gas, water and road transport) are seen as positive in respect to costs and prices and service quality, but negative in terms of job reductions. Local views on the effect of NCP are canvassed in this submission

The submission provides detailed information in respect to infrastructure issues in the region, and includes a case study of the Warrnambool foreshore development which is estimated to involve a total investment of some \$65 million. It also provides some recommendations for consideration by the inquiry

Infrastructure

The case for a link between infrastructure spending and regional economic development has generally rested on two arguments:

- the level of public infrastructure provides an incentive to attract businesses
- public infrastructure interacts with private investment to increase productivity

The Industry Commission has argued that ...in setting the scene for economic development ...governments have a significant role in providing efficient user friendly infrastructure such as education, roads, ports and waste management and operating these in an efficient low-cost way (directly or by private supply)
Industry Commission Report No 55 October 1996

Whilst economic development is usually characterised by increased investment it may not necessarily involve increased employment. However the provision of infrastructure is generally seen as employment creating in its own right in the following areas:

- construction
- operation
- maintenance
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The South West region of Victoria is currently experiencing a boom in infrastructure projects but is not necessarily reaping the benefits in terms of jobs for locals. A number of positions are being filled from outside the region

The report of the Private Infrastructure Task Force concluded that the relationship between public investment in infrastructure and private productivity growth has not yet been empirically validated.

Other commentators have suggested that the spatial incidence of infrastructure investment results from the policies of various tiers of government (Sorensen)

In discussing infrastructure provision it is usual to differentiate core or economic infrastructure and social infrastructure.

Core infrastructure comprises transport and communications facilities and electricity, water and gas facilities

Social infrastructure is usually defined to include schools and educational

institutions, health services and recreational and tourism facilities.

This distinction is seen as important, particularly in looking at opportunities for further investment in infrastructure by both the public and private sectors

For instance the Private Infrastructure Task Force suggested that ‘... continued growth in Australia’s tourism industry should encourage private provision of tourism-related infrastructure such as conference centres, exhibition facilities and sporting venues.’

As another example the dairy industry in Victoria has commented on what it sees as the likely effects of infrastructure reform (principally through the implementation of National Competition Policy reforms). The industry has doubts in the following areas:

Electricity – provision of adequate investment in rural reticulation systems

Gas – failure to provide adequate supply back-up systems

Water – inability of water distribution systems to deliver volumes of water required under water trading

Roads – diminishing investment in maintenance and construction of country roads is adding significant costs to the dairy industry

Telecommunications - poor quality and antiquated services and

disenfranchisement of many farmers through rationalisation eg change from analogue to digital mobile telephone networks

A recent regional forum which produced the South West Region Action Plan commented in respect to infrastructure:

‘The availability and quality of modern hard and soft infrastructure is a primary determinant of business investment in regions. The South West can only be promoted as a successful business base if it offers sound infrastructure including excellent transport links and reliable forms of energy.’

The forum identified a number of key infrastructure priorities in the region:

- implementing ‘Transporting Victoria’ - this State Government strategy is discussed later in this submission
- upgrading the Melbourne to Geelong section of the Princes Freeway to 6 lanes In recent weeks it has been announced that in response to a report prepared by the Princes Freeway Action Committee the Victorian government has agreed to contribute \$120 million to the upgrade if the Federal Government also contributed to the estimated total cost of \$237 million. The report found that with a cost/benefit ratio of 4:1 the upgrade will boost Victoria’s GDP by \$800 million. Among other claimed benefits was the creation of 4500 jobs , half of them in Victoria.(Age 22/3/99)
- development of a standard gauge rail in Victoria, linking the South West and Portland Port with the State Network.
- improving road and rail access into the Port of Geelong
- supporting the development of Avalon Airport as a regionally based international freight hub
- developing innovative waste management and treatment options including the reuse of waste water
- identifying innovative options for financing new infrastructure relating to industry expansion
- provision of three phase power to support value adding and an assured

power supply conclusion

The report of the forum notes that infrastructure includes communications and IT highways as essential supporting infrastructure. Within the South West region access to modern and reliable telecommunications and information technology services and infrastructure is inconsistent. The forum seeks State government support for the GGT telecommunications initiative which has identified many of the region's needs. (this initiative is discussed in detail later in this submission)

Role of local government in infrastructure provision

Local government has a vital role in the provision of infrastructure. The Private Infrastructure Task Force estimated that of Australia's stock of infrastructure of \$400 billion approximately 75% is provided by state/local sector investment. Historically local government has concentrated on roads and drainage which currently account for a large proportion of the local government asset base. Because local roads and drainage have been seen as a traditional function of local government their provision has received little support from other levels of government.

With the trend to larger local government units there has been the opportunity to look at non traditional infrastructure provision methods often involving private enterprise in BOO or BOOT type schemes.

As an example the City of Albury is currently seeking private partners to develop and manage its indoor sporting stadium.

The City of Warrnambool is interested in partnership arrangements for a number of infrastructure projects to help ensure that these projects proceed.

Current projects include :

- Replacement of Hopkins Bridge
- Indoor Sports Stadium
- Indoor Heated Swimming Pool
- Southern Ocean Encounter (Marine Centre)
- Sister City Japanese Garden

The Local Government Association of Queensland has developed guidelines for private sector involvement in infrastructure provision and these may provide guidance to local councils.

Financing Infrastructure Provision

Traditionally the provision of infrastructure in Australia has been financed by government. It is estimated that government currently owns some 90% of infrastructure assets. However private sector involvement in infrastructure provision is increasing in the construction, operation, maintenance and financing of infrastructure assets and projects.

In respect to the financing of infrastructure facilities, a recent report has identified that regional areas suffer a number of impediments. These include:

- the lack of critical mass ie there is difficulty in demonstrating the existence of sufficient ongoing demand
- the difficulty in segregating out the significant public interest aspects of regional projects which might lend themselves to a cocktail of public and private funding
- the political aspects of infrastructure decision making in regional areas with a lack of commitment or financial resources to prepare proper feasibility studies
- the characterisation of some regional projects as 'orphans' – too small to be economically viable given the level of tendering costs incurred
- interdependence of infrastructure projects across regional areas and the interdependence of infrastructure and property/commercial developments in a number of cases
- the need for innovative thinking in conceptualising projects
- the impediments to bringing together project initiators and prospective financiers in a co-operative atmosphere

The report prepared by Australian Project Development Pty Ltd for the Australian Council for Infrastructure Development (AusCID) also looked at a number of regional project proposals in workshops held around Australia. A proposal to develop a Marine Centre (Southern Ocean Encounter) in Warrnambool was one of the projects considered at a workshop. The facility was envisaged as an environmental education centre as well as a tourism property. It was seen as linking infrastructure, bringing together the harbour and foreshore which is relatively undeveloped, marina and associated business activity, existing and proposed hotel and accommodation development and tourism associated with local attractions such as whale watching, and the Great Ocean Road.

The Warrnambool foreshore development of which the Southern Ocean Encounter is an integral part, is detailed as a case study later in this submission

Recreational Infrastructure Bonds

A proposal developed by a Warrnambool businessman is aimed at financing local infrastructure projects by utilising tax concessions for philanthropic investments. It proposes the use of Recreational Infrastructure Bonds (RIB's) to finance local infrastructure facilities such as the heated swimming pool. It is understood that this proposal is currently being considered by the Federal Treasury. A copy of the proposal is appended to this submission

GGT telecommunications Initiative

This is an initiative of a number of local government and other groups in the GGT area of SE South Australia, Western Victoria, and the Wimmera, and seeks to identify a communications market in the region by co-ordinating aggregated demand for communications for a virtual city across the region. By demonstrating that demand for improved telephone and data provision services exists the project hopes to induce telecom providers to introduce new and improved services and reduce costs.

Communication infrastructure problems identified in the region include:

- poor network coverage for mobile phones
- slow speed of data access
- high cost of Internet service provider access
- high cost of STD access
- lack of ISP competition
- data connection dropouts
- low level of equipment and service options
- poor technical support from ISPs
- degradation of line quality for fax and Internet access
- line interference
- slow response to fault or repair requests
- line destruction by natural hazards

Funding has been received from the Regional Telecom Infrastructure Fund, and whilst it cannot be used to buy telecom infrastructure, it will fund the establishment of a number information exchange and learning centres across the region. These will provide training and communication services for the local population.

Transport Strategy

The Victorian Department of Infrastructure has recently produced 'Transporting Victoria' which provides an integrated transport strategy for regional Victoria

In respect to infrastructure requirements the strategy document states:

'Improved transport infrastructure is needed in regional Victoria to make the most of ...changing patterns of usage and demand. Transport infrastructure improvements must recognise the entire freight transport chain (including local roads, arterial roads, terminals, rail corridors and international gateways such as air and sea ports) and their impact on the environment '

The strategy identifies a number of required transport infrastructure improvements for regional Victoria. These include:

- ◆ Standardising rail gauges –however a recent study has concluded that standardisation is not a viable option for regional Victoria at the present time.

The recent privatisation of rail freight services in Victoria was accomplished via the sale of Vline Freight to Freight Victoria for \$163 million. Freight Victoria leases track and has recently stated that standardisation will not be done in a hurry unless government is prepared to contribute (Age 7/3/99)

- ◆ upgrading of links in the arterial road network – programs are in place to undertake these upgrades
- ◆ Murray River Crossings. Whilst not directly relevant to the Warrnambool region the recent decision of the Federal Government to commit \$44 million for the construction of three new Murray River bridges is an example of successful presentation of a case for infrastructure funding. The commitment followed the preparation of a transport economic study by the Murray River Crossing Group. This study showed that freight with a value of \$33 billion crosses the 32 Murray bridges each year, and that many of the bridges are inadequate for the task.
- ◆ Cost effective and sustainable management and renewal of local roads. Whilst local roads are the responsibility of Local Government the State Government is collaborating with Local Government to ensure local roads meet usage requirements
- ◆ Private sector investment in inter-modal transport hubs – following on from the privatisation of the rail freight industry.
- ◆ Bridge upgrades on state arterial roads and local roads to handle high productivity vehicles Funding support for upgrades will be provided

In respect of tourism services the Strategy encourages the development of public transport infrastructure including:

- development of railway stations
- operating tourist railways

Environmental protection measures for infrastructure will apply at all sites and across all transport infrastructure. The measures will encompass such issues as noise, air and water quality, heritage value conservation and construction and maintenance methods

A review of the effectiveness of the Australian roads system and the roads agencies (Austroads 1997) provides a number of economic perspectives on road investment including :

- significant economic benefits arise from properly targeted investment in road infrastructure
- not all investment in roads is economically efficient, and a customer focus should be adopted in making investments
- current practices for determining road investment priorities do not assess the adequacy of overall resource allocations
- road investment is crucial in enhancing the international competitiveness of local industry.

Research undertaken as part of the Austroads review indicates the importance of transport costs in maintaining export competitiveness, and points to the increasing pressure on rural arterial and local roads in regard to road standards and level of maintenance. In respect of road quality in rural areas the losses from damage to production tends to be greater than savings possible from upgrading roads.

A local study undertaken for Moyne Shire which abuts the City of Warrnambool looked at the constraints imposed on the dairy industry by the condition of local roads. This study concluded that the run down in the condition of local roads was impacting on the industry in respect to increased collection costs for milk

Water initiatives

Whilst provision of water services is a State Government responsibility, Federal Government policies in particular the Water Reform Agenda has an increasing influence on the industry.

In Victoria the water industry is structured into

- metropolitan retail companies
- non-metropolitan urban authorities
- rural authorities
- catchment management authorities

The Strategic Water Reform Framework as implemented in 1994 covers the following areas :

- Water pricing – the principle of consumption-based pricing and full cost recovery incorporating two-part tariffs
- Separation of the roles of providers and regulators and natural resource managers
- Use of performance indicators
- Allocation and trading in water entitlements
- Integrated catchment management

In addition the water industry is affected by a number of competition principles flowing from National Competition Policy and is an important player in the requirement of the States to achieve competition reform milestones.

In respect to infrastructure provision, Victoria is currently implementing a \$1.3 billion water reform package which has as one of its aims the acceleration of capital works programs in non-metropolitan regions.

In the South West \$25 million has been allocated for debt reduction, price reduction and funding to pay for up to 65% of projects to improve water quality.

For Warrnambool and district the South West Water Authority has a \$50 million 5 year investment program which will be funded by a combination of user contributions, borrowings and \$13 million in State Government assistance. The program includes construction of water treatment plants at Camperdown, Cobden and Terang and extensions to the Warrnambool plant, and sewerage schemes for the unsewered towns of Mortlake, Allansford, Koroit and Timboon.

There has been a move towards outsourcing and BOO(T) schemes for construction of treatment plants, and the opening up of industry infrastructure

to third party access. Other areas currently being investigated in the South West include :

- Sewerage treatment
- Ocean power
- Industrial wastewater

Educational Infrastructure

Educational institutions in the region are of major importance as a significant element of regional infrastructure which underpin economic development in the region. Warrnambool has the following significant institutions :

- Deakin University Warrnambool campus
- South West Institute of TAFE \$6.5 million
- Braeur Secondary College \$2.8 million
- Warrnambool Secondary College \$3.8 million

The figures indicate recent and proposed capital expenditure programs at these institutions

Warrnambool Foreshore Development - Case Study

Documents

Foreshore Urban Design Framework

Great Southern Marine Centre Feasibility Study

Flagstaff Hill Redevelopment Study

Marine Centre Feasibility Study

Following the initial concept studies for a marine centre the City of Warrnambool commissioned a feasibility study which was completed in July 1996. Although the design concepts of the centre have evolved over the intervening period the findings of the study still represent the best estimates available in respect to demand for the facility.

Tourist visitation to Warrnambool is estimated at 350,000 overnight visitors per annum comprising Victorian, interstate and overseas visitors in the ratio of 80:18:2.

Flagstaff Hill which is the only man made tourist attraction in the area receives 20,000 - 80,000 visits each year . Other visitor figures are Port Campbell National Park 700,000 and Tower Hill 220,000

Based on estimated visitor numbers to Warrnambool and a survey conducted as part of the feasibility study, annual attendance at the Marine Centre is estimated at 105,000. This figure is broken down as Victorian 58,000, interstate 27,000, international 4,000, day and special trips 5,000, schools 8,500 and local residents 2,500. It is pointed out that for Victorian visitors this estimate is a 75% improvement on the Flagstaff Hill experience, but this is considered reasonable given that Flagstaff Hill is a passive display.

Based on these figures and costings of the proposed layout and management of the centre the study provides an operating budget . The figures indicate that the centre cannot be commercially developed as there is no prospect of return on capital. Whilst the figures indicate some prospect of financing annual re-investment to maintain and upgrade exhibits, the study concludes that initial funding would need to be from grants or subsidies, with debt

service guaranteed by others.

A further feasibility analysis is now required to cover the following changes :

- proposal to include other tourist attractions as part of the centre
- proposal to link the centre to adjacent thermal water source
- the evolution of the design of the centre since 1996
- the development of a marine tourist facility at Portland
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The Great Ocean Road Tourism Strategy issued in 1996 considered the proposed Warrnambool marine centre as an important tourism infrastructure project.

The Strategy suggested that the Centre would require public funding, but could form the basis of an environment industry cluster.

The Strategy also estimated that the centre could boost tourism numbers by around 20% annually and could create 200 permanent jobs

An application for funding for the marine centre was made to the State Government Community Support Fund in 1997. This application was not successful but indications have been given that future funding would be available on a matching basis subject to various commercial operational components being dealt with.

Foreshore Development

The proposal for the development of a marine centre is seen as part of a larger foreshore development project. The proposed foreshore development consists of a number of elements including the following:

- ❖ Marine Centre (Southern Ocean Encounter)
- ❖ Flagstaff Hill redevelopment
- ❖ Redevelopment of a mixed use harbour side village
- ❖ Commercial opportunities in the South Warrnambool village
- ❖ Better Caravan Park utilisation
- ❖ Port Warrnambool development – Luxury hotel / units
- ❖ Geo- thermal therapeutic facilities
- ❖ Public transport service linking city and foreshore/harbour area
- ❖ Marina and associated commercial activities
- ❖ Lakeside restaurant
- ❖ Redevelopment of Army barracks
- ❖ Motel development adjacent to Flagstaff Hill
- ❖ Lady Bay Hotel convention centre
- ❖ Redevelopment of surf club premises
- ❖ Public works associated with foreshore development – breakwater, car parking , roads etc

The following information is offered as a case study and provides insights into the infrastructural elements of the development and the impediments to the success of the development

Action Plan

The following is a summary of the steps necessary in the progressing of the foreshore development from initial council approval through to putting in place financial arrangements .

Preparation of presentation material video/brochure
Preparation of preliminary economic impact figures for development
Presentation to State Government
Presentation to Tourism Victoria
Presentation to Victorian Coastal Council
Presentation to Community Support Fund
Presentation to Federal Tourism Bodies
Presentation to various groups :
-local community
-Area Consultative Committee
-Department of Natural Resources and Environment
-Department of Infrastructure
-Minister of Regional Services
-Business Victoria
-South West Water Authority
-Deakin University
-Community groups
-Private sector interests
Application for funding for design, market testing and financial analysis (Victorian Government)
Establish /viability assessment
Preliminary design and building guidelines
Investment attraction assessment – private sector
Detailed design/costing for various components of development
Funding requirements determination
Sponsorship arrangements
Negotiation of crown land leasing arrangements and Native Title
Finalise public sector involvement requirements
Negotiate financial arrangements

It is estimated that the above process will take at least one year and involve approximately \$500,000. The end result, subject to achievement of an appropriate private/public sector funding mix is a \$70m development of National significance.

Critical questions :

A number of critical issues arise in respect to the development including :

- ◆ Investigating how to quantify the critical mass of the project eg number of tourists

- ◆ Providing justification for the provision of government funding

- ◆ Identifying interdependent projects

- ◆ Classifying projects within the foreshore development into :
 - commercial / property
 - venture capital
 - infrastructure

- ◆ Positioning the project within a larger framework eg the Great Ocean Road Tourism Strategy

- ◆ Identifying the types of risk and exposure to risk of elements of the project :
 - market / demand risk
 - construction / technical risk
 - finance / tax risk
 - operational risk
 - policy / regulatory risk
 - legal / documentation risk

Conclusion and Recommendations

The provision of infrastructure is a fundamental necessity for Regional Development. The infrastructure which is required is changing, due to the global environment in which regions must engage and compete with.

The capacity for regions to fund infrastructure within local budgets and through private investment is limited by both financial capacity and the ratios of investment/return. The return may need to be factored over extended periods compared with infrastructure investment within Metropolitan settings. However given the contribution of commodities and value added agricultural products to the Australian economic performance these impediments need to be overcome.

Provision of infrastructure, at reduced levels of return, should also be considered in a wider social context. The lack of infrastructure, and therefore lack of employment and development opportunities, has a social cost (financial and non-financial) which need to be balanced against the potential higher public cost of infrastructure priorities and lower returns on that investment.

The priorities of initial infrastructure not only improve the competitiveness of region but enhances the perception of the region to potential investors.

Australia's regions offer great opportunities for enhancing Australia's economic performance provided support is provided for infrastructure development on practical assessments rather than political imperatives.

Recommendations

1. The development of sound business cases for investment in regional infrastructure (by the public and private sector) is resource intensive and public assistance in developing business propositions, which enhances levels of private investment would be a useful and justifiable expenditure of some public funds.
2. Creative use of infrastructure bonds which encourages regional investment in regional infrastructure should be considered and explored.
3. A recognition of differing rates of return and times of return on regional infrastructure expenditure must be acknowledged and dealt with so it does not create an impediment. If investment (such as if occurring with limited super fund investment in regional infrastructure).
4. Funds from sale of public utilities should in part be re-invested in the regions in improved infrastructure as the private sector will not necessarily undertake this (power, rail, etc.).
5. Regional communities need assistance to prioritise and develop business cases for infrastructure development taking account of regional advantages and State and National priorities.
6. There needs to be an acknowledgment that a market failure exists. In infrastructure development in regions and policies based on full competition not overcoming and dealing with these market failures.
7. Where market failure is identified, there is a need for public intervention., sometimes only in the planning phase and sometimes as a catalyst for private contribution.
8. Infrastructure provision in an economic sense needs also to consider social consequence and costs of failure to fund infrastructure and the

full cost analysis, beyond merely economic indicators.

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