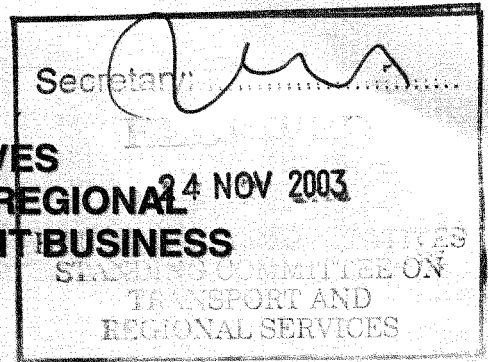


**HOUSE OF REPRESENTATIVES
INQUIRY INTO PRIVATISATION OF REGIONAL
INFRASTRUCTURE AND GOVERNMENT BUSINESS
ENTERPRISES**



INTRODUCTION

The House of Representatives Inquiry covers a wide-range of issues regarding privatisation. This paper does not seek to provide a comprehensive response to the matters raised by the terms of reference but rather it provides comments from the Northern Territory Department of Infrastructure, Planning and Environment in response to certain aspects of the terms of reference.

As background to these comments, the paper also provides a short summary regarding the Northern Territory because the Territory is quite different to the other jurisdictions.

BACKGROUND – THE NORTHERN TERRITORY

Environment¹

The Northern Territory has two quite distinct climatic regions, the northern half has two distinct seasons, the summer monsoon season (1 October to 30 April) and the dry season (1 May to 30 September) while the southern half goes through the more conventional four season weather pattern similar to that experienced by the southern and eastern states.

The Northern Territory's landscape ranges from arid in parts of the south to semitropical vegetation in the north, with much of the land in between being classified as savannah/semi-arid² or sandstone escarpment. The northern boundary (coastline) of the Northern Territory consists mainly of mangrove swamps and sparsely vegetated mudflats interspersed with sandy beaches.

This wide range in environmental conditions in the Northern Territory present a challenge to the provision of infrastructure and services. The annual cycle of wet and dry season in the Top End, as well as the extreme temperature fluctuations and sporadic flooding in the Centre, puts a significant physical and financial strain on the provision of infrastructure.

The large range in daily maximum and minimum temperatures in inland areas and also impose extra stresses on buildings and other infrastructure.

Population

According to the Australian Bureau of Statistics 2001 Census, the Northern Territory's estimated resident population was 188,075 persons (approximately

¹ Adapted from Northern Territory Transport Overview 2002, Northern Territory of Australia.

² Just over 50 percent of the Northern Territory is classified as having an arid or semiarid environment.

1 percent of Australia's total population. The population density of the Northern Territory in 2001 was around 0.14 person per square kilometre compared to 3.0 persons per square kilometre for the rest of Australia (Australia less the Northern Territory). Comparing the population densities of these two geographical areas serves to demonstrate the Northern Territory's small population base and low density.

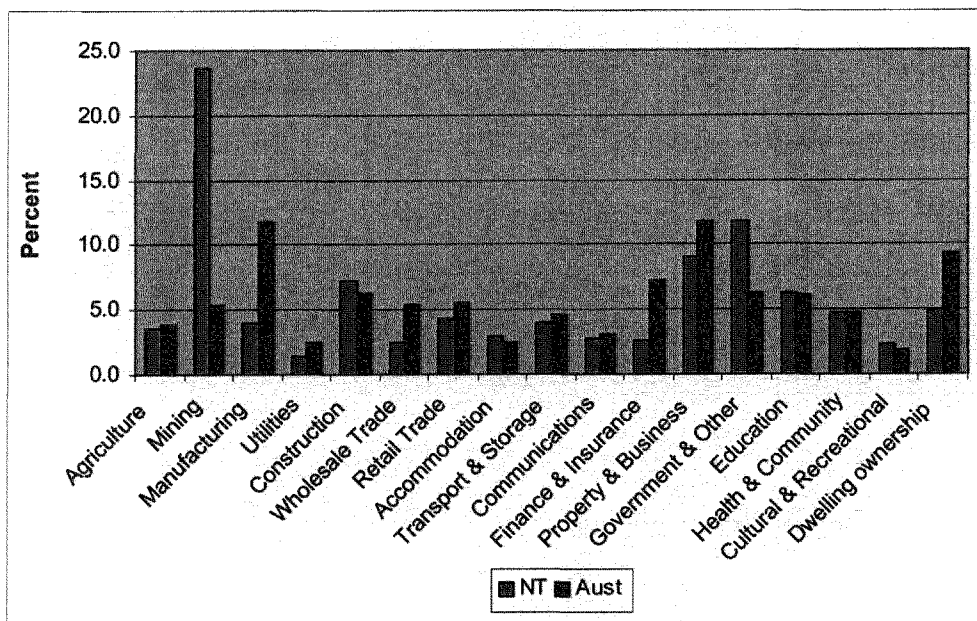
Of the Northern Territory's estimated 2001 resident population, around 64.5% (121,381 people) were located in the main urban areas of Darwin, Palmerston, Katherine, Tennant Creek and Alice Springs. The remaining 35.5%, some 66,694 persons, were scattered throughout Northern Territory's regional and remote areas (including the Darwin rural area)

Economy

The Northern Territory has a developing economy when compared to the economies of the rest of Australia. The Northern Territory economy is characterised by modest and developing regional domestic markets; growth dependence on the export of natural resources; a highly exposed narrowly based economy due to its export orientation and low domestic demand.

Figure 1 provides an overview of the structural differences between the Northern Territory (GRP) and National (GDP) economies.

Figure 1 Differences in Sector Contributions to GRP/GDP 2001/02³



³ Adapted from: "Leaders set a strong pace", Business Review Weekly October 30 – November 6, 2003, pages 34 - 37

It shows that two sectors are overly represented in the Northern Territory, when compared to the national economy, these being mining and government administration. The rest of Australia has a greater emphasis on high value-adding and labour intensive industries (such as manufacturing).

The main sectors of the Northern Territory economy are tourism, mining and construction industries, property and business services, government and administration (including defence), education and health and community services to the Northern Territory economy.

COMMENTS IN RESPONSE TO THE INQUIRY TERMS OF REFERENCE

The House of Representatives Inquiry has two main parts:

1. a review of the impact of privatisation; and
2. several other aspects of the provision of infrastructure.

Comments are provided by the Department in response to both parts. Some comments on the broad implications of privatisation are also provided.

Broad Comments on Privatisation

Privatisation has become a popular course of action for many governments, either to raise funds or as a response to the argument that governments have no business competing with private enterprise. Public utilities that can be privatised include telecommunications, transport (rail, road, aviation, and ports), water and electricity. The Northern Territory Government has not privatised any of its major functions; however, it has used public - private partnerships for the provision of major infrastructure (the two most prominent examples being the Alice Springs to Darwin railway and the Amadeus Basin to Darwin natural gas pipeline).

Global research indicates both benefits and disadvantages to privatisation. In terms of overall service improvements and gains in economic welfare the results are mixed. Privatisation is usually justified on the grounds that private ownership makes for greater efficiency.

The principal danger with privatisation lies in the potential loss of consideration of public interests such as social obligations and the protection of public resources. Government owned services are generally provided on the basis of needs, revenue is not a major driver and if profits are made, they are retained by the Government. On the other hand, privatised services are market-based, revenue is the primary driver and profits go to the shareholders.

While the benefits of privatisation are being questioned nationally, the issues are particularly important in regional and remote areas. Small, isolated communities across the Northern Territory are characterised by very poor

economies of scale and a high cost of service delivery. Consequently, services are provided on the basis of social rather than economic imperatives.

It is also worth noting that the key to regional and remote service delivery is long-term planning, a coordinated approach and the sharing of resources. Privatisation of assets and services and increased competition does not sit comfortably within this framework of strategic cooperation.

Privatisation of Infrastructure and Government Business Enterprises

The Northern Territory has experienced the impact of two major national privatisations, the break-up and sale of the assets of the Australian National Railways (ANR) and the Federal Airports Corporation (FAC).

The sale of ANR assets in the Northern Territory was done with little or no consideration being given to future rail operations in Alice Springs and has resulted in a complex asset ownership situation:

- Great Southern Railways owns the section of railway track along side the passenger terminal at Alice Springs.
- Asia Pacific Transport Company owns the main railway line through the terminal as part of the Tarcoola to Darwin railway.
- Pacific National owns the balance of the Alice Springs rail yard.

The break-up and sale of the FAC led to the sale of the Alice Springs, Darwin and Tennant Creek airports to the one company, the Airport Development Group. Since the sale of the three airports, landing charges have more than doubled at Darwin and this is of concern given the importance of the airport to the local economy.

The key lesson that should be learned from these two privatisation exercises, particularly the sale of ANR, is that privatisation procedures must be flexible enough to ensure that they provide appropriate outcomes for local situations and do not create unnecessary problems at that level.

With regard to infrastructure within the Northern Territory, the Northern Territory Government:

- Has several Government owned entities providing infrastructure, including the Power and Water Corporation and the Darwin Port Corporation.
- Retains ownership of all public roads (other than roads owned by local government). Non-public roads are provided by the companies concerned (for example roads wholly within mining leases).
- Contributes to the provision and maintenance of essential infrastructure such as barge-landings and airstrips at remote communities.

- Has out-sourced all construction and maintenance work, the Government has not had a day-labour force since the early 1990s.
- Has tended to rely on public – private partnerships for the provision of semi-commercial and commercial infrastructure with the role of both sectors varying depending on the specific circumstances concerned.
- Has entered into public – private partnerships for the provision of gas pipelines (all but one gas pipeline in the Territory are privately owned) and the Alice Springs to Darwin railway.
- Will seek private sector contributions towards the provision or upgrading of infrastructure that is of particular benefit to specific companies (for example, road upgrading to accommodate new mining projects).

Other Issues

Policies, Measures and Other Factors that would assist Developing World Class Infrastructure

- **Flexible third party access regime:** Third party access regimes are required for most major infrastructure where the infrastructure will be a “natural monopoly”. South Australia and the Northern Territory faced this with the railway to Darwin and an access regime was developed and approved by the Australian Competition and Consumer Commission. However, it took some time and considerable work for the two Governments to obtain that approval, without which the railway would probably not have been built.

The access regime is different to others applying to existing railways in Australia as these were not considered appropriate for a new railway.

This now means that third parties seeking to operate trains from say, Adelaide to Darwin, will need to obtain access approval under at least two access regimes. This is contrary to the push to reduce the number of access regimes applying to Australian railways and may draw criticism from potential third parties as being inefficient.

However, in broad terms, the problem is that most current access regimes were set up for existing infrastructure (not just railways) are often not appropriate for new infrastructure.

- **Statistics:** The availability of reliable statistics helps reduce risk and uncertainty associated with new proposals. If the availability of statistical data varies between competing alternative options for infrastructure investment (for example between rail and road options) then this may lead to a sub-optimal outcome.

Role of the Three Levels of Government and the Private Sector in Providing Regional Infrastructure

Private sector investment in infrastructure helps reduce the demands on Government funds. However:

- Unless the private sector can capture an income stream that makes an investment profitable, then private sector investment in infrastructure is likely to be limited. For regional infrastructure, this means that most will need to be provided by Government because the level of utilisation will be too low for the infrastructure to be of interest to the private sector.
- In the recent *AusLink* green paper, the Australian Government proposed greater use of leveraged financing arrangements to enable Commonwealth funding to support the projects with the largest benefits.

While the concept of leveraging is a good one, the potential use of this as a criteria for allocating Federal transport infrastructure funds is of concern because it may lead to a mis-allocation of funds away from regional projects that can not attract private funds.

How the Australian Government intends to deal with this will not be known until the *AusLink* white paper is available.

The Northern Territory submission in response to the *AusLink*⁴ green paper made a number of comments about the roles of the three levels of Government, the following comments are taken from the submission:

"Land in the Northern Territory falls into 3 categories for road funding purposes:

- ❖ *incorporated under the Local Government Act with local road responsibility with the municipal or community government councils;*
- ❖ *unincorporated areas administered by recognised local governing bodies (incorporated associations) or by the Local Government Association of the Northern Territory; and*
- ❖ *unincorporated⁵ areas for which the Northern Territory Government provides all local government type functions.*

There are approximately 13,500 kilometres of roads in the first two categories and 9,500 kilometres in the last.

In addition to the roads in unincorporated areas, the Territory Government has retained responsibility for most regional and urban roads in local

⁴ AusLink Green Paper – Towards a National Land Transport Plan, Department of Transport and Regional Services, November 2002

⁵ For the purposes of this submission, roads in unincorporated areas refers to roads in areas that are not administered by a local government Council or Association.

government areas, these are roads that have an arterial function and provide more than local access.

Therefore, any Commonwealth arrangements regarding local roads of regional significance in the Northern Territory must also involve the Territory Government. Failure to fully recognise this situation was a serious omission in the distribution of funds under the Roads to Recovery program."

The Northern Territory submission also commented on the Roads to Recovery program (which is relevant to the discussion of the three levels of Government):

"The Northern Territory Government has estimated that it should have received approximately \$20 million in Roads to Recovery funds if the roads in unincorporated areas had been included.

The Northern Territory must be included in the allocation process for whatever program succeeds Roads to Recovery and the funding deficiency in the previous program should be made up as soon as possible through a special supplementary grant."

In response to a question regarding the the Commonwealth providing Financial Assistance Grants directly to local government, the Northern Territory submission commented⁶:

"The Northern Territory Government does not support direct payment, the Government considers that the current arrangement of providing grants through the Northern Territory (Local Government) Grants Commission (NTGC) is more appropriate.

While the establishment of a direct funding relationship between the Commonwealth and local government may have some attraction, the Northern Territory Government considers that the use of the NTGC to make assessments against agreed criteria provides the Commonwealth with the recommendations of an independent and well informed authority with a brief to provide an objective assessment. ... Any Commonwealth system would simply be a duplication."

The submission also commented⁷:

Further to the comments already made regarding funding of local roads and Commonwealth links with local government, the suggestion that the Commonwealth could enter into bilateral agreements with regional groups of local governments (page 72 of the green paper) is not supported by the Northern Territory Government because responsibility for regional matters lies primarily with the State and Territory

⁶ Northern Territory Comments on *AusLink* Green Paper, February 2003, page 22

⁷ Northern Territory Comments on *AusLink* Green Paper, February 2003, page 25

Governments. Commonwealth bilateral links to regional groupings of local governments runs the risk of duplicating State/Territory responsibilities and increasing "redtape".

The Northern Territory Government considers any such agreement should be done as a bilateral agreement with the Territory Government or as a tripartite agreement with the Northern Territory Government and local government.

The Northern Territory Government's preference would be for the Commonwealth to enter into agreements with States and Territories on a "State-by-State" basis so as to accommodate the particular circumstances of each jurisdiction. Even if this approach is not adopted elsewhere, it is the only realistic option for the Northern Territory given that the Territory Government is responsible for all roads in the extensive unincorporated areas in the Northern Territory and most roads of regional importance in areas administered by local government.