Private Submission

To the House of Representatives Inquiry into the Privatisation of Regional Infrastructure and Government Business Enterprises in Regional and Rural Australia

Dr John Burgess

1. There is a strong connection between economic growth, productivity growth and infrastructure investment. Through infrastructure investment there are spill over effects across the national and the local economy. Such spill over effects are not captured through rational private investment decision making. The availability of schools, hospitals, roads, power and water supply support investment in an array of industries that require an available population or amenities for that population. The returns from an efficient transport system are greater than the costs of using or maintaining that system.

2. Infrastructure encompasses education, training, health, community support and communications facilities. Privatisation, either directly or indirectly (eg contracting out), has been applied to all areas of infrastructure provision in Australia. The identity and sustainability of rural and regional Australia requires the provision of basic infrastructure.

3. Governments are responsible for infrastructure provision for several reasons – the large up front investment costs, the long pay off periods, the positive externalities that are not captured in market transactions, the co-ordination problems and complexity associated with authorisation, including satisfying planning and environmental codes.

4. Private sector involvement in infrastructure can range from the provision of finance, the responsibility for operating the infrastructure, the maintenance of the infrastructure and the actual development of the infrastructure.

5. Often the effectiveness of infrastructure depends on the linkages between different infrastructure components – the benefits from an integrated infrastructure system can far outweigh the individual benefits of each element of the infrastructure. Having a power station that is independent of a grid system or a rail line that has a different gauge from the main network limits the potential of these investments. Upgrading port handling facilities presumes that the transport system supporting the port can accommodate such an upgrade.

6. In many rural and regional areas utilities were an important source of employment, training and regional identity. Privatisation and corporatisation has impacted proportionately more on rural/regional communities than on capital cities. The impact of the Victorian electricity privatisation on the La

Trobe Valley is a case in point. Jobs have been lost, job and training opportunities for youth have been lost and utilities have tended to rationalise and centralise their activities, largely in capital cities (where the majority of users are located). The same applies for rail transport. Moreover, job quality has declined as temporary and casual jobs have replaced permanent jobs and support services are contracted in from outside of the region. The privatisations have also removed managerial and administrative jobs from regions, again diminishing job quality and reducing career path opportunities within the region.

7. It appears that fiscal concerns are driving privatisation programs. The budgetary process and the respectability of budget surpluses has distorted investment in infrastructure and in the public sector. Financing arrangements through the private sector have no impact on the budget and so there is a tendency to move towards off balance sheet infrastructure provision. Also, the use of recurrent funding for infrastructure is totally incongruous. Government debt has a very low risk premium and infrastructure investment has a long life. Why cant such investment be financed through the issue of long term bonds as would be the case in any private sector operation? After all the returns from such investments will cross generations and future generations can repay the interest on issued debt. However, public debt has become a taboo in Australia despite the fact that it would be both efficient and rational for infrastructure to be financed through public bonds (and at a lower rate of interest than private sector providers could obtain). As an aside, this would provide greater depth to the Australian bond market.

8. Private investors are often given concessions and guarantees in the provision of infrastructure that either involve the loss of future revenue to the state or the payment of funds to the private sector operators from the public sector (eg Sydney airport rail link). The real costs of such arrangements are rarely made explicit and undermine the rationale for private sector provision.

9. Infrastructure by definition has very long pay off periods. To assess the infrastructure needs of Australia requires decisions about what is required over the next 20 years. It is apparent that the infrastructure costs are very high in capital cities as is the capacity to expand infrastructure in many of the capital cities. Yet, infrastructure investment remains concentrated in capital cities – roads, rail, ports, air. Moreover, for reasons of both sustainability and security there are strong reasons for governments (state and federal) to support investment in infrastructure outside of capital cities – ports, airports and rail systems. Such investments will reduce pressure on capital cities but also provide support for expected population growth. These decisions need to be linked to the strategic development of Australia over the next 20 years at least.

10. The synergies (connections between) and the effectiveness of infrastructure does require examination. The rail linkages between Sydney and the Illawarra, Sydney and the Hunter, Sydney and Canberra and between the Illawara and south coast, Hunter and north coast are totally inadequate. Upgrading and investment is largely about maintaining an infrastructure that has passed its use by date. A more comprehensive and modernised rail network is required but there are no short-run returns in such an investment and the current mindset over debt will prevent this from ever happening. The committee should examine the rail infrastructure and investment strategies in Italy, France and Germany and contrast this with what happens in Australia. National systems versus state systems, significant investment for strategic reasons versus crisis management, off budget financing versus bond financing. It will be argued that population densities are less and distances are greater in Australia, hence a different approach is required. However, there are pockets of high density and proximity – why a comprehensive and modern network cannot be developed that encompasses Sydney, Wollongong, Newcastle and Canberra is surprising. The same could be said for Brisbane, the Gold Coast and the Sunshine Coast.

11. One problem in Australia is that infrastructure development is rarely co-ordinated. Each component is developed in an ad hoc and isolated way, usually be different tiers of government and/or public authorities, or by the private sector. Road, rail, ports, air, communications and utilities are developed separately. They are often seen as competitive (eg road/rail) and there is insufficient co-ordination or recognition of the complementary nature of infrastructure. As a minimum the Federal government should consider establishing a national infrastructure taskforce that considers Australia infrastructure needs over the coming decades and how an integrated developmental plan can be implemented.

12. Access to infrastructure facilities is widely regarded as a community service obligation that should be guaranteed by government. These obligations are rightly not paramount for private investors. If power systems fail, if communications systems fail or if transport systems fail then governments will be held accountable. The experience of British Rail Track is illustrative of these issues.

13. With respect to the impact of infrastructure privatisation on regions, the following criteria are a starting point:

a. the sustainability of the infrastructure – will it be maintained, or is privatisation a means of rationalisation and closure
b. access to the infrastructure – will privatisation reduce access either through price increases or reduced provision
c. employment – what is the impact of employment in regional economies

d. job quality – will privatisation result in the transfer of managerial and administrative jobs out of the regions; will privatisation lead to a substitution of temporary and casual employment for regular employment
e. regional investment – will privatisation lead to a reduction in regional investment in facilities and in investment in skills through training and apprenticeships
f. the impact on the ability of the region to attract investment and people
g. the identity of the region, especially through the loss of head offices and facilities identified with the region

14. An infrastructure audit of Australia should be commissioned in order to establish what infrastructure is available, how it is distributed by purpose and by geography, how it is distributed by governmental responsibility (federal,state, local), what element of commercialisation are present, its age and expected life, and what benefits are generated to the region and to the nation through the infrastructure.

15. World class infrastructure provision requires the establishment of criteria for evaluation of "world class". As a starting point the provision of infrastructure should be related to Australia's developmental needs over the coming decades – this in turn will depend on such factors as population growth, its demographic and geographic distribution, the industrial distribution of output, the skill and educational requirements to support employment, the requirements for sustainable development and the quality of life aspirations within the community.

16. Benchmarking, despite its limitations, is always a useful exercise to see what can be done elsewhere. Infrastructure requirements will not be identical for many reasons eg climatic and geographical differences, demographic differences, industrial differences and financial differences. Nevertheless, benchmarking infrastructure planning, provision, responsibility and systems across capital cities, regional cities and rural towns is a way of assessing Australia's standing. A number of representative cities and towns could be used. Similarly, national benchmarking could take place against comparable countries by physical size, population, standard of living and industrial structure. Such exercises offer the opportunity to critically assess the adequacy of current infrastructure provision in Australia and to consider possibilities for its development, efficient provision and access, and its contribution to the future needs of the community.