

26 November 2003

Transport and Regional Services Committee  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

Dear Sir/Madam

***Inquiry into the Privatisation of Regional Infrastructure and Government Business Enterprises in Regional and Rural Australia***

Townsville Enterprise Limited (TEL) is the peak development, marketing and promotional organisation for the *North Queensland Region*, centred on the cities of Townsville and Thuringowa and including the Shires of Burdekin, Hinchinbrook, Cardwell, Dalrymple and the City of Charters Towers. The organisation has a current membership base of over 580 and a broad based Board of Directors that includes civic, business and industry leaders. TEL is also the official Regional Tourism Organisation (RTO) for the North Queensland region.

This Submission provides a response by TEL in association with Thuringowa City Council, Cardwell Shire Council and Mount Isa to Townsville Economic Development Zone (MITEZ) to the House of Representatives Standing Committee on Transport and Regional Services' Inquiry into the Privatisation of Regional Infrastructure and Government Business Enterprises in Regional and Rural Australia. (Note: MITEZ's area of responsibility comprises nine Local Government Areas in Northern and North-West Queensland: Mount Isa City, Cloncurry Shire, McKinlay Shire, Richmond Shire, Flinders Shire, Dalrymple Shire, Charters Towers City, Thuringowa City and Townsville City).

The submission has been developed around the Background Paper and Terms of Reference for the Inquiry. In presenting this submission the key considerations for this region that we feel must be acknowledged include:

- Preservation of employment and commercial operations in remote areas of Australia;
- Consistency and reliability of delivery of essential services, again in remote regions with long distances and small population centres, frequently dependent on employment from GBEs;
- Establishment of a centralised National Planning Group identifying and prioritising infrastructure projects;
- Involvement of Local Government and remote communities in the process of infrastructure provision or privatisation of GBEs affecting their community; and
- Ensuring that essential services continue to be available in remote areas with an industry acknowledged performance standard.

We would be pleased to work with the Australian Government in finding solutions to any underlying considerations for the long term sustainability of the region.

Should you require clarification in relation to any of the issues raised in this submission, please do not hesitate to contact me.

Yours faithfully

**Dean Dederer**  
**Acting Economic Development Manager**

*Enquires* : *Sharon Riley*  
*Our Ref* : *2711031-let SRsm*

*Enc* : *Submission - Inquiry into Privatisation of Regional Infrastructure and Government Business Enterprises in Regional and Rural Australia*

HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

**Inquiry into the  
Privatisation of Regional  
Infrastructure and Government  
Business Enterprises  
in Regional and Rural Australia**

Submission by



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*November 2003*

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## **EXECUTIVE SUMMARY**

This Submission addresses the Terms of Reference contained in the Background Paper released on the Department of Transport and Regional Services website.

This response concentrates on the impact of the issues raised with particular emphasis on the Queensland Northern Statistical Division and the North-West Statistical Division.

As referenced in the Background Paper, Queensland in general and the regions under consideration do not have examples of privatisation, but the influences of 'corporatisation' of Government Business Enterprises (GBE)/Government Owned Enterprises (GOE) have clearly alerted the business community to the potential difficulties for this region, of privatisation of GBE/GOE.

The relative isolation of North Queensland is real, not as pronounced in most coastal communities, as it certainly is in North-West Queensland where small residential population centres are separated by two to three hundred kilometres, connected by one major road and rail service, with substantial employment provided by GBE/GOE.

In this relatively isolated region of Queensland and Australia, the objective of privatisation as a natural extension of micro-economic reform, is questionable.

It is suggested that 'natural' monopolies such as road, rail and ports would continue to be more efficient in remote regional areas than a privatised model seeking a return on capital and potentially sacrificing service, reliability, capital investment and maintenance standards.

In this Submission the following structure has been adopted:

### **Part 1**

This section is primarily submitted to describe the regions represented by this Submission. In particular, the need to emphasise the remoteness of the regions and the regions' special characteristics in terms of being a major contributor to Australia's export performance, and at the same time tolerating mediocre to average acknowledgement of their needs in comparison to either State capitals or regional centres closer to major population centres.

In Attachments 1 to 3, the information and Australian Bureau of Statistics (ABS) figures provide a clear indication of population centres in the region and the employment of persons in Government positions.

## Part 2

This part addresses the issues raised in the Background Paper and offers some suggestions in terms of a National Planning organisation to identify infrastructure projects developed within the regions that are considered of high priority and requiring investment at either State or Federal levels of Government.

Similarly, the subject of Public Private Partnerships (PPP) is raised which requires further development to establish a sound process to encourage PPP and to protect employment impacts in remote and small population centres.

## Part 3

This part examines infrastructure projects considered to be of priority in the North Queensland regions and provides a base for identifying both infrastructure (Government investment) and commercial projects (private enterprise).

This type of planning if filtered through an appropriate State Government process could form the basis of a submission to the suggested National Planning body.

The objective of this Submission is to:

1. Highlight the nature of the region which is impacted by GBE and the differences experienced in Government investment programmes by the relative remoteness of this part of Australia;
2. Offer suggestions to provide a mechanism to more efficiently deal with infrastructure investment; and
3. Regional examples of infrastructure projects considered essential to the continuing economic growth of a region which has a strong export culture and contribution to the Nation's export effort.

## Part 1

# BACKGROUND

## Introduction

This Submission addresses the issues outlined in the Standing Committee's Background Paper and draws on the geographic and demographic structure of the North-West Statistical Division and the Northern Statistical Division as defined by the ABS.

These Statistical Divisions are the primary regions where Townsville Enterprise Limited (TEL) and Mount Isa to Townsville Economic Development Zone Inc (MITEZ) have regional responsibility under Agreement with the State Government (Department of State Development), for promoting economic development and additionally in the case of TEL to provide service as the Regional Tourism Organisation.

## Northern Statistical Division and North-West Statistical Division

These two Statistical Divisions are defined by the ABS for the North Queensland Region.

The North-West Statistical Division contains five LGA. These are Flinders Shire, Richmond Shire, McKinlay Shire, Cloncurry Shire and Mount Isa City.

The Northern Statistical Division contains six Local Government Areas (LGA). These are Townsville City, Thuringowa City, Charters Towers City, Burdekin, Hinchinbrook and Dalrymple. For the purpose of this Submission Cardwell Shire is included as part of the TEL region, but is in fact part of the Far North Statistical Division (Attachments 1, 2 and 3).

The two Statistical Divisions tend to be representative of Australian regions with a coastal influence adjoining a region which is unquestionably "outback" Australia with all the characteristics of isolation, availability of services, access issues, population drift and more recently serious drought conditions.

The Northern Statistical Division is dominated in population and economic output by Townsville/Thuringowa with the other LGA being primarily focused on agriculture (sugar and cattle), with some tourism activity.

The North-West Statistical Division is dominated in population and economic output by Mount Isa with the other LGA being a mixture of agriculture (cattle and sheep), with mining activity in a number of the LGA.

To both Statistical Divisions, road, rail, telecommunications, and power are all critical.

## Culture of Regional and Remote Operation of GBE

It can be argued that existing GBE have developed a culture of service, reliability and safety of service without necessarily achieving a positive economic output to cover the cost of these characteristics.

Where a GBE is privatised the profit motive seems to be the highest priority and labour shedding with the accompanying social consequences impact quite heavily on remote regional centres. This impact is particularly pronounced where the centres can be described as remote and with total population in the order of 1,000 to 4,000. Quite obviously the impact on isolated and small centres of labour shedding is quite dramatic in social and economic terms without calculating the impact on service reliability.

These issues introduce the concept of community service obligations (CSO) where provision of critical services is considered a higher priority than potential social and economic disruption, and the costs are borne by the appropriate level of Government.

Without an external, independent regulator or specifically targeted legislation, privatisation can have the effect of destroying the service culture in remote and regional Australia in an effort to achieve profitability.

Employees located in remote regional centres tend to have both a maintenance and emergency repair function, a situation which can be considered non cost effective for a privatised enterprise, although an investment in capital assets protection.

This issue can perhaps be evidence of the examples used in the Background Paper of failure of power utilities in South Australia, Victoria, California and the United States north east States adjoining Canada, and in London.

## External Regulation of PPP, Private Infrastructure Providers

“Utility enterprises which remain in public sector and privatised Government business enterprises are subject to regulation under the national competition policy”. “The economic regulatory agencies of the Federal and State Governments such as the Australian Competition and Consumer Commission (ACCC) and State price regulation authorities are the main instruments used by Australian Government for monitoring, evaluating and reporting upon the performance of privatised GBE and infrastructure”.

It is assumed that this structure is adequate for monitoring commercial performance but there also needs to be complementary regulation at the time of privatisation to minimise the impact of labour shedding on remote centres.



To some extent the concept of service standards is protected by independent regulation through legislation, such as the various Navigation Acts, providing guidelines for Maritime Ports and Airports, imposing constraints relating to safety and emergency services. This “industry” legislation does not necessarily apply to all GBE which may be subject to privatisation. The foreshadowed legislation applying to Telstra service standards seems to be a case in point, protecting standards but again remote centre employment is not necessarily addressed.

These issues are addressed in more detail in Part 2 of this submission under: “Mechanisms for Monitoring, Evaluating and Reporting on Government Privatisation Programmes”.

## Public Sector Funding of Infrastructure

Public sector funding becomes important if not critical under certain circumstances:

- The subject infrastructure is not capable of providing an acceptable commercial return in the short term.
- May be commercially viable on a small scale but needs to be established on a larger scale to meet projected long term demand or community needs.
- The project may generate commercial/economic benefits which cannot be captured as a revenue stream.

## PART 2

# TERMS OF REFERENCE

The committee is inquiring into the impact of privatisation of regional infrastructure and GBE on the achievement of the outcomes reported in the 2001 – 2002 Annual Report of the Department of Transport and Regional Services, namely:

### 1. Transport systems which are safe, more efficient, internationally competitive, sustainable and accessible.

With the exception of Airports and Administrative Australian Government Departments, all GBE are State owned.

For the region covered by this submission, ie Queensland Statistical Divisions - North Queensland and North-West Queensland, any analysis must consider:

- Rail, roads, ports and power are either existing GBE as is the case with rail, roads and ports or corporatised enterprises such as power in line with the Australia wide reforms within the power industry following ACCC guidelines.
- Rail, roads, and ports have been corporatised in accordance with Competition Guidelines however there has not been any privatisation in these sectors.
- The exception is airports where the main airport, Townsville, which is a joint user facility (Department of Defence and Civil Aviation), and the Mount Isa Airport are managed by Australian Airports (Townsville) Pty Limited.
  - Increased traffic to Townsville generated by the growth of Townsville/Thuringowa cities has allowed the installation of Aero bridge facilities at Townsville in addition to providing airport services for a thriving fly in/fly out operation in support of mining activity in the Western Shires.
  - This airport operation is probably the only example in the region which demonstrates the benefits of privatisation.
- There is no industrial manufacturing sector involving GBE subject to the classification of Queensland Rail workshops.

- For the most part, in what is really a remote area there is little perceptible change to the provision of GBE services. The changes which have occurred will be represented by individual Departmental reports in the required 'Commercial' format.

## **2. Regional communities which have better access to opportunities and services and which are able to take the lead in their own planning and development.**

The National Competition Policy reflected in the Queensland Local Government Act has allowed Local Governments to privatise or lease out individual business activities that are traditionally a Local Government function.

The commercialisation of water supply infrastructure, waste collection and disposal, are examples of the application of these principles.

This policy has clearly given LGA greater flexibility in operation and planning in addition to encouraging development of local business through these opportunities.

In general terms, this application of privatisation/competition principles has had a positive outcome for regional communities.

## **3. Policies, measures and other factors that would assist in developing world class infrastructure.**

The primary measure considered essential in the process of developing world class infrastructure is a centralised planning function within the Department of Transport and Regional Services.

Such a group would need to have representation from the States and appropriate Commonwealth Departments. At the State level a matching arrangement would need to be established between the State, LGA and private industry. The primary objective would be to establish a prioritised range of infrastructure projects not considered appropriate in the first instance for privatisation.

This structure would ensure all issues could be addressed, for example:

- National priorities;
- Budget implications;
- International competitiveness versus community impact;
- Detailed cost benefit analysis studies; and
- At State level, a range of community impact indices would need to be developed in association with a stringent community consultation process.

This is not considered an exhaustive set of parameters but represents a selection of issues highlighted by this submission.

#### **4. The role of the three levels of Government and the private sector in providing regional infrastructure.**

As presented above there is a quite clear connection between provision of adequate infrastructure and commercial development following the establishment of that infrastructure.

Obviously Government budget constraints at all levels tend to dictate major capital spending and equally obviously political influences frequently set the priorities for Government spending, hence the need for clear planning guidelines across all levels of Government.

As an example, the Mount Isa to Townsville rail carries in the order of 5 million tonnes and \$3 billion of export commodities per annum. There have been plans to construct a dedicated road and rail corridor to the Port for some years but progress requiring Government commitment or the development of a Public Private Partnership do not appear to be a priority.

The provision of this infrastructure has the potential to increase the efficiency of delivery of export goods and material, giving the industries involved an opportunity to be more internationally competitive and of course contributing positively to the National balance of payment account results.

As an aside, this particular project has a number of additional benefits:

- By-passing heavy traffic from urban areas;
- Providing a service corridor to support the south Townsville industrial area;
- Dangerous and hazardous products can be pipe-lined direct to the Port in lieu of road transport through urban areas; and
- The growing live cattle export trade can transport large vehicle combinations direct to the Port. The road transport currently has to disassemble trailer combinations, leaving live cattle exposed to weather extremes because access is prohibited through urban areas.

There have been recent examples in this region of what appears to be reluctant commitment to infrastructure provision with at best a mediocre result with little future planning or demand answered, a least cost/least risk solution.

The recent upgrading of the Yabulu power generator from a peak load facility to a modest base load establishment fed by natural gas is a prime example.

The State Government, by approving this facility, has met its own criteria of minimising green house gas emissions by using coal seam methane to power this facility and it will provide an increased base load for distribution in North Queensland.

It has been made public and no doubt registered within Queensland Government circles that the Korea Zinc operated Sun Metals Refinery has stated their intention to expand their operation following the provision of adequate power supplies. The current Yabulu power facility upgrade does not meet their requirement to expand. This clearly denies the region and Australia of another major source of employment opportunity and export earnings.

## **5. Mechanisms for monitoring, evaluating and reporting on Government privatisation programmes.**

The present mechanisms for monitoring and evaluating privatisation programmes are considered satisfactory in terms of commercial performance.

The issues raised elsewhere in this paper with respect to the impact of commercialisation and privatisation on regional and remote communities need to be addressed.

Where community service obligations are identified and provided these costs are identified they can be used as a performance measure.

With privatised GBE the unquestionable profit motive can result in undesirable community impacts, which need to be carefully assessed prior to any privatisation decision.

During the late 1960s and 1970s the Commonwealth had a system in the Defence Support Industries known as "Retention of Capacity Payments". This concept, if applied to the power and transport industries could minimise the service 'outage' problems and possibly long term maintenance, traditional areas of cost cutting, in pursuit of profit motives.

The application of this process would be tied to service performance and most industries have a performance standard against which privatised performance could be assessed. This is an alternative to CSO placing the responsibility with the privatised organisation. It would not be unreasonable to expect penalties to be applied to such arrangements.

Such a process would address planned maintenance, emergency repair crews and essential equipment located in regional and remote centres.

Such "capacity retention" payments would be negotiated on an annual basis with transparency of performance being the start point of negotiation.

## CONCLUSION

In presenting this Submission the primary considerations for this region are:

- Preservation of employment and commercial operations in remote areas of Australia;
- Consistency and reliability of delivery of essential services, again in remote regions with long distances and small population centres, frequently dependent on employment from GBE;
- Establishment of a centralised National Planning Group identifying and prioritising infrastructure projects;
- Involvement of Local Government and remote communities in the process of infrastructure provision or privatisation of GBE affecting their community; and
- Ensuring that essential services continue to be available in remote areas with an industry acknowledged performance standard.

## **PART 3**

# **REGIONAL PROJECTS**

As part of the function of TEL and MITEZ a portfolio of Regional Projects is maintained as a planning tool and as a basis for seeking funding to achieve establishment of the projects.

Attached is the current TEL Development Status Report (Attachment 4) which covers a wide range of identified commercial opportunities in addition to projects of an infrastructure nature requiring, at least in the first instance, Government investment.

With the development of a structured PPP process, there is an opportunity to engage the private sector in investment in these projects. This process is considered outside the scope of this Submission but it is an area that a National Planning Group could usefully address to ensure world class infrastructure is established with some form of PPP likely to accelerate the process.

The Regions under consideration are continuously frustrated by the current process whereby viable projects appear to be considered by either the State Government or Australian Government as low priority even where cost benefit analysis demonstrates a positive outcome for the proposed investment.

The proposed Townsville Ocean Terminal is a case in point. Pre-feasibility studies demonstrate a positive Cost Benefit Ratio with potential for a PPP but at this stage the only recognition of the value of this project is at Local Government level. Such a project will need State and/or Federal investment.

Similarly the Thuringowa Riverway project is a major project which will benefit the whole of the community and will certainly require State and/or Federal Government funding.

### **Priority Projects for North and North-West Queensland**

The infrastructure issues which are continually emphasised in the Regions are:

- Water conservation projects;
- Power distribution;
- Road construction and upgrade;
- Rail transport; and
- Communications.

These very basic services assume a high priority in remote areas particularly in the North-West where drought conditions have pushed water conservation projects to a high priority.

## **Water Conservation Projects**

Water has been a subject for community discussion in the North-West for close on 100 years with minimal action in the way of conservation schemes occurring. This project subject has a direct affect on live cattle export operations in addition to potential agricultural diversity. Action needs to occur at both State and Federal levels. There is some concern at Local Government level that privatisation of water reticulation could impact adversely on local ratepayers both in terms of cost and service reliability.

## **Power Distribution**

The corporatised State GBE, Ergon Energy, has a continuous programme of distribution upgrading throughout the region.

## **Road Construction and Upgrade**

This is a very sensitive issue in both regions. At the coastal North Queensland area the continuous complaints on the standard of the Bruce Highway from Ayr/Home Hill through Townsville to Cairns are well documented. This highway is impassable during normal 'wet season' rains, disrupting both agricultural produce movement and major tourist traffic.

Similarly, in the North-West region the major Mount Isa to Townsville route carries road train traffic with limited passing lanes for normal traffic. The North-West also suffers below standard roads joining the main highway from both North and South, inhibiting the transport of cattle in particular, but also limits tourist traffic. In particular, the Cardwell/Tully area is highly susceptible to flooding during a "normal" wet season.

## **Rail Transport**

As with Ergon Energy, Queensland Rail has followed a practice of continuous upgrades to the Mount Isa to Townsville trunk route. As indicated elsewhere in this submission, the rail carries some 5 million tonnes annually, primarily mine output for either export or in the case of WMC Fertilisers, import replacement product.

This vital link has to be a world's best practice service to ensure that exporters can remain competitive on the world market.

## **Townsville Port Access**

This project being managed by the Townsville Port Authority is considered a high priority infrastructure project.



The basic concept is to provide a direct route from the Southern and South Western entrances to the city. This route will direct heavy traffic and potential noxious and dangerous cargo transiting urban areas of South Townsville direct to the Port. The plan also provides for a service route for pipelines carrying product to and from the Port to the Stuart Industrial Area. The proposed route will also facilitate direct Australian Defence Force traffic from Lavarack Barracks direct to the Port when required.

There has been recognition by the State Government of this project through the declaration in September 2003 of the Townsville State Development Area (TSDA), encompassing an area of approximately 1,000 hectares of what is generally referred to as the Stuart Industrial Area. This area includes the Sun Metals Zinc Refinery, Copper Refineries Limited, Origin Peak Load Power Generation Plant, Australian Meat Holdings abattoir, and the proposed road/rail service corridor to the Port.

There is genuine concern that this project may suffer a similar impasse to that experienced with the recently approved Douglas Bypass road and bridge over the Ross River accessing Thuringowa. This impasse appeared to be between State Government and Australian Government on funding contributions and project fund timing.

## Communications

As a direct function of remoteness the need for reliable communications in Western Shires is quite obvious. It is considered realistically that expectations were higher than the technology being delivered could supply.

The provision of CDMA and the installation of repeater stations along the Mount Isa to Townsville corridor has been a welcome upgrade. There remains a number of black spots, however improvement projects continue.

At the coastal region, additional repeater stations and the provision of broadband services has provided a sound level of commercial services and communications.

## Project Realisation

It is argued and emphasised that the existence of a National Planning Group would provide a level of certainty and progress for regions that have well documented, researched and costed projects for approval and initiation through Government funding.

There is no doubt that many infrastructure projects have been identified in the Regions covered by this Submission. The TEL Development Status Report (Attachment 4) is indicative of those projects, many of which are centred on the larger population areas such as Townsville. The continued growth of these centres increases social pressure and expectation of additional facilities to service the growth and expand economic opportunity.

## **ADDITIONAL INFORMATION HELD BY THE COMMITTEE**

**ATTACHMENT TO SUBMISSION NO. 21**

**ATTACHMENTS, APPENDICES AND PHOTOGRAPHS PROVIDED WITH SUBMISSIONS  
ARE HELD IN THE COMMITTEE OFFICE**