

## **SUBMISSION TO THE INQUIRY INTO INFRASTRUCTURE AND THE DEVELOPMENT OF AUSTRALIA'S REGIONAL AREAS**

Adequate infrastructure particularly in terms of transport and telecommunications infrastructure is critical to the development of sustainable regions across Australia. Infrastructure development will seek to appropriately integrate the regional economies into the economies of the major capital cities and the nation at large. The small and medium enterprises which make up such a large part of the regional business communities need to be integrated into the national economy if they are to continue being the economic and employment drivers in the next century.

### **Summary of Findings**

This submission discusses impacts of and reasons for infrastructure inadequacy, the roles of the various players involved, and some of the key issues to be overcome. These include:

- the provision, and maintenance, of infrastructure has a significant impact on a region's ability to maintain existing industries and to attract or develop new industries and is therefore crucial to the sustainable growth of regional centres;
- impediments to the provision of world class infrastructure and to adequate maintenance of existing infrastructure include reduced ability of governments to fund infrastructure, prioritisation processes, and coordination and cooperation issues;
- development of regional hubs such as Canberra have the capacity to relieve infrastructure pressures on major metropolitan areas such as Sydney by providing alternative transport hubs with significantly lower costs and time constraints.
- there needs to be an assessment of ways in which the provision and maintenance of infrastructure can be made more attractive for private sector investment;
- assessment of priorities in infrastructure provision need to take into account a range of factors relevant to regional locations, including economic development outcomes;
- governments need to be responsive to significant private sector investment proposals that require infrastructure provision and should continue utilising a task force approach to progress these projects. This approach could also be utilised in cross border situations.

### **Introduction**

The Australian Capital Region consists of the ACT and the 17 surrounding local government areas. It covers almost 60,000 square kilometres and has a population of just over 500,000 people. Canberra is the regional centre for services such as health, higher order retailing and also tertiary education. Canberra also is recognised as a hub for transport and telecommunications infrastructure in the region.

The Australian Capital Region Development Council (ACRDC) is the peak regional

development body for the South East of NSW and the ACT. It was initiated in 1994 by the ACT and NSW governments to foster economic development in the region now known as the Australian Capital Region.

The Canberra Business Council is an economic development organisation funded by the regional business sector that over the past twenty years has worked to develop a vibrant and diverse industry base for the Australian Capital Region.

It is well recognised that small businesses are increasingly providing the major employment growth area for Australia. Regional Australia is an excellent development base for growing small businesses, with in many instances lower business operating costs including reduced labour costs. To enable small and medium enterprises to grow in regional Australia it is essential that improved regional infrastructure, in particular in areas of transport and telecommunications is developed as a matter of priority.

The most recent economic development strategy developed by the ACRDC, titled "Dealing with Change", was released in May 1997. It recognises the importance of infrastructure for maintaining the region's competitiveness for existing businesses and helping to develop and attract new industries.

The Strategy identifies a number of key regional strategic objectives, including:

*"Enhanced land, sea and air transport infrastructure which maximises the inter- and intra-regional movement of goods and services and further develops the region's export capacity" (page 11)*

and

*"To build on the region's information and advanced technology capacities by .....taking a national lead in communications technology" (page 12)*

The Strategy also highlights other areas of concern with regard to regional infrastructure. It notes that "water is the region's most limiting natural resource" (page 26) and that electricity supply has been seen as a constraint by major project developers (page 30).

This submission outlines what infrastructure inadequacy means for regional economic development, raises some of the issues and impediments to improved infrastructure, discusses the relevant roles of the public and private sectors in the provision and maintenance of infrastructure, and outlines issues surrounding coordination and planning of infrastructure.

This submission defines infrastructure in a physical dimension that includes transport facilities, roads, ports, power lines, etc, as well as infrastructure to support industries such as tourism infrastructure, and the telecommunications networks that serve the region.

The Australian Capital Region Development Council and the Canberra Business Council commend this strategy to you as an appropriate case-study for review in relation to infrastructure and its relationship with regional development.

## **Infrastructure and Regional Economic Development**

The globalisation of commerce and business means that few parts of the world have an overwhelming competitive advantage for a particular industry or economic activity. Infrastructure deficiencies act as a barrier to trade. This is experienced both within states and across Australia. The development of key transport nodes across regional Australia will

integrate regional economies into the national economy and help overcome the associated financial impediment to industry development. Without adequate regional infrastructure in the key areas of transport and telecommunications regional business will continue to find it difficult to compete in international markets forcing some companies to consider relocating offshore, with negative consequences for regional employment.

It is essential that regions have good transport, water, energy and telecommunications infrastructure supported by high class community facilities to both maintain existing industries and to support the development of new or value-adding industries.

### **Cooma case-study**

It is useful to examine a couple of case studies to illustrate the role of infrastructure in locational decisions for business. The town of Cooma is the headquarters of the Snowy Mountains Engineering Corporation (SMEC). SMEC is one of Cooma's major employers, and has staff situated in 30-40 countries all over the world. The ability of Cooma to retain SMEC's headquarters depends on it having the telecommunications infrastructure adequate for a business operating across the world. Cooma needs to have an internationally competitive telecommunications environment to maintain one of its key existing industries.

### **Bombala case-study**

The town of Bombala is surrounded by more than 30,000 hectares of softwood forest. It has a sawmill but has no processes to use the pulpwood from the forest and therefore develop a fully integrated forest industry. In 1995 it was identified as a potential site for a pulp and paper mill development investment of some \$300 million. The proponents of the pulp and paper mill advised that the Bombala site faced significant infrastructure hurdles in terms of B-Double vehicle access to the site and to major highways, lack of a port nearby and inadequate water and electricity supplies. Ultimately the project went to Tumut.

More recently, a company has expressed interest in developing a new sawmill at Bombala, and has indicated that upgrading a local road to B-Double standard from the mill site to the Monaro Highway is a make-or-break issue for the project. A key question arising from these infrastructure inadequacies is who is responsible for addressing them so that industries can be developed. This will be addressed later in the submission.

### **Tourism case-study**

Infrastructure constraints are also important in industries subject to changing patterns of consumer activity. An important example for the Capital Region is the tourism industry.

The short break holiday is a growing market segment, with longer family holidays in traditional locations becoming less important. The essence of the short break is being able to reduce travel time to a minimum, and therefore regional airports and high standard roads are key facilities. The road infrastructure has to include ready access to natural and built features that tourists want to visit. Regions need to develop national and international tourism destinations to encourage tourist visitation. This tourism visitor infrastructure is as important in some ways as the access infrastructure.

## **The importance of building strong regional hubs**

The delivery of regional services and maintenance of viable regional economies is closely linked to the growth of regional hubs across Australia. Building a strong regional hub not only makes the delivery of these services more cost effective but also raises the standard of the services received in regional centres of Australia.

Building infrastructure links between major capital cities helps link regional centres to these

national centres of economic activity. The development of a regional hub further facilitates the participation of these regions in national and international markets.

### **Canberra case-study**

Canberra is an excellent example of the development of a regional hub. Despite having several different government jurisdictions Canberra has developed into a key centre in the Australian Capital Region that provides extensive services such as health and education to a much wider region.

Canberra has also become a gateway for many regional businesses to access the capital cities and national and international markets.

The strength of Canberra as a regional hub lies in the airport infrastructure and improving links with Australia's major transport route between Sydney and Melbourne. The ability of Canberra to service a larger region will continue to expand as further development of regional roads occur and the high speed rail link between Sydney and Canberra is finalised.

Canberra's focus as a regional hub is not only producing significant benefits for regional firms it also has the long-term ability to substantially reduce the transport time and costs associated with Sydney. The development of a regional and international airport coupled with the high-speed rail link will integrate Canberra closely with Sydney to the long-term benefit of both centres.

### **Impediments to Infrastructure Provision**

The impediments to improved infrastructure include

- (i) lack of funding
- (ii) processes used to prioritise infrastructure and
- (iii) coordination and cooperation issues between different levels of governments.

### **Funding**

The maintenance and improvement of regional and community infrastructure has been under-funded for some time. Around 18 months ago, the ACRDC asked local governments in the region for information on their infrastructure priorities for economic development. Attachment 1 lists the results of that request - infrastructure totalling over \$370 million.

Added to the list should be a number of other high priority infrastructure items where local government funding is less important. These include:

- a multi-purpose wharf at Eden (around \$8 million);
- the Very High Speed Train between Sydney and Canberra (\$4 billion);
- upgrades of regional airports;
- telecommunications improvements;
- gas reticulation; and
- road improvements, including the Princes and Barton Highways.

A further example of inadequate provision for maintenance is the Young Shire Council which has indicated that for some years the allocation provided to it to maintain regional roads was inadequate. While this has been addressed in recent years, the impact of past poor maintenance is that the roads now require restructuring well ahead of the time that would have been necessary if adequate maintenance had been done. The roads in question are major freight routes and increased transport costs caused by poor road conditions directly impacts on the competitiveness of the region's businesses.

### **Prioritising infrastructure**

The second issue concerns the way that infrastructure projects are assessed and prioritised. Given that the call on government funds exceeds the funding available, it is essential that projects with the highest benefits proceed. However, a strictly economic based cost-benefit approach may not reflect the full benefits or costs to the wider community, particularly in regional areas. The Monaro Highway near Bombala is a relevant example. Until recently there were two wooden single lane bridges on the highway near Bombala. These bridges prevented the highway from gaining B-Double vehicle rating and the associated reduction in transport costs for local businesses (assessed as high as 30% by some operators). Using traditional cost-benefit analysis techniques for prioritising road projects, one of the bridges was programmed for replacement. However, the same techniques gave a low benefit cost ratio for the second bridge. This meant that the highway could not be B-Double rated, thus not realising significantly reduced transport costs or gaining full value for the other funds spent upgrading the highway and bridges.

This situation was addressed outside of the normal prioritisation process and the RTA is to be credited for recognising the special circumstances of the case. However, it magnifies the general issue of how to prioritise projects where full benefits may not be included in the usual processes. This is very important in regional areas, as the quantification of benefits such as maintaining businesses and employment and providing lifestyle improvements are more difficult to quantify than fuel or travel time savings.

The high speed rail project between Sydney and Canberra illustrates the difficulty in gaining a full view of benefits derived from infrastructure. This project has proceeded on the basis of 'no net cost to government'. However, the ACRDC and Canberra Business Council are concerned that full recognition of the benefits to governments is not factored into the determination of the net cost. For example, a fast train service will divert passengers from Canberra-Sydney air services, freeing up landing slots at Sydney Airport and potentially delaying the need to develop a second Sydney Airport. This would represent a significant saving which should be factored into the calculation of net cost.

### **Coordination and cooperation**

The third element representing an impediment to infrastructure provision relates to coordination and cooperation between different levels of government and between different State/territory Governments. Several potential infrastructure projects in the Capital Region are complicated by these issues, including:

- the potential supply of ACT water into NSW;
- the Canberra-Tumut road upgrade; and
- the Very High Speed Train.

Governments at all levels need to continue efforts to reduce impediments to infrastructure development caused by cross-border or multi-level issues.

## **The Role of the Private Sector in Infrastructure Development**

It is relatively simple to outline impediments to infrastructure delivery and maintenance, but more difficult to suggest ways of overcoming the impediments, particularly in relation to funding. Traditionally governments have provided and maintained infrastructure, but this situation is increasingly being questioned.

There is now serious consideration of expanding the role the private sector takes in the provision and maintenance of infrastructure. Some infrastructure elements such as

electricity and gas are being provided by the private sector in some parts of Australia. A greater challenge exists in other areas such as roads, water and sewerage, particularly in regional locations with small, dispersed, populations.

Work done for the Institutional Investor Information Service (IIS), a joint Commonwealth/State project, demonstrates that institutional investors may be a viable source of infrastructure funding provided certain conditions are met. The conditions identified by this project were the need for an income flow that provides a satisfactory and reasonably secure rate of return, and secondly that the capital value of projects justifies the costs of the feasibility studies and increases the likelihood of gaining institutional partners to spread the risk.

An examination of the projects in Attachment 1 shows that very few are in the \$20 million plus area that would make them attractive to institutional investors. However, there are some, notably the water and sewerage projects, that have a secure income stream. Individually, these projects would not attract private sector interest, but as a group they could become attractive. Taking a regional approach to water and sewerage could reduce the funding burden for governments while potentially improving the service delivery to regional customers.

### **Coordination and Planning**

It is essential that all levels of government have the capacity to address infrastructure issues in a coordinated and timely way.

As was highlighted in the Bombala pulp-mill project there is a need for coordinating the various levels of government and the private sector in a timely and efficient way to ensure that planning and provision of essential infrastructure does not impede major investment decisions.

The formation of taskforces to deal with large project facilitation and minimise the potential problems arising from red tape and cross-border issues has worked well in the Capital Region. This approach should be maintained and also considered for regional approaches to key infrastructure issues such as water or transport.

### **Conclusions**

This submission has discussed impacts of and reasons for infrastructure inadequacy, the roles of the various players involved, and some of the key issues to be overcome. In this conclusion we would like to draw out a few points which the Inquiry may wish to consider in making recommendations.

- the provision, and maintenance, of infrastructure has a significant impact on a region's ability to maintain existing industries and to attract or develop new industries;
- impediments to the provision of world class infrastructure and to adequate maintenance of existing infrastructure include reduced ability of governments to fund infrastructure, prioritisation processes, and coordination and cooperation issues;
- development of regional hubs such as Canberra have the capacity to relieve infrastructure pressures on the major metropolitan areas such as Sydney;
- there needs to be an assessment of ways in which the provision and maintenance of

infrastructure can be made more attractive for private sector investment;

- assessment of priorities in infrastructure provision need to take into account a range of factors relevant to regional locations, including economic development outcomes;
- governments need to be responsive to significant private sector investment proposals that require infrastructure provision and should continue utilising a task force approach to progress these projects. This approach could also be utilised in cross border situations.

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## Attachment 1 - Capital Region Infrastructure Proposals - September 1997

Project	Location (LGA)	Value \$ mill	Type
Adelong Sewerage Augmentation	Tumut	1	S
Tumut Effluent Re-use Scheme	Tumut	3	S
Tumut Wastewater Plant Augmentation	Tumut	1.5	S
Young Drainage and sewage Augmentation	Young	5.5	S
Sewerage improvements	Bega Valley	1-14	S
Sewerage Augmentation	Queanbeyan	5	S
Sewerage Reticulation	Eurobodalla	4.8	S
Batlow Water Filtration	Tumut	2	W
Water Reservoir	Tumut	1.5	W
Water Supply	Young	2	W
ACT Goulburn Water Supply	Goulburn/ACT	30.6	W
Brindabella Road Upgrade	Tumut/ACT	45	RR
Alpine Way improvements	Snowy River	6	RR
Main Roads 379 and 381 upgrade	Harden	10	RR
Cooma-Braidwood-Nowra Road upgrade	Cooma-Monaro, Tallaganda	100	RR
Heavy Vehicle Detour (Bega)	Bega Valley	9.6	RR
Queanbeyan Bypass	Queanbeyan	24-35	RR
Regional Road Improvements (MR 241, MR 239, MR78, Temora Road)	Young	8.5	RR
Timber Bridge Replacement	Eurobodalla	5	LR
Batehaven Bypass	Eurobodalla	4.5	LR
Road Infrastructure	Eurobodalla	27.8	LR
Car Parking Infrastructure	Eurobodalla	1.2	LR
Road Sealing and Reconstruction	Snowy River	3	LR
Depot and Carpark Dev't	Tallaganda	1.5	LR/ED
Access Road - Sawmill site	Bombala	2.4	LR
Tourist Route MR 272	Bega Valley	4.5	LR
Naga Oval Community Centre	Eurobodalla	1.2	CF
Shire Cycleways	Eurobodalla	1.5	CF
Streetscaping and Foreshore Development	Eurobodalla	2.5	CF/ED
Disabled Access to Public Facilities	Eurobodalla	1	CF
Aboriginal Culture Centre	Eurobodalla	1.5	CF/ED
New Hospital	Young	6.5	CF
Indoor Sports Centre	Tallaganda	1.5	CF
Swimming Pool	Goulburn	1.1	CF
Cemetery Extension	Queanbeyan	1.7	CF
Cultural Centre	Queanbeyan	3.8	CF/ED
Heated Indoor Pool	Queanbeyan	3.5	CF
Cultural/Recreation Centre	Bega Valley	3	CF
Eden Wharf - Land Infrastructure	Bega Valley	3	ED
Bermagui Boat Harbour	Bega Valley	1.6	ED/CF
Braidwood Main Street Upgrade	Tallaganda	1.5	ED/CF
Marsden Weir Steam Museum	Goulburn	1-2	ED
Regional Stock Selling Centre	Goulburn	6	ED
Harness Racing Track	Goulburn	1.3	ED/CF
River Corridor restoration	Queanbeyan	1.1	ED
Streetscape and parking improvements	Young	1	ED/LR
<b>Total</b>		<b>371</b>	

S - Sewerage

LR - Local Roads

CF - Community Facilities

W - Water

RR - Regional Roads

ED - Economic Development



