

Chapter 5

Infrastructure investment

Introduction

5.1 This chapter examines how federal investment can meet the economic and social needs of regional capitals. Particular attention is given to the *Australian Infrastructure Plan* prepared by Infrastructure Australia and the important work of the Senate Select Committee on the Scrutiny of Government Budget Measures in its second interim report of April 2016.

Infrastructure Australia: Australian Infrastructure Plan

5.2 Infrastructure Australia (IA) released the Australian Infrastructure Plan in February 2016. The plan sets out a program of reforms, including proposals to:

- Improve the quality of infrastructure planning, decision-making and delivery.
- Maximise growth in regional economies and better respond to regional Australians' needs.
- Support the transition to a more sustainable economy and ensure that Australia's infrastructure is resilient to dynamic risks.
- Increase the funding for new infrastructure and maintenance of Australia's existing assets.¹

Productive regions

5.3 IA observed that the delivery and operation of quality infrastructure to Australia's regions is expensive. IA forecasted that demand for key exports produced by regions such as minerals, energy, agriculture and tourism would increase in the coming 15 years. IA also identified a number of infrastructure needs in regional Australia. For example, some road networks cannot support productive freight vehicles, mobile coverage is inconsistent and there is less choice of service providers, and, drinking water does not always meet adequate standards.²

5.4 To address these needs, IA made a range of recommendations in relation to transport, energy, telecommunications and water:

- A National Freight and Supply Chain Strategy should be developed to identify efficient routes from farm to market and to inform strategic infrastructure projects.
- States and territories should develop long-term plans and coordinate public and private investments to support fast-growing regional hubs to be as productive as possible.

1 Infrastructure Australia, *Australian Infrastructure Plan*, February 2016.

2 Infrastructure Australia, *Australian Infrastructure Plan*, February 2016, p. 59.

- The Australian Government and regulators should review energy market rules to ensure they support de-centralised energy sources, such as micro-grids, to provide alternatives for regional towns.
- The Australian Government should redirect the approximately \$300 million per annum of the telecommunications Universal Service Obligations (paid by taxpayers and industry) from fixed line services towards improving mobile infrastructure.
- The Australian and state governments should commit to increasing information on water resources to identify water infrastructure priorities to support agricultural opportunities, particularly in the north.
- States and territories should review the current capacity of regional drinking water providers, and commit to more sustainable, cost-effective models that deliver safe and reliable water. For example, where multiple council providers exist, measures such as shared services, council amalgamations, government owned regional corporations, franchising or privatising utilities should be considered.³

5.5 Support for high potential regional hubs will contribute to regional and national productivity. In order to achieve such growth there must be coordination between government and private sector investments.⁴ A number of the necessary reforms identified by IA were also highlighted by submitters and witnesses to the inquiry. For example, telecommunications access, water infrastructure and the use of micro-grids were identified as key infrastructure needs by submitters.⁵

5.6 However, the committee also heard criticisms of the plan, particularly because of its focus on capital cities. Mr Houghton, Regional Australia Institute, described the focus on large roads and urban congestion as a sign that regional cities are not even 'on that radar'.⁶

Select Committee on the Scrutiny of Government Budget Measures, second interim report of April 2016

5.7 The Senate Select Committee on the Scrutiny of Government Budget Measures (the select committee) tabled a second interim report in April 2016. The committee made a range of recommendations relating to infrastructure financing and expenditure by the Australian government and its effect on the broader economy. A

3 Infrastructure Australia, *Australian Infrastructure Plan*, February 2016, pp. 59–60.

4 Infrastructure Australia, *Australian Infrastructure Plan*, February 2016, p. 60.

5 See, for example: Townsville City Council, *Submission 19*; City of Greater Geraldton, *Submission 31*; Armidale Dumaresq Council, *Submission 38*, p. 2. Compare with Warrnambool City Council, *Submission 51*, p. 1

6 Mr Kim Houghton, Regional Australian Institute, *Committee Hansard*, 4 March 2016, p. 5. The focus of infrastructure on easing congestion in major capital cities was also noted by Regional Capitals Australia, *Submission 48*, p. 19. The tendency to focus on capital cities was identified by the Planning Institute Australia, *Submission 59*, p. 4.

number of these are relevant to the development of infrastructure in regional capitals.⁷ It was recommended that the federal government:

- increase its level of borrowing to fund productivity enhancing infrastructure;
- issue infrastructure bonds to fund federal, state, territory and local government investment in infrastructure; and
- establish an independent infrastructure fund to manage federal government funding and spending for infrastructure.

5.8 The select committee recommended that the powers of IA be expanded to include responsibility for all projects seeking federal funding and called for project assessment funding to be transferred from the Department of Infrastructure and Regional Development to IA.

5.9 Finally, the select committee recommended that the criteria for project assessments include the proposed project's adherence to relevant federal, state, territory and/or local government infrastructure plans. At the time of reporting, the federal government had not tabled a response to this report.

5.10 The committee notes the careful assessment of evidence that supported these recommendations, and considers that regional capitals would benefit from the implementation of these recommendations.

Meeting the infrastructure needs of regional capitals

5.11 Every local government that submitted to the inquiry identified a range of immediate infrastructure gaps and many provided business cases for infrastructure development. Regional Capitals Australia (RCA) provided three case studies where infrastructure spending for particular regional capitals would provide benefits to the city and the surrounding area based on population, economic structure, demand for services and strategic importance to the region.⁸

5.12 There is no doubt that most, if not all, regional capitals would benefit from further investment. The difficulty is how to do this more effectively and in a better coordinated way within existing funds.

5.13 Many witnesses and submitters considered that the answer was not to simply increase funding to regional capitals. Reviews of existing funding arrangements are necessary to first identify what funding is available to regional capitals, and whether it is achieving intended outcomes. This is no easy task, and as discussed in Chapter 4, the Regional Australia Institute told the committee that it was 'factually impossible to make a decent assessment' of whether regional capitals are underfunded.⁹

7 Senate Select Committee in the Scrutiny of Government Budget Measures, *Second Interim Report*, April 2016, Chapter 7.

8 Regional Capitals Australia, *Submission 48*, pp. 26–28.

9 Mr Jack Archer, Chief Executive Officer, Regional Australia Institute, *Committee Hansard*, 4 March 2016, p. 4.

5.14 Yet, it is apparent that in Australia there is an acute inequity in infrastructure spending: infrastructure spending on a per capita basis is much higher in the eight capital cities compared to the rest of Australia. During the Canberra hearing Councillor Dickerson, Chairman of Evocities, told the committee that:

In the projections on infrastructure spend, we are spending approximately \$12,226 per person per year of growth in the eight state capitals. The equivalent growth across the rest of the nation—and this is not even regional capitals—is \$2,635 per person per year.¹⁰

5.15 A further challenge for regional capitals is that identifying the benefits of infrastructure spending can be difficult, because the economic benefits of infrastructure investment are not always immediate. Indeed infrastructure investment can 'create an environment for people to invest in, to stay in or learn in' and economic benefits flow on much later.¹¹ Mr Craig Perkins, Chief Executive Officer, Regional Development Australia Tasmania, observed that 'often the outcome from those types of projects, if the money has been strategically focused, take longer to identify'.¹² Mr Perkins provided the following example to illustrate his point:

A good example if you look in Launceston at the moment is Inveresk Railway Yards, which was I think under a better cities program or some such thing back in the early 1990s, when it was converted from the old, disused railway yards into what it is today, with the museum, university, football grounds and function centres. And now the proposition, and you will hear about that next, is that it is potentially a university. That is a 20-odd-year or 25-year time line. Sometimes the infrastructure spending—the North Bank one, for example—will enhance that part of Launceston, and the amenity and visitor appeal and so forth. But it may take many years before we actually realise the impact it has on the city from an economic point of view.¹³

5.16 Submissions and evidence given during hearings reminded the committee that development and investment for regional capitals should be much more than just investment in transport and other 'hard' infrastructure: investments in health, social, education infrastructure are also very important for regional capitals, and will require cooperation with state governments.¹⁴ Mr Kim Houghton, CEO, Regional Australia

10 Councillor Mathew Dickerson, Chairman, Evocities, *Committee Hansard*, 4 March 2016, p. 28. Councillor Dickerson advised that he obtained these figures from the federal government.

11 Mr Craig Perkins, Chief Executive Officer, Regional Development Australia Tasmania *Committee Hansard*, 25 September 2015, p. 2.

12 Mr Craig Perkins, Chief Executive Officer, Regional Development Australia Tasmania *Committee Hansard*, 25 September 2015, p. 2.

13 Mr Craig Perkins, Chief Executive Officer, Regional Development Australia Tasmania *Committee Hansard*, 25 September 2015, p. 2.

14 See, for example, Sister Mary Ryan, Director, Centacare Family Services, Geraldton, *Committee Hansard*, 28 October 2015, p. 56; Mr John Dennehy, Board Member, National Rural Health Alliance, *Official Committee Hansard*, 16 February, pp. 65–69.

Institute, described 'soft' infrastructure as 'critical enabling infrastructure' – things that promote the 'liveability' of a city:

Liveability brings the employers, employers bring the wages, the wages go up and you get into that virtuous cycle. So we keep coming back to those core things which the Commonwealth has a limited role in. That is why...if we look at an inducement to get those multi-tiers together and the silos across the individual state governments in order to set up the right pathway for that particular city at that particular time, that is where the biggest gain is going to be made.¹⁵

5.17 A positive example of investment in soft infrastructure is the transformation of an unused three level heritage building into the Macquarie House Innovation Hub in Launceston. The purpose of this initiative was to encourage entrepreneurship and assist start-ups to commercialise their ideas.¹⁶ This process was initiated by a Regional Development Australia Tasmania sub-committee established to link the relevant Commonwealth department with the City of Launceston. The state government and the University of Tasmania are also involved in the initiative.¹⁷ Local university students have been involved in designing the furniture and layout of the hubs, and the business community have also been engaged with the process. The project is still in its early stages, however initial indications suggest that the economic and social benefits of the investment can be expected for years to come.¹⁸

5.18 The committee heard that policy makers must make an effort to consult with local communities prior to announcing funding initiatives. There is a perception — accurate or otherwise — in many regional capitals that policy makers in cities are not in tune with the needs and desires of regional centres. Sister Mary Ryan, Centacare Geraldton noted that:

Geraldton is not the same as Sydney. It is not even the same as Perth—and even a lot of the places in Perth do not understand rural areas. It is about consultation. It is not just about us consulting with the community about what the real needs are and the way to solve these problems; it is also about governments consulting with people generally and not saying, 'If you do, people give you the big wish list.' There is a need for proper forums.¹⁹

15 Mr Kim Houghton, Chief Executive Officer, Regional Australia Institute, *Committee Hansard*, 4 March 2016, p. 5.

16 Michael Ferguson, Minister for Information Technology and Innovation, 'Innovation Hub to foster entrepreneurship – opens in Launceston', *Media Release*, 30 September 2016.

17 Mr Craig Perkins, Chief Executive Officer, Regional Development Australia Tasmania *Committee Hansard*, 25 September 2015, p. 2. For an update, see: Regional Development Australia Tasmania, 'Macquarie House: Entrepreneurship and Incubator Hub', 10 March 2016, <http://www.rdatasmania.org.au/news/macquarie-house/> (accessed 2 September 2016).

18 A pop-up space was opened in September 2016 and in time it will move to Macquarie House: Michael Ferguson, Minister for Information Technology and Innovation, 'Innovation Hub to foster entrepreneurship – opens in Launceston', *Media Release*, 30 September 2016.

19 Sister Mary Ryan, Director, Centacare Family Services, Geraldton, *Committee Hansard*, 28 October 2015, p. 56. See also, Regional Development Australia-Hunter, *Submission 39*, p. 4.

5.19 The committee was also reminded that the statistics on growth in a particular regional capital are not always indicative of the social outcomes in that city.²⁰

Conclusion

5.20 Local governments across Australia, including regional capitals, have pressing infrastructure needs. Some of these needs are urgent – for example, water security and energy access. Other needs are less pressing but require forward planning and investment – a proactive rather than reactive approach. The federal government has a range of programs to address the needs of regional capitals, however, there is no national plan or co-ordinated approach between different levels of government. The final chapter of this report considers policy measures that would support sustainable growth in regional capitals, and address some of the current deficiencies in infrastructure funding.

20 Sister Mary Ryan, Director, Centacare Family Services, Geraldton, *Committee Hansard*, 28 October 2015, p. 56. See also, Catholic Social Services Australia, *Submission 37*.