COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON PRIMARY INDUSTRIES AND REGIONAL SERVICES

Reference: Infrastructure and regional development

MONDAY, 23 AUGUST 1999

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON PRIMARY INDUSTRIES AND REGIONAL SERVICES

Monday, 23 August 1999

Members: Fran Bailey *(Chair)*, Mr Adams *(Deputy Chair)*, Mr Andren, Mr Horne, Mr Katter, Mr Lawler, Mr Ian Macfarlane, Mr McLeay, Mr Nairn, Mr Secker, Mr Sidebottom and Mr Cameron Thompson

Members in attendance: Mr Adams, Mr Andren, Ms Bailey, Mr Katter, Mr Nairn, Mr Secker and Mr Sidebottom

Terms of reference for the inquiry:

The House of Representatives Standing Committee on Primary Industries and Regional Services will inquire into and report on the role of infrastructure in assisting the economically sustainable development of Australia's regional areas. The committee will, among other matters, consider and make recommendations about:

. deficiencies in infrastructure which currently impede development in Australia's regional areas;

. factors that would enhance development in these areas, including the provision of infrastructure such as energy, transport, telecommunications, water supplies, and facilities that deliver educational, health and financial services;

. the potential for development in regional areas;

. the extent to which infrastructure development would generate employment in regional Australia;

. the role of the different levels of government and the private sector in providing infrastructure in regional areas;

. planning, coordination and cooperation in the provision of infrastructure in regional areas; and

. the benefit to the national economy of developing regional infrastructure.

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Committee met at 9.04 a.m.

BOWDLER, Mr John, Deputy Secretary, Department of Transport and Regional Services

MURNANE, Mr Simon, Acting Assistant Secretary, Regional Development and Communications Branch, Department of Transport and Regional Services

POTTER, Mr Neville Arthur, Assistant Secretary, Roads Investment, Department of Transport and Regional Services

QUINLIVAN, Mr Daryl, Assistant Secretary, Infrastructure Branch, Department of Transport and Regional Services

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Primary Industries and Regional Services inquiry into infrastructure in the development of Australia's regional areas. This is the fourth hearing of our inquiry.

I advise the witnesses that committee public hearings are recognised as proceedings of the parliament and warrant the same respect as the proceedings in the House of Representatives demand. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. Witnesses will not be asked to take an oath or to make an affirmation; however they are reminded that false evidence given to a parliamentary committee may be regarded as a contempt of the parliament. The committee prefers that all evidence be given in public, but should witnesses at any stage wish to give evidence in private, they may ask to do so and the committee will give consideration to the request.

We have received a very detailed submission from you. Before we ask questions specifically about the submission, would you like to make a short opening statement?

Mr Bowdler—We welcome this inquiry. We think it is a potentially very useful study into a complex area and we will be looking forward to the report of the committee. We have sought to prepare our submission from two perspectives. The first is the long experience in the transport area in the department. That experience, of course, has been a rather evolutionary one over the years. We have changed a lot in our role and we think that, too, is of interest to the committee.

On the regional side, we have also been developing a position of growing substance and we have the responsibility for coordinating the Regional Australia Strategy and broader regional policies and approaches in the federal government sphere. Our submission was prepared in May. I note that there have been a few small developments since and some major developments in one case in regard to local government funding. We would like, with your agreement, to provide an update on that.

With regard to the broader issues facing the committee, infrastructure provision is certainly a very complex one and there is no simple approach to it in our view. It is not the panacea to regional Australia that perhaps some commentators may think. It is certainly one of the important factors that has to be addressed in looking at regional development opportunities. But there are a range of other issues such as regional skills and leadership, business, resource endowments, and so on, that are important. Of course, the lack of specific infrastructure can certainly inhibit regional growth. The challenge these days is to meet those infrastructure gaps from competing perspectives. The government sector role is limited through budgetary pressures and other such policy considerations. On the other hand, the private sector role is increasing, but the private sector traditionally requires different financial returns and approaches from the government sector.

There are promising signs in a number of areas that the public and private sectors are getting their act together: in urban development projects—for example, transport—and also large major projects which are having a more cooperative approach between the public and private sectors. The particular difficulty in the regional areas is to develop that partnership in situations where population densities and potential revenue streams are very thin. I will stop there. My departmental colleagues and I would be very pleased to address the committee's interests. Thank you.

CHAIR—Perhaps we will start where you have ended by going to the core, which is this question of how infrastructure is to be funded. For example, you mentioned the private sector development in the urban areas. Other countries use various methods and I will get onto the different methods that are being used and some of the suggestions that have been put forward to us in a minute. Have you actually looked at funding mechanisms that have been used in other countries and whether those models could be adapted to Australia?

Mr Bowdler—We do keep an interest in developments overseas—for example, what the UK has been doing in financing road construction. Perhaps Mr Potter or Mr Quinlivan could say more on that. We have also sought to keep in touch with some of the regional development debates that are going on overseas and some of our own initiatives will hopefully pick that up. Mr Potter, would you like to say something about the UK experience?

Mr Potter—We have been looking at what the UK has been doing for the past five years or so—perhaps longer—in involving the private sector in raising funding for roads. The purest theoretical example of that is a toll road where the private sector would borrow the money and repay the loans from the revenue streams from the tolls. That would work in urban areas but obviously not in rural or regional areas.

CHAIR—This is the private financing initiative—is that the model we are talking about?

Mr Potter—Yes, that is right—the PFI, which they have extended. I think they started off with prisons and roads and they were their shining examples, I suppose. From there the government has extended it to all sorts of areas so it is quite widespread now. They have coordinated it through the Treasury with a standardised approach. The PFI does not rely on tolls from the motorists; rather, the tolls are provided by the government by way of what they call a shadow toll. Do you want me to go into that in some detail or are you familiar with it?

CHAIR—I think we are all familiar with that term and the concept.

Mr Potter—In the Australian context, because you still need a fair volume of traffic to make such a scheme viable, the sorts of projects that that would be most suitable for would be outer urban ones—obviously for urban ones you would look at straight tolling—where there might not be sufficient traffic numbers to justify a toll road but it would be feasible for a shadow toll. I think, if you look in regional areas, given the traffic volumes in regional Australia, the shadow tolls would have to be too high and it would not work, so it is really an outer urban or a heavily trafficked road that you could apply it to.

CHAIR—Have you done any work at looking at the shadow tolling, for example, on the heavy mass vehicles?

Mr Potter—As part of a shadow toll arrangement we have but again, in most cases, the shadow toll would have to be too high. And even though it is an arbitrary construct in many ways, it really loses all meaning if it is too high.

CHAIR—Have you looked at, for example, the modelling with the Infrastructure Borrowing Tax Offset Scheme—which I understand is known as IBTOS—and at what could be the outcome of that in comparison to removal of section 51AD? There have been a number of submissions to us which have been stating that section 51AD and division 16D of the tax act should be removed to allow a proper partnership between public and private development. Have you looked at this?

Mr Quinlivan—They are not really the same issue. IBTOS is basically a subsidy or a concession program for commercially viable projects.

CHAIR—I understand that they are not the same. What we are really interested in is how infrastructure is to be funded and what are going to be the benefits of that infrastructure.

Mr Quinlivan—The sorts of things that Neville is talking about are really projects which are not commercially viable which cannot be developed on an entirely private basis. IBTOS relies on the tax system and on private taxpayers so they are really different target audiences in the capital markets. They are different mechanisms for different problems and it is certainly not an either-or situation.

With IBTOS the question is whether government wants to provide subsidies for major public infrastructure development to make it a bit easier for the private sector to make those investments, to bring them forward in time and make them a bit larger than they might otherwise be, and so on.

CHAIR—But surely removal of section 51AD is going to achieve the same thing—make it easier for private investment to get involved in major infrastructure?

Mr Quinlivan—It remains to be seen what the government does with it. I do not know what the Ralph committee has recommended or what—

CHAIR—What I am asking you is: have you actually looked at these?

Mr Quinlivan—Yes, we have. I am just getting to the point of saying that I think much of the argument about the importance of 51AD is a myth, it is a red herring. Wherever there is money to be made, wherever there are commercial returns to be made from infrastructure investments, the tax problems always get solved. People get private binding rulings which solve their certainty problems. It certainly takes time and it is awkward. There is no doubt those provisions are outdated, and I think that is what Ralph will be telling the government. I do not know what the government is going to do with that, but there does seem to be a pretty fair consensus on this point that those provisions are past their use-by date. But I think people invest far too much significance in that.

CHAIR—When you say that there is consensus, where do you say that consensus exists?

Mr Quinlivan—In the private financing industry, amongst the business community. The Ralph committee itself said that, in its discussion papers.

CHAIR—It may surprise you to know that many submissions to us would argue a contrary case.

Mr Quinlivan—That 51AD should remain?

CHAIR—No, should be removed.

Mr Quinlivan—That is the consensus that I am talking about.

CHAIR—I beg your pardon, I misunderstood you.

Mr Quinlivan—I am not sure that anybody thinks 51AD is still relevant. It was created for a world that existed 20 years ago.

CHAIR—From what I understood you to be saying, I thought you were a lone voice out there.

Mr Quinlivan—No. I do not know what the government is going to do with it, but I do not know that anybody is stating that we still need a 51AD. But having said that, I think my point is still a fair one. I do not think it is anywhere near as significant as people make out, because it has not stopped any major investments going ahead that people can point to. It has made some of them a lot harder; there has been a lot more discussion with the tax office before they got there. Some of that has been beneficial because they have ended up with much cleaner, less tax aggressive financing structures. But I think it is a bit of white noise, actually.

Mr NAIRN—Just on the IBTOS: have you had a look at any recent projects that have had the benefit of that scheme and done any sort of analysis on the successes and failures, particularly from a job generation point of view and its flow-on effect for any of them in regional areas?

Mr Quinlivan—No, we have not in detail studied particular projects, but as part of recommending to the government which project should get the tax concession we do look at the economic benefits that will follow the successful development of a project. In doing that we are obviously looking at employment effects.

Mr NAIRN—When you do the projection models, particularly where the project is in a regional area, do you expand that to a potential new industry that could benefit from that infrastructure, or pitch simply on the project itself?

Mr Quinlivan—The economic work that has been done is mostly done by the project proponents. They are in a competitive race for a limited pool of concessions, so they are obviously trying to maximise their case for that concession and they draw the net as widely as they think they defensibly can. They do pay a lot of attention to regional employment effects, primary and secondary. Mostly they are secondary.

Mr NAIRN—A lot of the primary ones tend to be the jobs that are created to do the project, and then they stop.

Mr Quinlivan—They may not be local, either. You need expertise which may not be available locally for the sort of construction work that is involved.

Mr NAIRN—Are there any plans in the department to do a bit more work on that? For the future of these sorts of schemes I think it would be reasonably crucial that we did know. To take one of the most recent ones, which is really only just getting going, the eastern gas pipeline: that will obviously create a lot of jobs in the construction phase of it, et cetera. But with regard to the potential flow-on effects for some of the towns that are going to reticulate gas out of that and for new industries, it would be very good in whatever years, over a period of time, to look at the things that have occurred, to use that then for future assessment. I guess the question is: is the department looking at doing any of that sort of analysis?

Mr Quinlivan—We have been reviewing the scheme in the context of the Ralph business tax review, because part of the rationale for having IBTOS was that there were problems in the tax scheme which this scheme was to redress. If those problems are solved, there is a question of whether you need a scheme like that. Or the problem that needs to be solved may be a different one. That is, these big projects have cash flow problems in the early years and if you want, as a matter of public policy, to subsidise them because you want to continue vigorous private investment in public infrastructure—water, electricity and so on—you may need a different sort of scheme, one that is less tax based and more focused on the needs of individual projects. So we have been looking at that.

We are not planning to do any more until the government has made its decisions on the Ralph exercise and we know what the broader tax environment is. Then we will look at what problem it is that needs to be addressed, if there is one here, and what is the most appropriate way of dealing with the problem. It is not self-evident to me that it needs to be a tax based system. There seem to be a lot of inefficiencies in doing it that way.

Mr Bowdler—Some of the issues you are raising there are really for regional impact studies generally, rather than a study of a particular government program that may assist the project going ahead. That is something we would possibly look at down the track. We are hoping, for example, that the Bureau of Transport Economics will pick up some more work in the regional area. The difficulty with some of the projects you are talking about, though, is that once they get approval for IBTOS they still have to go through various other processes. We do not really have much happening on the ground as yet from any of them.

Mr Quinlivan—Just to use your example, the eastern gas pipeline: I have not started talking to them about the delivery of the tax offset yet—what size it might be, when it begins to flow. It could be that they will decide in the end that the tax deductions that they would have to forgo to take the concession are worth more to them than the concession. I am not sure they have made that judgment yet.

Mr NAIRN—It is interesting that in that particular project, even though it has hardly started, already other gas providers are looking at reticulation in competition in some of the areas. There has been that sort of stimulus already, just from the simple fact that this project is going to happen. I guess the argument runs that, if the incentive had not been provided in the first instance for them to make that decision, there would not be all this economic activity by some competitors to try and get a slice of the market before the pipeline goes in.

The other question I wanted to ask was in relation to water. I wondered whether anybody could comment. A number of state government departments have privatised parts of their water operations. It would be interesting to know what it has meant for growth in infrastructure in those areas, to have a major normal public provision like water in private hands. It is probably a little bit out of your department's area, but I wondered whether somebody might have had a look at it.

Mr Quinlivan—Water is not an issue that we deal with very much.

Mr NAIRN—I appreciate that.

Mr Quinlivan—I suppose a general observation would be that with water the critical problem seems to be pricing. Provided you have got the right quality and service standards and regulatory arrangements in place, the nature of the ownership should not matter too much. The real problem with the water industry is pricing issues.

Mr NAIRN—I was thinking further about what it has meant for further investment in infrastructure now that it is in different hands by comparison with government ownership, et cetera.

Mr Quinlivan—One thing that is certainly pertinent there is that over the last 20 years we have gone from a situation where, other than probably in the gas industry, there was minimal private investment in major infrastructure to a point where we have now got quite a deep market. There are a lot of specialist infrastructure firms now trading shares on the stock market, so there is now quite a deep capital market in Australia for infrastructure. And the more of it there is the more capacity they have got to fund new investment.

The water investments are a new area, and I am sure the bankers and the firms involved would have taken a long time to get comfortable with investments in that sector. But they seem to have been a reasonable success, at least from a financial point of view, so the next time there is a potential private water investment those who need to make the decisions will be that much more comfortable in making them. That is important because it means that each time there is another investment it is a bit less of a risk for the financing community and that much easier for the project proponents to finance.

CHAIR—Could I come back to IBTOS. I understand that only five out of 35 applicants actually got any funding. Can you tell us why the number was so small?

Mr Quinlivan—There have been eight projects that have been announced as having got an offer of a tax concession. The Commissioner for Taxation called for another round of applicants in February this year, and Minister Anderson will be taking a submission to the cabinet on that soon, so there will be another few, maybe another half dozen.

CHAIR—Presumably you are still getting more applications, or have you still only got the 35?

Mr Quinlivan—No, it is a structured process where the Commissioner of Taxation makes a public call and we get applicants over a short period. It is a competitive process and a normal decision making process within the government. There is a limited pool of funds—$75 million a year is the capped cost to revenue.

CHAIR—How much of that has been taken up so far?

Mr Quinlivan—None has been taken up so far because none of them have signed contracts with us yet to access the benefit. We have three or four that are pretty close, then there is a queue of them after that.

CHAIR—Do you envisage that the full $75 million will be taken up in one financial year?

Mr Quinlivan—On present planning, with the decisions we anticipate soon, in year 2001-02 we will be making full use of the $75 million. But it is quite hard to calibrate because the projects have a curve like this, where they start construction with modest financing and they reach their maximum financing and then tail off. It only lasts five years and we cannot roll the funds over between years, so your binding constraint in any one period is what year you anticipate the projects that are approved making maximum calls on the scheme. The answer to your question then is that, yes, on present planning, in 2001-02 we will be making full use of the $75 million, but not until then.

CHAIR—In his previous answer Mr Potter was talking about the lack of skills. Is this one of the problems that is coming about as the applications are getting to that final stage?

Mr Quinlivan—No.

CHAIR—So these are really well researched, they have all the information and they are ready to go?

Mr Quinlivan—These are serious people. The applicants for this scheme are serious project proponents with serious legal and financial advice. They are the same people we deal with in selling airports and electricity facilities and so on—they are exactly the same people we are dealing with. They are not the people who are promoting small local or regional investments.

Mr ADAMS—What projects are we talking about?

Mr Quinlivan—Gas pipelines, Adelaide airport, power stations, that sort of thing.

CHAIR—Is there any facility within IBTOS for some of what have become known as orphan projects because they are of such small investment size?

Mr Quinlivan—I do not think any have applied.

Mr Bowdler—Could I just add there that, with these smaller projects coming out of regional areas, we have been trying another approach. The Institutional Investor Information Service is seeking to address some of those issues and that is mentioned in our submission as well. That is meant to pick up this issue of skills and putting good project proposals together and increasing education on both sides about some of the smaller infrastructure projects. That program has been going for a couple of years and is going into another phase now. We could enlarge on that one, if you wish.

Mr ADAMS—What is that called?

Mr Murnane—That is the Institutional Investor Information Service or by shorthand we call it the IIIS. That project essentially evolved because of what was acknowledged as an information gap between the investment community and the proponents of the smaller projects in regional Australia. What we sought to do was to bring the investment community together with project proponents so that each better understood the requirements of the other, so that proponents of projects knew how to put together a project prospectus or a proposal that would be okay by the investment community. Equally it was an attempt to get the investment community to better understand the nature of infrastructure requirements in regional Australia, to expand their investment horizons beyond what was popularly perceived as their favourite sorts of projects and to get them interested in different sorts of projects.

CHAIR—We have actually had a submission from AusCID and we have been through all of those problems that IIIS identified. It is one thing identifying the problems; it is another thing doing something about it.

Mr Murnane—I would like to say at the start though that the IIIS was not intended as an investment assistance-type project. It is an information-type project.

CHAIR—No. They ran workshops, did they not?

Mr Murnane—Yes, that is right.

Mr SECKER—Earlier on you were suggesting that there is market failure for private investment in roads in regional areas. You were saying that you could do tollways and shadow tolls in metropolitan areas but this committee is about regional areas. Obviously because of the population we cannot, or it is very unlikely that we will, get private investment in road building. Can you see any other areas of infrastructure where government has to come in because of market failure?

Mr Quinlivan—In regional areas?

Mr SECKER—In regional areas, yes.

Mr Quinlivan—I think there are some clear examples like telecommunications delivery where there is a universal service obligation and postal services where there is a uniform stamp price nationally. There are quite a few examples like that where a clear market failure has been identified and the government has legislated or had some policy mechanism for addressing that and doing what it feels is practical to achieve fair service delivery in regional areas. I think there are quite a lot of areas. We listed a few of them in our submission and probably the communications portfolio, if they have made a submission, would probably have dozens of more specific examples of that kind.

Mr SECKER—Certainly in the 1950s and 1960s, funds like the AMP invested a lot in regional areas in developing farm land and that sort of thing. Do you think there is still scope for similar types of investment by superannuation and life insurance companies?

Mr Quinlivan—I am not really competent to answer that question. One thing I can say though is that our super funds are desperate to find more good investments in Australia because they are increasingly having to look offshore for investment opportunities. If they thought there were good opportunities in regional areas, I am sure they would be putting a lot of effort into exploring them.

Mr SECKER—They would probably need some sort of commitment from government to be part of the infrastructure. Can you give some examples perhaps of where a lack of infrastructure is impeding regional development? The things I am thinking of are dams for irrigation, electricity not having three-phase power and that sort of thing.

Mr Quinlivan—That is a level of detail—I suspect you would get a different answer for each individual region to that question, knowing what their specific needs are. What would be most beneficial for them would vary a lot from region to region.

CHAIR—That raises the question that has been put to us that there should be a national blueprint for infrastructure needs. What would be your views on that?

Mr Quinlivan—I suppose it depends a bit on what the purpose of the blueprint is. Is the purpose of the blueprint to sustain and nurture a population base in regional areas? Is it designed to try and attract industry to regional areas away from urban areas? Is it designed to better exploit natural resources? It is a very complicated thing. I am reluctant to take the question on because it is so complicated. You would have to be very clear about what it was.

From the government's point of view, you have to be very clear because in the end so many of these investments that people talk about as being attractive are not commercially viable and the only way they are going to happen is if the government contributes to them and that means budget allocations. We live in a very tight fiscal environment and the benefits of that are clear for everybody to see but it does mean that getting access to public funding for these sorts of things we are talking about here is very difficult. You need a very tightly defined program. You have to assume that you are not going to have much money, so the question is how you allocate it amongst lots of competing needs. It means you are going to make a lot of people unhappy because small amounts of funding are going to go to only a few people or a few areas. It is a very complicated problem. You know it is a complicated problem; that is what you are doing here.

Mr SECKER—Do you think we are spending enough on infrastructure in regional areas and do you see problems, say, 10 years down the track because of not enough investment in regional infrastructure?

Mr Quinlivan—That is the wisdom of Solomon.

CHAIR—My colleague actually just said, 'Is the Pope catholic'?

Mr Bowdler—Yes. There is major project related infrastructure. There is community related infrastructure, which could also be local roads et cetera. There are other types as well—like a major dam system which could really be going out to serve the region next door.

Mr SECKER—I am just trying to get something on the record.

Mr Quinlivan—You did.

Mr ANDREN—We have heard the figures for investment and infrastructure over the last 25 years in Australia. I cannot quite remember the figures but I have seen the graph and it looks quite dramatic. Given the closure of things like branch rail lines and the transfer of cost of road maintenance largely to local government because of that, with wheat lines and such, given the increasing mass loads on trucks, and given our evidence that we have heard right throughout Australia of the passionate need for better roads, could you expand a bit more on that private funding initiative which, in your submission, refers to you investigating a model as a mechanism for extending the reach of Commonwealth road funding. Quite frankly, people get very excited in the bush about the black spot funding. It is $36 million a year and it is absolutely nothing, but that is all they have got to get really excited about.

Mr Potter—You were not here when I spoke earlier about this. We were looking at the UK model of the private financing initiative. The particular arrangements involved there really are more workable where there is a high degree of traffic—reasonably heavy traffic roads, not urban roads. I guess the classic model we were looking at was outer urban trunk roads. Because it involves supplying the private sector with a revenue stream from the government to repay the loans that the private sector has borrowed in the first place to build these roads, you need a fair volume of traffic to be able to set a shadow toll to pay the private sector to repay those loans. So it tends not to be applicable to lightly trafficked roads as you would have in regional areas. Then the more down the scale you go to fund regional roads under an arrangement like that, the more of a subsidy or a concession it would be. The point is why would the government want to do that? Would it be a more expensive way to do it to repay what the private sector had borrowed, including their interest costs, or should the government borrow the money itself in the first place and just fund the road in the normal way?

Mr ADAMS—On the government's interest.

Mr Potter—Yes, that is right.

Mr ADAMS—Have you looked at the New Zealand situation at all?

Mr Potter—Yes.

Mr ADAMS—A milk tanker had to travel up one 10-kilometre road to pick up two farms' milk and the two farmers on that road probably would have had to pay for the infrastructure of the road.

Mr Potter—I guess in its most theoretical form, yes. They are moving to a user-pays system.

Mr ADAMS—Have they gone that far yet?

Mr Potter—They are moving down that path, yes.

Mr Bowdler—They have been at this for five years or so. It is a little on hold at the moment for a variety of reasons but it just goes to show how difficult the whole process is.

Mr ADAMS—How stupid it is some of the time.

Mr Bowdler—In some cases that may be a judgment, yes.

Mr ANDREN—Given that in this country we have, I would imagine, almost a unique geography among developed countries and given the unattractiveness for private investors in regional roads, do you see any alternative except government investment? Do you, therefore, believe that the transport industry is paying sufficiently for the road infrastructure?

CHAIR—Who wants to take that one?

Mr Bowdler—In terms of the road pricing, that has been a vexed question. There are some views that road pays not enough, other views that they pay more than enough and probably a general consensus that it is not, in some cases, too bad. Road charging arrangements for larger, heavier vehicles are subject to consideration now by the National Road Transport Commission and that will be followed through this year. They did come out with a new model last year which was a mix of a notional fuel charge and registration charges, but that is being reassessed in the light of the tax package changes. I would imagine the transport ministers would be getting that to look at probably for their November meeting this year. It is a bit hard to speculate on that yet but you do need to make some judgments here and there.

In terms of funding for roads, clearly there will be a continuing government commitment. For example, under the local government funding, there will still be some identified money for roads. That is staying with the Commonwealth now because of the tax discussions. Perhaps the significance of some of this private finance initiative work we are doing is that, if we could get the private sector involved more in the urban areas and the outer urban areas, it might mean that more pure government money could go over more to the regional areas. I do not know whether Mr Potter has anything to add.

Mr Potter—Only that you could look beyond heavy vehicles and road users to fund roads—for example, mining developments and things like that. You could look to companies to fund access roads to mines and things like that. I guess a similar analogy would be the iron ore deposits in Western Australia where the private companies there built their own railway. The government could seek some contribution from mining companies, perhaps the timber industries or the sugar industry.

Mr Quinlivan—Typically, it is the other way round, though. The timber industries are coming to government saying they want money for roads as part of a timber investment that they are contemplating, so it is difficult.

Mr ADAMS—They actually came to us in Western Australia in relation to that. It is a changeover from when they used to cart wheat; they now grow trees on some of the places. It is an evolutionary process. I am interested in whether there has been any work done, Mr Potter, on sharing those roads because there are a lot of roads around which are mining roads, which the mining companies build. Then there are some insurance issues about anybody else using them. Maybe they can become a bigger part of the infrastructure of the country and be used by others if others pay. Has there been any work done on that in that area?

Mr Potter—We have looked at some roads in north-west Queensland. I guess a good example was when we were looking at the national highway between Cloncurry and Mount Isa, where a lot of damage was going to increasingly occur to the road because of the Ernest Henry mine. The company in that case had paid $20 million to develop a road from the mine site to the highway. There were various discussions to see whether the company could or would contribute to upgrading the highway. Because other mining companies are already using it, it did not come to anything. So, yes, we have.

CHAIR—Can I come back to IBTOS again. How many of these projects that are actually going to be constructed in regional areas are getting to these final stages now?

Mr Quinlivan—I would have to do a quick tally, but probably at least half, or just more than half.

CHAIR—Can you perhaps provide us with a bit more detail on that?

Mr Quinlivan—Yes, we can do that.

CHAIR—Mr Murnane, in relation to the IIIS workshops where one of the findings that came out of that was this need for clustering or bundling as you have referred to in your submission, are there any incentives for investment opportunities to develop a clustering approach?

Mr Murnane—I guess there are probably two ways that there are benefits to the project proponents. The first one is that, in a lot of cases, projects in regional areas are for a comparatively small amount of dollars for the investment community. If you have got one project that is seeking about $1½ million worth of investment, for example, it is often the case that the investment community is not particularly interested in projects that small. But if you can bundle a number of projects to have them of a sufficient size that the investment community is interested, then you might be able to make some progress towards attracting private sector investment.

The other side of it, of course, is if it is possible—this is fairly speculative—to group together projects that have synergies in terms of industry clustering and industry development, it may well be more attractive for the private sector to invest in a group of related projects rather than a series of one-off projects because of the potential synergies and spin-offs from them.

Mr Potter—A while ago I guess I was really talking about new construction, but sitting here thinking, in terms of maintenance which in the case of the national highways is fairly significant, there are gains to be had by bundling up maintenance contracts and contracting them out to the private sector for a long period—20 years or something like that. That is locking the government in over a period of 20 years to supply the private sector to provide these services. But on the other hand, they can be provided more cheaply. The Commonwealth has tried to encourage that in the national highway and a lot of the states are now picking that up. In Western Australia, for example, it has been quite controversial. In Queensland it is very controversial, but they have not really gone down that way. They have tackled it another way. Just recently, in New South Wales, the state government there has moved to contract out.

CHAIR—Yes, we saw that 22 kilometres of highway that was part of that new style of contract with maintenance included in that. I cannot remember the name of the highway off the top of my head.

Mr Potter—In Sydney? That is a construction project although they have built in a maintenance component of it as well.

CHAIR—That is right, yes.

Mr Potter—Tasmania has gone the same way on maintenance as well, moving to long-term contracts. Of course, there is a negative spin-off, I guess, in a regional sense because up until now a lot of the local councils have provided those services. Getting a cheaper service from the private sector, the potential exists for those people to be put out of a job, which is where all the controversies have arisen.

Mr ADAMS—In Tasmania, the situation is that, in a longer term contract, there is just enough work for the contractors, so you end up having no contractors at all. Whenever you are going to do a big project, you have to bring them all on to the island from somewhere else.

Mr Potter—That is what has actually happened with these contracts, isn't it?

Mr ANDREN—The status of the Blue Mountains road under the Roads of National Importance network has just been achieved and was announced during the last election campaign. That covers only the Blue Mountains section, doesn't it? Does it go all the way from Bathurst?

Mr Potter—It goes from Penrith to Bathurst.

Mr ANDREN—Given that the Newell Highway runs north-south and there is a fairly major intermodal transport facility developing in and around Parkes, would there be any logic in expecting or thinking that eventually it would make sense to extend the road of national importance east-west from Sydney-Parkes?

Mr Potter—The state government had a program in place on the Great Western Highway. By putting in its $100 million, the Commonwealth has brought a lot of those projects forward by several years. Again, I guess the problem is that, the further west you go, the less economically warranted the projects are from a road engineering point of view. So the initial ones to be tackled were the ones further east. Logically, yes, what you are saying is correct.

Mr NAIRN—I have a question about Speedrail—the project Sydney-Canberra. I know it is supposed to go ahead at no net cost to government. It seems fairly clear that the operational cost of that sort of railway is not a problem. It can operate profitably without any problem at all, but the capital cost becomes the issue. I know there are still negotiations, or you are waiting for further submissions from the preferred tenderer on that. What work is the department doing with respect to that capital cost? Is there likely to be any government—and I am talking federal, state and territory—involvement in making sure that it does go ahead?

Mr Quinlivan—Speedrail is going through what is described as a proving up process for the bid at present. On current planning they will have a revised bid in the hands of the three governments—the Commonwealth, the ACT and the New South Wales governments—some time later this year, probably in October. They have been told in the public offer document that there are various tests they need to meet. One of those is the no net cost to government test, and I expect that they are making every effort to meet that test. If they fail to meet that test, then there is an issue for the three governments in deciding whether the project is to go ahead or not.

Mr NAIRN—What definition—

Mr Quinlivan—The government has to be very careful in subsidising the capital cost of a project like that, because its business plan basically is to take over the air services on that route, which are currently operating without any form of public subsidy, and ultimately to extend the service to Melbourne and possibly Brisbane. The government has to be very careful in thinking about whether it wants to subsidise the capital investment in that business, given that it is planning to compete with an unsubsidised industry.

Mr NAIRN—I guess it comes down to what the definition of subsidy is and what the definition of no net cost to government is as well.

Mr Quinlivan—Speedrail have been told to take that phrase literally in preparing their bid for governments.

Mr ADAMS—It is also the opportunity of what it might do for the country; there may be other advantages. Governments have to think about those things in their considerations as well.

Mr SECKER—I just wonder how far governments go in their cost-benefit analysis of government investment in the infrastructure. I will give you an example. On Kangaroo Island there are already 3,000 hectares of pinus radiata up to 20 years of age ready for logging and so on. For the sake of probably $2 million in upgrading of electricity to the island, and probably $15 million for a port facility, which they do not have, you could actually do a lot of value adding on the island and export directly from the island. I am just wondering how far they go in those sorts of calculations, taking account of the return on the investment.

Mr Quinlivan—It is very unusual for the Commonwealth to be involved in a decision making process like that. I said earlier that the needs of individual regions will vary a lot, and in that case it sounds like there are a couple of very specific investments that could make a great difference. Presumably the South Australian government has had to think about that. I do not know what processes they have for making decisions to provide funds to those particular projects but not to lots of other probably equally worthy ones. We very rarely get involved in decision making at that level because of the nature of our role as a national government.

Mr SECKER—Do you think there is a role that the Commonwealth government could be involved in further?

Mr Quinlivan—We do not currently have one.

CHAIR—I think that is for another forum.

Mr Bowdler—The issue of project evaluation is a very vexed one. Again, with roads, you would mainly look at things like operating costs, safety and so on. Impacts and their broader regional elements are harder to grapple with. If you take them into account, the issue is how to do it and how to keep consistency across competing areas of expenditure, different regions and so on. The roads community is talking about this sort of issue now: how to keep consistency at a time when you have got to make difficult allocation decisions is a major issue.

Mr ADAMS—On road maintenance, how much of the new technology and new knowledge are we using in bringing down the price of making roads? Have you done any analysis in that regard?

Mr Potter—There is new technology in the monitoring of pavement condition, but that is not significant in the terms you are talking about. I guess the use of concrete would be one, and that is still being analysed—concrete versus asphalt.

CHAIR—You would have a test case with that section of the Pacific Highway that has been constructed in concrete, wouldn't you?

Mr Potter—Yes.

Mr ADAMS—The Americans use a lot of concrete, don't they?

Mr Potter—Yes. I guess the trouble is that you need to wait 20 years to see the results. As to technology, there are new things—in terms of recycling pavements and things like that.

Mr ADAMS—You have done a bit of that I think, haven't you?

Mr Potter—Yes, but I guess there are higher volume sorts of treatments as well.

Mr ADAMS—We do not seem to have moved that far—using bigger machines or whatever. It seems to be one industry. How much research is going on into road making and bringing those costs down? How much R&D is happening in road making? We are a big country. Our national highway goes across a lot of different soil types, and I would have thought that we would have a fair bit of knowledge somewhere.

Mr Potter—There is. I could not quantify it for you, but I can find out. The states and the Commonwealth have set up Austroads. There is also the Australian Road Research Board.

Mr ADAMS—How is that working?

Mr Potter—They have quite a heavy research program. I am not involved in the technical areas, but I can find out exactly what they are doing.

CHAIR—Perhaps you could follow it up and provide us with that information.

Mr ADAMS—Thank you very much.

CHAIR—As there are no further questions, I thank you very much for coming along.

[10.00 a.m.]

ALBRECHT, Mr Martin Carl, Board Member, Australian Constructors Association

BARRETT, Mr James David, Secretary, Australian Constructors Association

SHEPHERD, Mr Anthony Francis, Member, Australian Constructors Association

IRONFIELD, Ms Denise Pamela, Senior Policy Analyst, Tasman Asia Pacific

ORR, Ms Jennifer, Senior Economist, Tasman Asia Pacific

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Albrecht—I am chair of a committee of the Australian Constructors Association that deals with infrastructure. I am also Managing Director of Thiess Contractors Pty Ltd.

Mr Shepherd—I am CEO of Transfield Project Development, Transfield Pty Ltd.

Ms Ironfield—Tasman Asia Pacific has been employed by the Australian Constructors Association to assist with the submission.

CHAIR—We have received a submission from you. Before we begin our questions, would you like to make a brief opening statement?

Mr Barrett—Thank you, Madam Chair. We have put a lot of work into the submission that has been prepared for the standing committee. The people we have brought along today are here to try to give you every opportunity to tax us as much as you can about the issues we have raised. Mr Albrecht and Mr Shepherd both bring to the table a wealth of practical experience in project development, project delivery and infrastructure, particularly in regional areas. Ms Ironfield and Ms Orr have helped us with putting together the submission, and they are available in regard to the technical detail and issues we have raised in the submission.

Our association is relatively new. We have only been around since 1994. Our membership is made up of the major construction companies—all of our member companies have in excess of $200 million a year turnover—and therefore all of them are involved in the delivery of major infrastructure projects in Australia and have a great interest in the outcomes of the standing committee's work.

Some of the messages that we put across in our submission are certainly not new—we have conveyed them in other fora, to other inquiries and parliamentary standing committees, et cetera—but they are important to us and we believe they are important to Australia. They are issues that we think reflect some structural problems in the way infrastructure is delivered and developed. We welcome the opportunity to explore some of those opportunities today.

CHAIR—Thank you. You say in your submission that a 10 per cent increase in gross road stock would increase private sector output by 1.6 per cent. Firstly, you have been quite specific about your evaluation, but I guess the general point is that you are maintaining that there will be greater stimulation of private sector investment if there is more public sector investment. How do you reach these conclusions?

Ms Ironfield—What we were reporting there was another study rather than work that was actually done for this submission. Basically, the report that we refered to looked at an extension of public investment in roads. It is fairly well documented in many studies that investments in roads do have positive impacts not only on regions but on output generally and on employment all around Australia.

CHAIR—I guess the major issue as far as you are concerned is what makes it attractive for private sector investment to get involved in infrastructure and, in particular, as we are concerned with, in regional infrastructure. Would you like to start by telling us in general terms what you really need. Then we will go into some of the specific examples of different financing methods that you raised in your submission.

Mr Albrecht—I can make some global comments. By way of some introduction let me make some disclosures. Firstly, I grew up in the Northern Territory so I have a passionate empathy with regional areas and a great respect for what they can contribute to the value and the quality of this country.

I would like to draw attention also to the fact that I represent a company which I think has got a pre-eminent track record of development of regional Australia. Whether it goes back to the postwar era of the beef roads in the outback or some of the rail infrastructure in the country, or whether it is the water resources of the country, that company has had a pre-eminent record in its participation in that regard.

So this is really not spoken just out of a textbook but out of a real conviction that, where the government and this country has invested in infrastructure, it has always paid back very handsomely. It is a question of how we capture that and provide the right level of public incentive to allow the private sector to deliver efficiently the services that we all wish to have.

I listened to one of the previous speakers about the concern about competition policy, which is often talked about in Queensland and certainly a certain member of your committee, who is not here, has expressed quite vocal views. The way to sustain future growth and prosperity in this country is not to maintain inefficient or inappropriate means of employment. If we build good, efficient infrastructure, we will create employment, opportunity and future growth in the regional areas. It does not come about by just maintaining people working in some form or other that is not efficient. I would be more than pleased to talk about Bulahdelah at a later date, because we are actually building that road and it is just about ready to open.

CHAIR—Some of us have driven over sections of it.

Mr Albrecht—It will be a fine piece of infrastructure and it will serve this country well. It will last for a long time.

CHAIR—I am going to be particularly interested if frogs actually do cross through those tunnels.

Mr Shepherd—Some fundamental things could be done at the federal level. One is to clean up the tax act. We have got part of our submission dealing with section 51AD and section 16D, antiquated sections which have frustrated the private sector from entering public sector investment in infrastructure. We hope that out of the Ralph review that will be cleaned up.

The second thing is that the new IB replacement scheme does not seem to be working terribly efficiently.

CHAIR—Can you give us examples of that?

Mr Shepherd—I think the record speaks for itself. At the present time there is not a single scheme that actually has got up, using that, although the scheme has been in place for over a year. It does not seem to be working as well as the previous scheme, which was criticised but where in fact many projects got up. From our point of view, the scheme has not worked and it ought to be replaced with something a lot more flexible. We have in our submission a proposal to replace it with a voucher scheme.

Mr SIDEBOTTOM—Would you elaborate on that.

Mr Shepherd—Yes. But just to finish off on things the federal government might do: planning at three levels of government in Australia is also an impediment to private sector investment. When you have to deal with federal government, state government and local councils, it can get quite confusing. A related issue there is the third party access regimes that are supposed to have been introduced as a part of competition policy. Implementation across the board by all of the states has been spotty and we are left with a confusing array of access policies.

CHAIR—If we can just come back—we have got limited time—we really want to get to the nitty-gritty of your concerns. I think my colleague Mr Nairn wanted to question you further on the differences in success rate between the current IB scheme and the previous scheme.

Mr NAIRN—I was going to say that, in elaborating on your proposal about the voucher scheme and the shortcomings that you see in the current system, you might comment on the previous, IB one. That operated in a very different climate and—this is what I would like you to enlarge on, maybe, in answering the question—there was surely a greater incentive to utilise that scheme or get involved in those schemes in a regime where you had very high interest rates in the marketplace. The big difference between the operation of the IB scheme and the current one is the substantial drop in interest rates, which must have an effect. Could you bring that into the comments that you are about to make on those schemes and the proposal for a voucher scheme.

Mr Shepherd—Dealing with the interest rate issue, certainly interest rates coming off has made those sorts of schemes less attractive. The advantage of the original scheme was that you could access the scheme at the top marginal rate, which meant that the incentive was far greater than the current scheme where the highest rate you are going to access it at is the company tax rate. So the degree of incentive in the previous scheme was much higher than in the current scheme. That, in fact, was one of the criticisms of the scheme, but the scheme did work. There were significant infrastructure projects which were assisted by that scheme. The current scheme, as we have outlined in our submission, is restrictive and difficult to implement.

CHAIR—You actually made some comment that you feel it should be more transparent.

Mr Barrett—I am trying to review here the process, as I recall it, from about 12 or 18 months ago. The process of application initially goes to either the tax office or the department of transport. There is an initial vetting, then it goes to the other department. Then, I think, it goes to a cabinet review committee and then, I think, it goes to the minister. There was a view that the process was not transparent and the guidelines were not actually clear.

The other thing is that because there was such a minimum amount of money available, it was almost a lottery anyway. How one made decisions that were the best, most efficient decisions for use of funds, was always questionable. The end result was that the scheme was never going to make a marginal project viable. In fact, most project proponents really could enter that only on the basis that, if they were to access it, it was almost like a windfall. You could not actually plan your project around getting that gain because the process was so convoluted and so uncertain and took so long, and the amount of revenue—because of this notion of it being locked around revenue on a fiscal year—that was available was so limited, that it really did not form a basis for major long-term infrastructure projects to proceed. You could not lock your whole project around this quite uncertain process.

I should acknowledge that there were certainly problems with the previous scheme. There were some very tax aggressive ancillary schemes developed—not by the developers of infrastructure, I might add—which, I think, towards the end brought that scheme into disrepute, and that was a concern to our members. The proposals we have advanced in our submission were really taking the best elements of the previous scheme but focusing directly on where they can be used to develop major projects.

Mr NAIRN—You have an example in here:

> Work commissioned by the ACA suggests that a voucher scheme costing Government $200 million annually would support $5.56 billion in infrastructure development per annum.

How does that compare with the current scheme and the previous one, as a cost to government as opposed to benefit?

Mr Barrett—Can I take that on notice? I have not got the figures in front of me. We actually did a major piece of work for the government at the time that the previous scheme was closed down. We actually did quite a lot of those costings. If I can take that on notice, I would be quite happy to provide copies of that, too.

CHAIR—Yes, thank you.

Mr NAIRN—It would be very beneficial comparing the three schemes—

Mr SIDEBOTTOM—I was particularly interested in the voucher system because you were talking about expanding the scheme itself—you were actually talking about the problems with IBTOS. I was particularly interested in the voucher system and how you saw that working. It also raises a second point. The two things I picked up in your submission are the two that Mr Shepherd just raised. I also wanted to know a little bit more about the three tiers of government and the nightmare—I think you used the term—of dealing with them. If we listen to the sentiments of the last submission, three tiers of government clearly knew their roles and there was a reasonable line of communication and I think that is absolutely crucial when talking about the provision of infrastructure. If there is a disincentive because of the communications, or the regulatory exercise is just too difficult, then we need to know about it. So I would like your comments on that, but I am particularly interested in fleshing out this voucher system a little bit more.

Mr Barrett—The voucher system was intended to provide a direct benefit to the project developer that could be used directly with the tax office. What we were trying to take away from the process was the way that people were able to use the previous scheme in developing these tax aggressive benefit schemes which actually worked against the project itself. We wanted to develop a direct link to the project and the project financiers so that the benefit accrued at that point rather than at the point of selling that benefit in some way in the marketplace. That was the crucial link we were trying to establish. The benefit of the previous scheme was in its ability to stimulate the development of the infrastructure.

Two elements brought it into disrepute and caused concern: firstly, what was perceived as the development of these tax aggressive schemes. But, secondly, the harm it caused was in the ability to stimulate the infrastructure, and that was being actually cut off. In developing this voucher scheme—and in the previous submission, which I will provide for you, we have set out in some detail how it would work and how you would put the safeguards in—it meant that you had a much closer nexus between financing the project and the benefits that accrued to the investors in that project. It removed the role of some of those third parties that perhaps got involved in the scheme before and were never intended to be involved.

The other issue is that when you look at long-term infrastructure projects and the construction phase and the loss of revenue—the fact that the revenue is not derived for some way down the track—any scheme that focuses on revenue lost on a fiscal-year basis is a constraint because investors in, and developers of, that infrastructure cannot take a short-term view and cannot look at just the next 12 months. The government, in its wisdom, when it evaluates these projects, looks at the revenue implications for the next 12 months. We argue that if you look at the revenue implications over the life of the project, they are almost revenue neutral to the government. But there are revenue implications on a year-to-year basis because of the timing of the project. They are the two elements. We are trying to get the voucher scheme to operate as a more direct link between the infrastructure developers and its investors so that the benefit accrues directly.

The second issue then that we are encouraging the government to consider is that—and it may well be a Treasury view—on long-term infrastructure projects you have to take a long-term view about the revenue implications. The revenue implications, we still argue, are just about revenue neutral but you have to take a long-term view. When you get fixed into a fiscal year basis, then you are never going to lock yourself into a policy which is going to assist long-term infrastructure.

Ms Ironfield—Another important thing about the voucher scheme is that it provides more certainty. Infrastructure investors will have certainty that they can take advantage of the scheme. Under the current scheme, as Jim said, it is basically a lottery. There are so little funds available going to so few projects that, basically, firms are not really taking that into account when they are undertaking their investments. They think that if they get the tax offset—well and good—it increases their profitability. It is not actually going to target the marginal project. Whereas the voucher scheme, as proposed by the ACA, would be available to all infrastructure projects. It would not only be looking at the land infrastructure, which is the focus of the current scheme; it would also be available to all infrastructure. It would actually get at those marginal projects that will not go ahead now.

CHAIR—Can you provide us with some actual examples of the modelling of it so that we can have a more detailed look at that?

Mr Barrett—Yes, I am fairly sure we did that in our first submission, the submission we did a year or two ago, but I will get a copy of that for you.

CHAIR—Thank you.

Mr Albrecht—I think there is probably an ongoing litany of examples. We were one of the proponents, though not the one that was most favoured for the north link rail project in the Northern Territory and, clearly, I have no doubt at all that that is a piece of infrastructure that would be of great benefit to this country in the long run. At the moment, it will struggle and yet, with some proper incentives—and we need to get out of the mind-set of just thinking of everything like this as a burden to the country—we have a great possibility.

We have to get out of this myopic, year-by-year, stunted, lottery, stop-start mentality. Governments should provide a vision that the private sector can fall into so that it can proactively follow through and deliver these things, efficiently and to the pre-eminent good of the country. I am sorry, I am rather passionate, but I think the current system does not do us justice.

Mr ADAMS—As the country was built—right?

CHAIR—I will just come back to the question that my colleague asked about dealing with the three levels of government. As my colleague pointed out, we have different views between what you are saying in your submission and what the previous representatives from the government department were saying.

Mr Shepherd—We are the proponents and we are the people who have to go through the process, and sometimes the process does work extremely well. Sometimes projects are fast-tracked through planning and approval and all of the three levels of government in Australia are on side. But that is not a common occurrence. If we look at it, the federal government is generally responsible for, say, funding, in the case of roads, and environment at the top level, and they may be interested in incentivising investment through tax. The state government is primarily responsible for delivery of infrastructure and for planning. Then at the local government you also have a second level of planning and integration into the local environment—and, of course, there is a very big interest in the maintenance of the roads.

It is quite rare for us to run into a project where all three of the governments involved or interested in a significant regional project have an agreed set of outcomes that they want to achieve and an agreed mechanism for achieving a quick result.

CHAIR—Why is that?

Mr Shepherd—There are different vested interests at each level. Each bureaucracy is looking after its own, as it were.

CHAIR—The IIIS workshops identified a number of problems. Some of those problems were actually at some of the local government levels where there were lack of skills, information and leadership. Are these common problems at the state level as well as the local government level?

Mr Shepherd—At the local level the biggest problem is that many councils are quite small and obviously do not have the resources to process complex developments. One of the issues that we have identified is the amalgamation of councils, or some form of cooperation between councils, so that they can get the critical mass to deal with these issues. That would be a good step forward. At the state level, of course, they jealously regard their own mandate and authority and are protecting themselves, as they see it, against the federal government and local government.

CHAIR—Have you any suggestions on how you can overcome this bureaucratic process of looking at the different planning regulations, for example?

Mr Shepherd—I think so. If the three levels of government could come out with a set of overall guidelines for major projects, or projects which involve all levels of government, that would help. Certainly, on a project-by-project basis, if they could agree on some form of cooperation right at the outset, with very clear rules and guidelines as to how the project is to be developed and processed and what outcomes each of them is seeking, that would help.

Mr Albrecht—The biggest thing is that there be a positive, predictable tax incentive program. That will transcend all levels of government. If you can get some real clarity into a system of incentivation, the rest of it will eventually find its own way, but there must be that clarity.

Mr SIDEBOTTOM—With all due respect, I do not think that is going to solve the problems we are talking about here. I could say that an investor would see the incentive to plough on, but that does not solve the difficulties we are talking about here. I think your blueprint stuff was—

Mr Shepherd—I think a blueprint is a good idea. Certainly, on a major project affecting a region, the three levels of government need to very quickly reach agreement as to how this project is to be developed, what they want out of it and what the process is, so that the private sector can get certainty in going through it and not have to worry about whether we are going to get ambushed here or ambushed there because one tier of government wants a different outcome from the other tier of government. Without creating a whole new bureaucracy, that should be quite simply put in place. But perhaps the federal government should provide leadership on those sorts of projects, particularly where there is federal funding or a federal incentive involved.

Ms Orr—It is not just the issue of vertical coordination; there is also horizontal coordination between local government areas. There has been quite a tradition of, I guess, greater myopia in local government areas. Whilst there have been amalgamations of local governments across the country in the last 10 years or so, there is still a need for greater coordination between local governments for major infrastructure projects.

Mr SIDEBOTTOM—It is really a type of regional governance, isn’t it?

Ms Orr—That is right.

Mr SIDEBOTTOM—Amalgamation is just a means; you do not have to amalgamate to have regional governance. But you are right. I think your comment about national leadership in this blueprint that we have been raising before is a good point.

Mr Shepherd—Taking Mr Albrecht’s point, if you have got the incentive there and the leadership coming from the federal government, saying, ‘This is a project we want to get up, we want to get it up quickly. We don’t want to waste three or four years going through various levels of planning. We want to get it done now,’ that helps as well.

Mr SECKER—Both yourselves and the previous group have provided some figures that suggest that federal government funding in infrastructure has basically been stable for the last 20 years, at between 1.4 and 1.6 per cent of GDP, but the figure for the states and local governments together has gone from six per cent down to 2.75 per cent—less than half. Firstly, is there a breakdown between states and local government? For me to work out where the problem is, I have got to find out where the breakdown is. Secondly, is there a breakdown between rural and urban? I would have thought there would have been less investment from urban councils in recent years because they have probably got most of the infrastructure they need, anyway—they go to things like parks and gardens, basket weaving, or whatever you want to call it—so they do not need it. Of course, developers in subdivisions, the private sector, provide most of the infrastructure, too. So it would be very useful for me if I could have a breakdown to see where the actual reduction in infrastructure investment has been.

Ms Ironfield—I am not aware of such a breakdown. Certainly, the data that I accessed for this submission was highly aggregated. As a matter of fact, it is capital formation. It covers not only infrastructure but other activities as well. I would suggest that, if you are wanting that sort of information, the Australian Bureau of Statistics may be able to give it to you, but they may have to do special runs. You may have to request that they cut the data in a different way from the way in which the official data is published.

Mr SECKER—Madam Chair, I wonder whether it is possible for us to get that information from the Australian Bureau of Statistics—try to get a breakdown?

CHAIR—We can certainly follow up on that.

Mr ANDREN—I guess we could dream of coinciding fixed terms for local, state and federal governments, so that we could get a little bit of non-political direction in our infrastructure. Failing that, it strikes me that you have got competing political agendas, as well as economic ones. But you can look at the Adelaide-Darwin rail line commitment and then at the in-kind commitment to Melbourne-Darwin via inland New South Wales. I think the public can rightly ask, 'Where are our priorities? Are we duplicating our energies?' Why cannot we develop a national strategy that prioritises, say, the top 15 infrastructure developments in the country? As we knock one off at the top, one hops in at the bottom, off the reserve bench. Is not this sort of thing possible in our political climate?

Mr Barrett—There was the recent report of the rail projects task force that Mr Jack Smorgan chaired on behalf of a group that was put together by the Prime Minister. In fact, one of the key recommendations relating to rail infrastructure that they made was that we just do not have an integrated rail strategy. You can expand that to other classes of infrastructure as well, and I think the same argument can be made. We have never done a stocktake of our infrastructures. Leading from that, therefore, do we have a national strategy? Because we cannot identify what we have got and what the deficiencies are, obviously, if we can do that with rail, then the same issue relates to other classes of infrastructure. It becomes a public policy issue, too. Those on this side of the table are not able to take that forward. That is a strategy that has got to be developed by those on your side of the table.

Mr Shepherd—You are quite right: there does need to be prioritisation. But to prioritise, you have really got to have a national strategy. We are still where we were in 1900 in terms of the rail network, basically.

Mr Albrecht—Do not underestimate the importance of setting a policy framework and an incentive framework which then allow private sector people to come up with definitive, creative outcomes that can harmonise with that overall framework. If you spend all your time pontificating the top 10 list and saying, 'Thou shalt bid for this one first,' you will again degenerate into something which I think is less than efficient in capturing what this country can do for itself. Set the policy framework so that we all know what it is that we can work within, and you will be amazed at what can still be generated out of the private sector. But there must be a framework of positive incentives—ones that are for the social good of this country, not for excesses of innovative creaming-off for other purposes.

I give an example—it is completely unrelated to this—in telecommunications at the moment. I have watched the debate with great interest. If we think in terms of regional benefit, there is a veritable revolution going on at the moment in the development of distance learning and flexible learning technology, so that you are eventually going to be able to educate yourself by using your PC 100 kilometres west of Ayers Rock. That is a slight exaggeration, but we have got people in the jungles of Indonesia who are doing a masters course out of the University of Southern Cross in Toowoomba. They will never go anywhere near that institution.

We have the capacity. We are conversant with regional isolation—the tyranny of distance of regional parts of the world. We have an opportunity now, by way of positive incentives, not just to consider all of the disabilities but to see ourselves as a model that can then be exported anywhere in the world globally, as far as the efficient delivery of flexible learning is concerned. There are universities that are starting to play around with that. Provide some incentives to these people and all you will do is accelerate it. You will get a multiplier which is to the benefit of the people in the bush. We should not think about the people in the bush as people who are somehow a drag on the bigger, vote-carrying, metropolitan areas. They are a great asset to us. It does not have to cost us an arm and a leg to help them.

Mr NAIRN—Before I ask my question, I would like to congratulate the association on their submission, because you have identified problems but there are some good, positive recommendations in there. I think the ACA, which has only been operating for a few years, can clearly have a fair input. I should declare, Madam Chair, that 15 of the 18 have been clients of mine in the past. So I will make that declaration, having given them a plug. I want to ask you about BOOT schemes. Where do you see that going? There have been a few disasters offshore with some of these.

CHAIR—With some success in Victoria, though.

Mr NAIRN—Where do you see the natural progression of those schemes heading? Initially they were billed as more BOT—build, own and transfer—rather than BOOT, and then we progressed to BOOT. Where do you see all that heading?

Mr Shepherd—The experience in Australia has been uniformly good. We have not had the catastrophes of the Eurotunnel or anything like that, and it has probably added something like $10 billion of new infrastructure stock to Australia at no cost to government over the last 10 years. The problem at the moment is that the deal stream seems to have slowed down. For one reason or another we have gone through this big burst—perhaps leading up to the year 2000—and then it seems to be dropping off quite significantly post-2000.

It gets back to Martin’s point that unless we have this national drive for new infrastructure projects in the private sector, it will dry up. We did have that drive earlier. The tax incentive program did work in focusing private sector investors and state governments on opportunities, but we seem to have lost a little bit of the national will in the last couple of years.

Mr NAIRN—Have you seen a change around the state governments? Effectively, many of these projects come out of state government initiatives.

Mr Shepherd—Most of them have come out of state governments.

Mr NAIRN—What is happening in that respect?

Mr Shepherd—There is a certain slowing down—perhaps a certain amount of caution, perhaps a fear that it might be too tainted with the privatisation paintbrush—which I think is very regrettable because, as I said, $10 billion in 10 years is a lot of money and a lot of jobs, and it is very good use of our capital, too.

Mr NAIRN—This aspect of private investment in infrastructure and ownership is a big problem out there in voter land, if I can use that terminology. A bit of a culture has built up in recent years of ‘there is something wrong here’.

Mr Albrecht—I think it is truly tragic that we are not served better in public information dissemination and articulation of the advantages coming out of some of these initiatives. There is an example which you would be justified in saying that proof is yet to be tasted. We are now involved—and I will be quite open about that—with some of this transport privatisation in Victoria. We are absolutely committed to the belief—together with the British people who are the principal sponsors—that what the taxpayers of Victoria will finish up with is a service that will be more frequent, more reliable, more attractive to utilise and will improve in every way the efficiency of a very vital part of infrastructure for a city to function. It will undoubtedly be a cost benefit to the state of Victoria, so much so that within 10 years it will not drag out, with you and I and every other taxpayer in the country paying for it, but will be something that is going to give something more.

It takes a while in some respects. We pick on things like the fact that the private sector perhaps paid too much for some of the power stations in Victoria—and there is no doubt that some of the new ones proposed in Queensland will be built for half the capital cost of the purchase price for the Victorian ones; the private sector will not always get their judgments absolutely spot on—but the ringing reality is that everybody in Victoria and in the rest of the country is now getting cheaper electricity than if we had all sat in our sanctimonious boxes and continued to run the power system in the way it was run 10 years ago. We do not seem to be able to articulate the benefits. Eventually, if we can build a better infrastructure, we will build a more prosperous Australia.

I remember Michael Deely once saying that, if you think of an export product, 40 per cent to 60 per cent of the cost of that export product will come out of the non-traded sector; whether it is taxes or whether it is fixed charges for services like ports and roads—whatever it is—60 per cent of the cost of what you manufacture in Australia will come out of a basket that you cannot control. It is the role of government and of every one of the country’s citizens to make sure that every part of our infrastructure is efficient so that our export markets can also be efficient.

In furthering our resources, think about the train systems we have at the moment. Now that we are getting competition policy, some of those coal mines are going to stay alive only because we are suddenly starting to get some reduction in the rail freight. That was just a cross-fertilisation, a cross-subsidisation, into other pockets, but we are not given the necessary objective reporting on those issues in a way that we can objectively get our minds around the realities.

Mr ADAMS—There are other views, too, by the way.

Mr Albrecht—I am sorry!

Mr ADAMS—If Telstra is sold, some of us would be pretty worried about whether that guy out there on the other side of Alice Springs will be able to get any service for his computer. You might like to tell us how that is going to happen. There are also the people who live inside those toll roads in Victoria. There are some views about how those people have to go round and round, so they stay off the toll roads because they cannot afford to pay. So there are some other views around, and maybe those questions need to be answered. Maybe then there can be some easier flows in the arguments you are using.

Mr Albrecht—I think that is a legitimate comment—that is, where infrastructure is privatised like that—and some governments have taken a pretty responsible view that there should always be constructive alternatives. I respect the comment you are making that there is a social conscience that should not just be brushed over or disregarded.

Mr Shepherd—In the case of Telstra, it is a question of having a regime and a contractual obligation on the private sector to maintain the levels of service. We are in the tram business in Melbourne now, and our contract carries huge penalties on us if we do not maintain the frequency of service and the safety and the fare levels that we have contracted to meet. You can push this to the private sector, but you do have to manage it carefully. We are not saying that this is some sort of freewheeling arrangement; it has to be contractually controlled, with penalties on us if we do not perform.

Ms Orr—I was going to say something similar: you can distinguish between ownership and rules of the game. It does not matter who is the owner. If you are very transparent with the rules of the game, you can still meet your social objectives. Perhaps in some ways you are forced to be more transparent and open under a private sector arrangement than under a public arrangement where these thing can get buried. You can meet your efficiency objectives but you also need to meet your social objectives. It does mean that you have to be smart in specifying your regulations.

I think, to address the misperception problem, it would be useful if at state government level there were greater reporting of how reforms—including privatisation—were actually leading to real price reductions and quality improvements. That basic information is not getting out there. When the newspaper reports that a wheel on the newly privatised bus system in Perth falls off, it would be helpful if the context in which that happened was reported, for example, so that people knew how many wheels fell off in the past. In that way, there would be some context before a judgment was made by the public.

CHAIR—That raises the question, does it not, of providing the information to the public. Could you identify any sorts of regional infrastructure projects where you think there should be CSO payments to the private sector? Is this an issue you have considered?

Mr Shepherd—I think in some of the road projects, particularly in remote areas where the lead time to get the traffic up on a road might be very lengthy and full-bore tolls may be impossible and socially unfair, a CSO type incentive is a good way to go. It could certainly work with long-haul railways and with power and water.

Mr ADAMS—I want to come back to some of the problems that were raised about getting the private sector involved in what is infrastructure. Issues like the explosion at Longford and the safety aspects that came out of the royal commission—those sorts of issues—go to the heart of what you are saying. In Victoria the government term 'commercial-in-confidence' is used. Some people are saying, 'It isn't as transparent as some issues should be.' Those sort of things will dampen it, and I would be very interested in your views on those things.

Mr Shepherd—From a personal point of view, we have no problem with any contracts we have signed in BOOT being publicised. In fact, the Sydney Harbour Tunnel contract was part of an act of parliament and the concession deed for the Melbourne City Link was part of an act of parliament. Frankly, we have no problem with that.

Mr ADAMS—So that is all open?

Mr Shepherd—It is all open and we could not care less. We have nothing to hide. In some respects, I think you are right: a bit more transparency in disclosure may take a lot of the edge off that criticism.

Mr ADAMS—I think it would.

Mr Shepherd—The case of the Longford plant is interesting because that was set up about 25 years ago, before private infrastructure was really even conceived. But, again, it gets back to regulation and planning—you had all of the gas supply for Melbourne going through one choke point. Private or public sector, that did not seem like a sensible thing to do.

Mr ADAMS—Particularly where there is training and safety, and issues like that.

Mr Barrett—Obligations under the Occupational Health and Safety Act are the same no matter what side of the table you sit on, whether you are private or public sector. Equally, our members take on the contractual responsibility and a statutory responsibility for occupational health and safety during construction phases as well as in operations. So those issues of standards of occupational health and safety should not change; they should not be treated as a variable.

Mr ADAMS—It comes back more to the fact that the gas was all going through one plant. It is a bit like the Auckland situation, but they actually cut back on some of their other in lines, not having as many as the public sector used to, where it said, 'We will have four spares in case it all falls down,' whereas the private sector said, 'No, we can cut back on those because we do not need them, it is inefficiency to keep that cost going,' and maintenance cut them out, but then everything did fall over and they had those difficulties.

Mr Shepherd—It gets back to regulation, doesn't it? Having a proper system of regulation and having intelligent management in the public sector is vital.

Mr ADAMS—Maybe it goes to some of that infrastructure that the private sector has not been involved in, that there is a bigger requirement to meet than normally and that we have not really thought about yet. Supplying gas is a major fundamental, it is a vital industry. Maybe we need to think about those things a bit more.

Mr Albrecht—I think there was a good example there. I hope I cannot be put in jail for this, but I personally surmised that there was probably an unholy situation, where a company was making a good profit and the state government was also making a good royalty situation, and the status quo was allowed to go on for far, far too long; there was not the desire to get external competition into that very cosy situation.

Mr ADAMS—The Auditor-General should have reported in Victoria.

CHAIR—I think we are getting outside the bounds—

Mr NAIRN—I was just going to suggest that Mr Albrecht might like to answer Dick's question to the previous witnesses about the technology developments—

CHAIR—We would have to make that the last question.

Mr NAIRN—and the export of our great expertise in road building to other countries, for instance.

Mr Albrecht—That project is one that our company is constructing and there are some elements of that that I think are very worthy role models. When the history is written on that project there will be a lot of people who can take some pride in the delivery of it. It was a new delivery concept for the state department of transport, but it is extrapolating what has been coming in with some of these private sector road projects where governments are increasingly specifying something like a 10-year maintenance life. I can only put in the most passionate and humble plea that you continue to contemplate that in the delivery of any infrastructure, that you do not isolate the delivery of the infrastructure from its operation and maintenance phase. You will find—and perhaps there need to be some studies which just manifest, demonstrate and articulate it—the tremendous, powerful savings you will get when you keep that as an integrated package. It takes the whole efficiency another step forward from the old days.

Main Roads in New South Wales, for instance, used to have 1,300 soil testers and quality people who took samples of concrete and everything else. These people then established their own bureaucracy and you did not get a test unless you gave 48 hours notice, so the efficiency of the whole operation was being diminished. Now, the contractor or the deliverer of that infrastructure knows that I have got a 10-year accountability for that, so there is absolutely no interest at all but to build it with the longevity of the project uppermost in your mind, that you are going to build something of quality that is going to be there to serve and be fit for the purpose for a long time. Obviously you do not just build it for 10 years, you build it for 20 years and beyond. For that project, for instance, we bought the best concrete paving technology in the world; it was bought brand, spanking new for that project. We have invested in that—we are not writing it off on that project; that will go on for other projects.

CHAIR—Was that technology developed here or overseas?

Mr Albrecht—It has certainly got some innovations to it and it is certainly the most productive paving unit that has ever worked in this country. That sort of thing will continue. What was very good about that was that the government said, ‘We want a road to go from here to here, there is a corridor there, but you design it. You tell us whether you think deep lift hot mix is cheaper or the concrete is cheaper. And, by the way, you have got a 10-year obligation for this, so you build all of that into your offer.’ Clearly, what we offered will, I believe, be an outstanding piece of quality infrastructure that will serve this country well. It is an example of something very positive. Awarding contracts like that will incentivate the private sector to spend money to find the best technology and then innovate and even add to it. So can I make a plea for what I think is a worthy study. I will not be in my current position in 10 years time, but I hope I can still say with pride that it was an organisation with which I was involved.

Mr ADAMS—Is there any exporting of our road making skills and infrastructure building skills? I know Transfield has been involved overseas, in Asia.

Mr Shepherd—The tolling system that we are developing for Melbourne will be exported, definitely. We are looking at projects internationally now for that tolling system. That is an example.

Mr ADAMS—I think I came across some of your people on a road program in Laos, building a bridge or two.

Mr Shepherd—That is right. We are building a bridge in steel up there.

CHAIR—I bet they are not using the E-tag system.

Mr Shepherd—They do not need the E-tags in Laos.

Mr ADAMS—No. But I found that steel tying is about the same art there as it is here.

Mr Shepherd—Exactly. The toll regime for the bridge in Laos is interesting: man on a bike, man on a bike with a duck, man on a bike with two ducks. That is beyond the capability of modern software.

Mr NAIRN—But a lot of pavement design and construction techniques that have been developed in Australia, particularly in the remote parts of Australia, are being utilised in countries like Indonesia, Malaysia and Vietnam.

CHAIR—I think the engineers amongst us might want to share their experiences over a quick cup of coffee. I will have to close this discussion for now. If you would give us the information on that voucher system we would be particularly interested in that. Thank you very much for attending.

Mr Barrett—After you have reviewed the voucher system, if you wanted to talk about it in more depth, we would be very happy to oblige.

CHAIR—Yes, we certainly will.

Mr ADAMS—Are you interested in a bridge or a tunnel to Tasmania?

Mr Shepherd—That looks like a great project.

[10.57 a.m.]

ROHDE, Mr Ian George, Managing Director, Warakirri Asset Management

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Rohde—We manage investments on behalf of REST, which is one of the large industry superannuation funds. The investments I am specifically referring to are in dryland cropping farms. There are almost $60 million worth of investments in dryland cropping farms from the Darling Downs in Queensland down through New South Wales, through Victoria and west of Ballarat.

The reason I am here is, for a start, that I heard the rural report on 3LO one afternoon referring to this committee and meetings that someone had held, saying that superannuation funds should be investing in infrastructure in rural areas and those sorts of things. I was sufficiently disturbed to feel that it ought to at least be put on record that some of the superannuation funds are investing in rural areas and certainly in infrastructure.

CHAIR—What would be the break-up of superannuation fund investment in urban and the regional areas?

Mr Rohde—I cannot answer that specifically, but I do have some information here from REST itself that is a little bit broader than that. REST is a fund of about $2.4 billion, having grown from about $40 million, I think, when we first became involved in about 1989-90. Of that $2.4 billion, about 14½ per cent is invested in private equity and property investments: $350 million. Within that, there is nearly $90 million in infrastructure and $92 million in what is known as development capital. It used to be called venture capital, but people changed the name because they think it sounds less risky.

CHAIR—It had a bad name for a while.

Mr Rohde—In terms of regional investments, out of that $2.4 billion REST have $25 million invested in ski resorts—we do not manage that; it is managed by a group called BCR Asset Management. I should say that the Australian Retirement Fund, which is another of the large industry funds, has also invested along with them in the ski resorts and with us in rural properties, so there is now $45 million in farms. Then they have other investments in development capital of $27 million—so that is about $90 million in development capital. Most of the assets are invested in Australian shares, international shares, those sorts of things, bonds, but they do have a fairly healthy investment in regional areas.

CHAIR—What would be some of the assessment criteria that REST would use before they would consider investing in infrastructure, and in particular, of course, regional infrastructure?

Mr Rohde—The fundamental thing to realise is that these funds are run by trustee who have a fiduciary obligation, so first of all these things must stand up on investment grounds.

In the end, the members of REST, for instance, are typically the non-management staff of shops, pharmacies and fast food businesses. My understanding is that they have about a million members and the average wage of those people would be $16,000 to $17,000, on a rough rule of thumb. You have got a fiduciary obligation to make sure that those members' interests are protected, and so the fundamental thing is that it must stand up on investment grounds.

CHAIR—The investment in infrastructure, by its nature, has to be viewed over a long period. I am aware that you were present while the previous group, the Australian Contractors Association, appeared before us. What was your reaction to their suggestion of a voucher system which would provide a greater incentive for the investor, to alleviate that up-front pressure?

Mr Rohde—I could give an off-the-cuff response, emphasising that I would speak here privately rather than on behalf of REST, in that I had been an asset consultant advising large superannuation funds for nearly 10 years until I moved into this part of the business so I have views on it. My general views are that I am wary about any sort of intervention, like that, that can distort the market. Why I think that is that I started looking at venture capital—development capital—10 years ago now, and, as I facetiously mentioned, the name of venture capital was changed to development capital because people perceived it as riskier. There was a lot of money lost in it, and I think most of that money was lost because in the mid-1980s, when the managed investment scheme—MIC—was in place, that was inappropriately done and the incentives were all wrong.

What you have to do is to align the interests of the investors, which would be the superannuation funds and the people who want the work done. Off the top of my head, I am not sure whether vouchers would do that. The MIC scheme was flawed, in that it did not encourage people to make good investments. It encouraged people just to invest, no matter what, because they did not get another allocation. The other thing is that it was tax driven to a large degree, and I do not think that helps sound investment either. Without knowing the full details of the proposal, they would be the sorts of things that I would be looking for.

Mr ANDREN—What sort of scheme would you have? I am not quite sure whether you are saying that IBTOS is too restrictive, whereas infrastructure bonds are tradable items and—

Mr Rohde—One certainly needs liquidity, yes.

Mr ANDREN—Is there something between both that we need, that is not a tax driven thing but genuine investment driven?

Mr Rohde—I would start off by saying I am not convinced that schemes are necessary. I guess they generally are—what one needs is policy in place—but I am not sure that a specific scheme is necessary.

I say that because I am not sure that people have come to grips with how superannuation and investment decisions are made and how that has changed over the years with the advent of universal superannuation. If we look back at the 1980s and early 1990s, you had mainly corporate superannuation funds, typically dominated by people from the corporate side. Those superannuation funds were underwritten by companies, so obviously the companies' interests are at the heart of decisions like that, along with the fiduciary obligations.

There has been a fundamental change. Whereas superannuation used to be a matter of choosing a funds manager—without naming names, one of the big ones—and they would say, 'Put your money with me; this is what I will do with it, but just trust me,' the balance of power has shifted right away from the big investment managers towards the superannuation funds, specifically the industry superannuation funds, because they control where the money goes. They are taking decisions for themselves rather than standing back and just handing the money over.

I do not think people have realised that there has been a fundamental change. For instance, Bill Kelty and Bernie Fraser chair the Australian Retirement Fund. Bernie is also involved in some others. The decision making processes there are quite different from those in the corporate superannuation funds. I am not sure that there needs to be a scheme to encourage those sorts of funds to invest more in that area. They are already putting quite a bit in. If it can be shown to stand up on investment grounds, relative to Australian shares and all the other options, I think it will do quite well.

Mr ANDREN—We heard evidence from people in the superannuation area in Queensland that, from memory, there is an attractive return from rural investment in a place such as the United States—in some of the farming sectors and such. How do we turn that around here? Is it an attractive option for your clients?

Mr Rohde—I have fairly strong views about that. There is no doubt that it is. I am talking here specifically of investing in farm land. In the United States, it is more normal to own the farms and lease them out to people in the areas. My first response would be to say that we have certainly got some fairly good relationships with people out of the States. Without saying too much more, some of them have actually found our business very attractive. We have chosen not to pursue that option. We know of US agricultural managers who are here, but with whom we were not able to come to an accommodation. We had a different view of our own worth than they did, but that is another issue. They are undertaking US investments here.

Mr NAIRN—Lamb production!

Mr Rohde—More like nuts.

Mr ANDREN—I remember speaking about three years ago to a North Coast based superannuation investment organisation whose name escapes me. They were very gung-ho about the potential for rural and regional opportunities. It got down to things like child care, nursing homes and areas like this. Do you believe that they are feasible options? A lot of people say, 'We'd love to invest our own in the regional areas.' You hear a lot of investment people bemoaning the fact that so much of the regional superannuation money heads off to the coast or overseas.

Mr Rohde—There are a couple of issues there. One is that, because of the fiduciary obligations on people, no-one wants to be the first one in. It took us a long time to get our operation going. There was a lot of sympathy. It is amazing how many ex-country people work in city offices and have a lot of sympathy for what you are doing, but it is different when it comes to signing the cheques. It is the same with all investments, whether it is listed equities or whatever: if you have got experience as a manager, people will hire you. It is that comfort level. Now that we have the runs on the board, I believe that we will be able to much more easily raise funds.

You have to prove that you are not going to waste the money. You have to understand the career risk of the trustees. It is very attractive. The other point I would make is that the farmers have been their own worst enemies. Our day to day operation is managed out of Horsham. I studied with the guy who had the idea and wanted to set it up. I was advising superannuation funds and he said, ‘Why aren’t super funds investing in rural areas?’ I said, ‘We all know there is no money in farming. I’ve seen the *7.30 Report* and *A Current Affair*.’ This was back when the banks were closing people down. He said, ‘That’s not right, it’s the wrong image. The top 20 or 25 per cent of farmers make darned good money.’ If you talk to the banks, with respect to the top 20 or 25 per cent of their customers, their problem is not how to pay their interest or how to survive; their problem is what to do with the surplus cashflow.

Mr ANDREN—The irony is that there is more and more being made from fewer and fewer.

Mr Rohde—That is a fact. With respect to the typical properties that we are running, involving, let us say, 8,000 to 10,000 acres—we are trying to keep them at the larger end of the family farm so that they can be run by a manager, his wife and an offsider, and then you contract most other things in—we are typically having to aggregate three or four farms, so those farms that were supporting three or four families are now supporting fewer people, but you have to do that to get the economies. That is an economic fact, I think.

Mr SIDEBOTTOM—I take you to another aspect of your submission: communications. You mention mobile telephony and the Internet and offer some suggestions in terms of untimed local calls and also eligible deductions for self-education. To what extent are the recipients of your investment concerned about communications and these problems? Apart from the two recommendations you have there about relieving them of some of the costs involved, what other suggestions do you have in terms of provision of those communications?

Mr Rohde—I should start off by saying that while they are issues, I do not see them as major issues. From our perspective, if they are important enough to us and we can see that they are worthwhile doing, we will do them. It is more for the incentive and encouragement of the people on the ground. In terms of the Internet side of it, we are trying to introduce good business practice to farming which, typically, in my view, has not always been run as a business. There are simple little things. The other day I was driving from Melbourne to Mildura and there were pockets there where I could not—

Mr SIDEBOTTOM—Black spots?

Mr Rohde—Yes.

Mr SIDEBOTTOM—Welcome to the world!

Mr Rohde—That is a problem for the fellows coordinating the harvest, because they are trying to organise all these contractors. The other thing is the Internet. We have only one now who is not able to access the Internet. That causes a lot of communication problems. It is not so much the access; it is reliable access. Some of the farms can get access, but they drop out. All that you are trying to do is download a radar image from the Bureau of Meteorology to see if there is rain coming so that you can decide whether to call the harvesters in or go out and spray. It is a real issue, but I would not want those things to be taken too far out of context. If I look at where we are now, three years down the track from when we started, there has been a quantum leap. I have no reason to believe that there will not be another quantum leap to improve the situation.

Mr NAIRN—You mentioned investing in a ski resort as an example of investing in regional areas. That is an investment in a business. There is infrastructure, I guess, which hangs off that business. Is this the way you see that superannuation can have the biggest involvement in infrastructure—not so much directly with an infrastructure project, investing in a highway or something like that, but via a business operation?

Mr Rohde—I think there is plenty of scope for both. The cash flows into these funds are huge. In terms of infrastructure, I could just mention that BCR Asset Management has bought Mount Hotham and Falls Creek ski resorts on behalf of those two funds. They have put in an airstrip at Horsehair Plain. They are developing Hotham. It had not been developed for years and had been at a standstill virtually. It is minor in terms of infrastructure, although the airport is not.

Mr NAIRN—But it is very strongly linked to the tourism business of snowfields.

Mr Rohde—Absolutely, yes.

Mr NAIRN—I am not being critical of it. I am just trying to flesh out how we can get more and more of those funds helping to finance infrastructure but perhaps via a business regime because that is the more traditional investment that people are comfortable with. Do you know of any examples where the investment is directly into an infrastructure project?

Mr Rohde—Most of these funds have been invested with Hastings, which is Mike Fitzpatrick's infrastructure fund. Most of these funds do have significant investments in what they would call infrastructure projects. They do not make the investments directly themselves. The key is finding managers to do it. There is the Macquarie trust and various ones around that they invest in.

Mr NAIRN—So they might be providing finance for a toll?

Mr Rohde—They are.

Mr NAIRN—That is where those funds are getting used. Is that right?

Mr Rohde—Yes. Another area that I think is fairly interesting and important for superannuation funds with a long-term liability profile is inflation index bonds. The funds that we have advised over the years have had fairly large investments in them, especially when real yields were somewhere around five and six per cent, because that is something like a government guaranteed real return that you would get on equities in the long run. That was money for jam. It was wonderful. But the real yields have fallen away now. I think that, as part of the asset profile, the CPI indexed bonds should be very attractive to superannuation funds. But that goes against the model of having private development of infrastructure. That implies government involvement in the funding.

Mr NAIRN—To what extent are superannuation funds the shareholders in some of the major companies that are in the infrastructure construction business?

Mr Rohde—I cannot answer that in terms of numbers. They would probably provide the majority of external funding for these things. They would have significant holdings in any of the listed companies. I cannot give you absolute answers.

Mr NAIRN—In general terms, it seems a good investment.

Mr Rohde—They are, but remember they nearly always work through third-party managers. It is a matter of getting their interests aligned.

CHAIR—One of the concerns that has been raised in a number of submissions is that, while there has been some private sector investment, it is attractive for them to get involved in the very large projects. The small projects of under $20 million just do not get a look-in with private sector investment. Is that the same with the super funds?

Mr Rohde—Absolutely. The only reason we were able to get going with what we did was because we already had this relationship with ARF and REST. They knew us and were prepared to invest with us. If you look at the large superannuation funds with $2½ billion, their monthly cash flow would be $15 million to $20 million. On the one hand, you can question whether they are going to miss $15 million to $20 million but, on the other hand, there are logistical administrative issues of keeping tabs on all that. That is why they need third-party managers to put together larger funds.

CHAIR—That would be another reason why clustering of developments could be attractive?

Mr Rohde—Yes.

CHAIR—Are there any other matters that we perhaps did not cover that you would like to raise with us?

Mr Rohde—No, those were the issues. What drove me initially was that I wanted on record that superannuation funds are investing in the area. It might not be obvious. I think some of those questions there teased that out quite well. If you went to the large superannuation funds, and the industry funds especially, you would find there is quite a bit invested in the area, and will continue to be, because they cannot all keep buying BHP and National Bank. They have to try and differentiate themselves by getting extra return.

CHAIR—Thank you very much indeed.

[11.20 a.m.]

CURTHOYS, Mr Andrew James, Principal Policy Adviser, Infrastructure Directorate, Policy Co-ordination Division, Department of Premier and Cabinet, Queensland Government

HOGAN, Mr Terry Philip, Deputy Director-General, Policy Co-ordination Division, Department of Premier and Cabinet, Queensland Government

CHAIR—Welcome. We have received a very detailed submission from you. Before we begin our questioning, would you like to make a short opening statement?

Mr Hogan—Indeed, thank you very much. I will start with a cliche: Queensland is different, but it is different in some significant ways to this very topic. We have, after Western Australia, the longest coastline in Australia. We have the longest settled coastline of anywhere on the Australian continent, reaching from Tweed up to Cape York. We have a series of small- and medium-sized communities all the way up the cape. That means that not only do we have significant infrastructure needs inside those communities but also for the links between them in terms of road and rail transport infrastructure and, very critically and increasingly so, telecommunications infrastructure.

It is worth pointing out, as Mr Katter will understand, that it is further from Brisbane to Cairns than it is from Brisbane to Melbourne. Distance is a significant factor in Queensland no matter where you go. If you go from anywhere to anywhere, it takes a long time to get from anywhere to anywhere, whether it is on the coast or inland over the Great Dividing Range.

We are also different in terms of the way that weather affects our infrastructure. When you get a cyclone off the Queensland coast, it does not only wipe out a few houses but tends to take out most of the infrastructure as well, whether it is water or power or roads. The cost of refurbishing that infrastructure to maintain the status quo, let alone develop it further as a result of population pressures, is really quite significant.

Our population, as I intimated earlier, is not just concentrated around the urban areas as in Sydney and Melbourne. Alone among Australian states, we have less than half of our population in the capital city of Brisbane, and the rest is scattered throughout the entire state in mostly small to medium-small populations inland from Brisbane.

Our submission talks about three different kinds of infrastructure: transport, including road, rail and air, each of which has different kinds of needs in terms of development and also maintenance; telecommunications, which is where we think the growth really has to be for a place like Queensland that simply cannot maintain those huge distances; and, very importantly, water infrastructure. We pointed out that, although Queensland has the highest run-off of any state in terms of water falling on the ground, we preserve less than 10 per cent of it, whereas other states preserve up to 50 per cent. We need to get that water and turn it inland to good use. The problem is the huge cost of developing water infrastructure. Given the current COAG reforms, they need to be competitive in the way that those infrastructures are put in place.

I might just give a couple of examples of where the local level infrastructure can be really quite significant. I point to the example we made in our submission of local airports in the northern and western regions where in many cases the local airports have been handed back to the local shire councils with a rate base of 200 ratepayers. To maintain such an airport just so that planes can land on it is extremely expensive. When you have 200 ratepayers and the money is being competed for to maintain road, rail and the shire hall, it is often the local airport that comes last on the agenda. That means not only is the local community not able to get out or in during the wet, when there is no other way in or out than the airport, but medical emergencies also cannot be serviced because the only way in for a doctor is via an aeroplane.

It is the knock-on effect of the slow decay of infrastructure which is of great concern to us. The state is finding it increasingly difficult economically and financially to maintain the large network of local infrastructure, given the sheer size of the place. We have also included in that some of the larger water infrastructure—for example, the Dawson River dam proposal—which encapsulates a whole range of issues that are to do with distance and size, and so on, for water in central Queensland.

In summary, we are arguing strongly for a far greater role for each of the major players in infrastructure—that is, state, Commonwealth and local governments. There is a fourth major player—I was interested to hear the comments of the previous speaker—and that is the private sector. The way the private sector can be involved in infrastructure development is also critical to us in Queensland, increasingly. We want to see more integration and more coherent planning, if you like, for infrastructure provision around Australia, but specifically in Queensland, given the opportunities that we feel that we have.

CHAIR—It has been put to us in a number of submissions that there is a need for a national approach for planning infrastructure needs. Given that Queensland is different, in the terms which you have explained to us this morning, what would be your view on that need for a national infrastructure plan?

Mr Hogan—I absolutely agree. Let me give you one example; the Barkly Highway runs between Mt Isa, Camooweal, the border and across into the Northern Territory. At the moment it is funded, if at all, by the state and it is a very difficult road to maintain. The Barkly Highway, just that small section is a critical key linking infrastructure in Queensland and the Northern Territory. Without a national approach, you will not get that logical linking across the border. That is a clear example where, at a local level, it needs all of the players—the state, Commonwealth and local governments and, as I said earlier, perhaps the private sector—around the table when the planning is being done. That is absolutely vital.

CHAIR—Just touching on a general theme that has been recurring throughout the entire time that we have been conducting this inquiry, there is growing evidence of a lack of skills at the local level and a lack of leadership at that local level. Is this something you have identified in Queensland and, if you have, what are your suggestions for overcoming this?

Mr Hogan—We would agree absolutely that the skills are lacking in regional areas, not just because of the lack of facilities to upgrade the skills but also because the kids go away from those areas into the urban areas to get the skills and tend not to come back. We are looking hard at ways of keeping the skills in the regions and at ways for people to enhance them while they are there. For example, the use of Internet connections to TAFE is critical. The education department in Queensland has put in what is called the Connect-Ed network, which is an Internet based system to get the schools in the state on line to a central network. It is difficult to have large education facilities in the western parts of Queensland.

We need to connect them to the urban areas along the coast and make sure we can keep the skills out there where they are in demand. The problem is that it is a level of skill and a quality of skill that you might not need very often in isolated regional areas, but you still need to get them very quickly when you do need them. There is a whole range of issues to be thought through. Again, the issue comes down to careful planning as to how we get the facilities there to meet the needs of kids who are learning a skill, and then to draw them back when they have their skills.

Mr SIDEBOTTOM—Thank you for your detailed submission. I found it very interesting. I come from Tasmania so I find a lot of this applicable to where I come from. Two things really resonate throughout this. The first and foremost is, indirectly, this national blueprint for infrastructure. You have got here the need for greater coordination between all levels of government. I would like you to explore that a little more and perhaps even discuss some of the strategies that you think could bring that about.

What really got my attention is the recommendation here in relation to the Commonwealth government. I will just remind you of what it says:

Renew its role in regional development to focus on—

I am interested in the word ‘renew’ there—

a national vision for regional development, which balances both economic development and social justice—

as Madam Chair mentioned earlier—

and a long-term commitment by the Commonwealth to investing in regional growth;

There is almost an inference there that there is necessary renewing to take place and that the Commonwealth needs to invest in regional growth in the long term, and maybe more. I am interested in your views in relation to that.

Mr Hogan—We of course agree with that statement.

Mr SIDEBOTTOM—Of course, you wrote it!

Mr Hogan—I will give you an example, again. With road funding, the Commonwealth’s share of total state road funding in Queensland has declined from 44 per cent to 28 per cent over the last five years. So there is a significant—

Mr KATTER—Just run that by me again, slowly.

Mr Hogan—The total proportion of road funding expenditure in this state has fallen from 44 to 28 per cent. That is the Commonwealth contribution to state road expenditure. It has fallen by about a half over the last five years and the state has to take up the slack.

Mr KATTER—Over the last five years?

Mr Hogan—Yes. That applies to rural roads—roads anywhere, for that matter. I know something about Tasmania, because I was down there at Christmas time looking—

Mr KATTER—Is that in your submission?

Mr Hogan—Yes. We were looking at the Service Tasmania network, which is the state government coordinating all of its services through single shopfronts. We find that quite an appealing idea. We looked at a place called Triabunna where the local Westpac bank had pulled out of the town and abandoned its premises there. Within a few months the local supermarket was going out the door, the local garage was going broke, the hardware store was going broke and so on. The Service Tasmania network set up in the old Westpac building, and paid peppercorn rental to do so. Within three months, the supermarket was back, the garage opened up again and so on. Just putting in that single government shopfront, so all government services could be delivered through a single point of entry, meant that other businesses were drawn back to that regional area.

It seems to me—extrapolating from that example—that it would be useful for the Commonwealth, state and local governments to collaborate on developing single point of entry service delivery outlets throughout the regions where they are currently being pulled out or trying to compete. The Commonwealth, I understand, is thinking of developing a capacity for single point of entry Commonwealth service delivery in regions—

Mr SIDEBOTTOM—For rural transactions.

Mr Hogan—That is right. Transaction business stuff. The states are also doing it but we are not yet talking together about how we do that through a single shop. From the point of view of the consumer, they do not care which government it is—they just need to pay their rates, or get their dog licence or whatever. The savings in infrastructure costs for developing this coordinated network is just extraordinary.

Mr ANDREN—It is happening in New South Wales with some of the country towns. They have coordinated some services.

Mr SECKER—It is also happening in South Australia and, interestingly enough, the one-stop shop is in the old State Bank building. It is happening, but it has only been in the last two years that this sort of thing has been happening. I think we followed the Queensland model as a basis for setting it up.

Mr Hogan—We are pushing that model significantly down the track.

Mr SIDEBOTTOM—It is interesting. If that is the strategy, you could apply that strategy across a lot of common fields. That is the problem; it is all over the place.

Mr Hogan—That is right. Exactly. It is to do with planning: the competition between rail and road is another example of integrated planning. It removes that false competition when they in fact cannot compete. You are far better putting your eggs into one basket than into making them compete. For us, rail is a far more competitive option than roads in some cases.

Mr NAIRN—With some of your opening comments, I got the impression that the involvement of the private sector in infrastructure is fairly limited. You almost used it as if this is something that we might be able to use in the future. Is that true?

Mr Hogan—That has been the case historically.

Mr NAIRN—So there has not been great involvement by the private sector at all. Are you looking at any innovative things, for instance, with road contracts? Earlier on today we were talking about one in New South Wales recently which was let on the basis of a 10-year maintenance period. There was very little government regulation as such. They were saying, 'We want to build a road from here to here, generally in this location. You, company X, go out and design it and package it together so you get the efficiencies. Also, you are responsible for it for a fairly long period of time.' Are you looking at some innovative things in that respect?

Mr Hogan—Very much so.

CHAIR—Can you give us some examples?

Mr Curthoys—There has been a review done of the previous Labor government's guidelines that were brought in in 1992 and revised by the coalition government in 1997. What we are essentially looking at doing is reducing some of the red tape that was set up. A bit of a bureaucratic approach was instigated. We are now trying to unpack that to make it more interesting and effective to get the private sector involved. Part of the problem is that the private sector looks at it and says, 'There is a bureaucratic process that we have to go through. It is going to take too much effort and so we don't want to be involved.'

CHAIR—Victoria has gone with the BOOT system.

Mr Curthoys—Yes, it includes BOOT and all those different acronyms that we can dredge up.

Mr NAIRN—What about local government? You mentioned before handing over an airport to a local government area of 200 ratepayers. I know that Queensland is big geographically and that that is part of the argument for keeping the local government areas close to the people, et cetera, but if you are going to look at the efficiency of scarce funds, if you are going to look at involving the private sector, a lot of those small councils will inherently have a lot of difficulties in working through that type of system. The argument would be run that if you can get some efficiencies in that respect, although there may be certain losses at a local government level, the gains can be greater elsewhere. What is happening in that respect in Queensland at the moment?

Mr Hogan—They are two levels. There have been a lot of cases where there has been very good integration of services between local councils. For example, they coordinate plans to buy one grader rather than both buy a grader. That is one level.

On an historical level, there has been a huge debate in Queensland over the last 10 years about shire integration, actually collapsing shires into one another. There was an exercise undertaken about five years ago that attempted to amalgamate several shires. I think we went from 128 to 124.

Mr Curthoys—That was a start.

Mr Hogan—They were mainly in the south-east corner. For a whole range of reasons in other regions, it is very difficult to amalgamate shires. Bear in mind that some of the shires cover vast distances. There are very large areas in the north-west of the state.

Mr NAIRN—It does not necessarily have to be amalgamation.

Mr Hogan—No, it can be business integration.

Mr Curthoys—They do work effectively together and have strong relationships. They will tender jointly for main roads work so they can get efficiencies by having main roads work flow into them and through them, particularly in western areas. Mr Katter is probably familiar with those.

Mr Hogan—And increasingly through the local government association in Queensland, those sorts of business alliances are becoming quite the norm, because they have to be. It is driven by circumstances.

Mr KATTER—I would just like to say it is the best presentation I have received in six years in this parliament. I would like to congratulate you two gentlemen very sincerely.

On the subject of water, you would be well aware that we have not started an agricultural dam in Queensland for 11 years. You would also be aware that half of Australia’s agriculture comes from the Murray-Darling, which has only 20 million megalitres of water, whereas the Gulf country has 126 million megalitres, and we have more black soil than they do as well.

The current government is arguing that national competition policy stops water development. The ex-minister for water, Mr Hobbs, argues that it does not. I would think very much that it does. I would agree, ironically enough, with the state government’s position in Queensland that national competition policy most certainly inhibits, and I think makes impossible, any building of agricultural dams. When we went north, people came before us and said that continuously. Can I just throw that one over to you.

Mr Hogan—I agree absolutely. There is a case in point at the moment where we are trying to build a dam on the St George but we cannot build it because the state will face national competition policy penalties for going ahead with that project of $14 million.

Mr KATTER—Because it ends up as a subsidy for those commercial operators.

Mr Hogan—That's right. So, to build the dam the state will lose its money under the NCP guidelines, which is curious.

Mr KATTER—The electricity grid system does not extend into the north-west part of Queensland, that north-west corner of the state, and again the minister says that he cannot ever put the electricity in there. I was the minister who put it into other parts at a time when we could not possibly justify it, but now it is, I am told, paying for itself. Things have happened to pay for it that we could not foresee. Would you again say that national competition policy is stopping the pushing of electricity through into those areas?

Mr Hogan—I could not comment on that.

Mr Curthoys—I am sorry, I could not comment either.

Mr KATTER—But on the water matter you are saying definitively that it is stopping—

Mr Hogan—There are cases where it has.

Mr KATTER—And that St George case is one?

Mr Hogan—Yes. There is one example though where there has been some movement in power generation. As you are aware, the announcement of the pipeline from Papua New Guinea to Gladstone may lead to us being able to put in a new base load power station in the north of the state, which will increase the capacity for power generation where there currently isn't any.

Mr KATTER—If it does not, you will be charging us 40 per cent more for our electricity. That, Madam Chairman, was also before the committee when we went to north Queensland. In Townsville we received submissions from the City Council there, from Townsville enterprises and from electricity experts, that said we would be paying 40 per cent more for our electricity unless we get a power station.

Mr Hogan—That's right, a new base load power station, because the longer the distance, the more power you lose out of the line. So, it is very important to do that. Can I get back to you on that one, the question about—

CHAIR—Just send the information to the committee secretariat. In terms of water, where are your priorities for infrastructure? Is it with dams, with repair of irrigation systems, or with new irrigation systems? What priorities does Queensland have?

Mr Hogan—The two are linked, I would suggest. Dams tend to be, for irrigation purposes, in those black soil areas that Mr Katter was talking about. Basically, the south-east corner is fairly well serviced by water infrastructure. The three major dams in the south-east are pretty well okay, as are the major centres on the coast, to my knowledge. What are not well serviced are those areas to do with the black soil areas which have no water but which benefit substantially by irrigation, which is provided by dams.

CHAIR—In your submission you talked about the development incentive scheme. Can you tell us a little bit more about that?

Mr Curthoys—That was in relation to the roads funding proposal. Is that the one you are referring to?

CHAIR—This is for small group water storage projects.

Mr Curthoys—Sorry, I was not the author of that particular section, but we can certainly get some additional information on that to you.

Mr ANDREN—I have a quick question about the universal service obligations with telecommunications. Talking of competition policy and such, we all heard Telstra claiming that they needed something in the order of $800 million to meet its USO obligations, and the other players in the market say, ‘Oh, heavens above, we would go broke, we can only afford so much and the government put a cap on it’. Even if both players are exaggerating, it stands to reason that the universal service obligation is going to cost far more than the other players are contributing. You mentioned the South African example. Have you studied that in any detail? How many players are in the market over there, and what are all of their obligations under USO?

Mr Hogan—My understanding is there are very few, that in a sense they were starting from a greenfield site. It was much easier to put in new infrastructure based on mobile telephony. In Australia that is not the case. We have a long legacy of existing infrastructure which needs to wind down before we can put new infrastructure in, and the costs of doing so are quite prohibitive.

I understand that it would cost Telstra a large amount of money to put mobile telephony into Queensland, for example, or elsewhere in isolated areas of Australia. There is not the business there to support it; there are not the dollars there to do it. Therefore, they need substantial subsidies to be able to do it, and only the government can provide those kinds of subsidies.

Mr ANDREN—If the other players in the market are cherry picking the 90 per cent that is profitable and leaving the rest to Telstra, do you have any opinion on how competitive a regime that is?

Mr Hogan—It is not.

Mr SIDEBOTTOM—Following on from Peter’s point, I get the impression from your submission that it is really a question of responsibility for telecommunications. It seems from this that you are saying that the Commonwealth has a certain role hived off into the telecommunications infrastructure funding, and there is incredible pressure on the state and local governments to offset or provide the basic telecommunications, which the Commonwealth does not. I suppose it is a bit difficult to answer that. Do you think it should be the Commonwealth’s total responsibility or should we be in partnerships? How do we get the private investors or private companies involved in providing services to these more difficult to access areas?

Mr Hogan—I think it is a shared responsibility, clearly. It is not all Commonwealth, all state or all local. Increasingly, I think you will find, through the community capacity building issues that are coming up in local communities, that local communities will want to invest in their own communications infrastructure. There have been some examples overseas as well as in Queensland where that is starting to happen now where you do get capital investment in local infrastructure. We are going to explore that a great deal further in Queensland.

A problem we face is that the capacity of these smaller communities to actually raise the capital is very limited. They just do not have the wherewithal to do it. It therefore needs some other source of funding to be able to get that critical mass of dollars to get it going. But the argument then goes further. Once these communities do get the communications in, business development follows, and there are ample opportunities all over the place, not just in Australia, to show where that happens.

In the case of New Brunswick in Canada, 10 years ago it was, without being rude, a bit of a basket case. It was in real difficulty. They started on a deliberate policy of developing a telecommunications driven infrastructure for industry. Now they have halved their unemployment rate and are doing extraordinary things, just by making that decision to put their capital—

CHAIR—Mind you, they have lost their salmon industry, so they would need to be looking to other areas, wouldn't they?

Mr Hogan—That is very true. But it shows how the push-pull effect can work. Once you make a conscious decision to invest in a certain, if you like, sunrise industry, then the effects can be quite dramatic.

Mr ANDREN—We had a case given to us in south-east Queensland of the American model, wasn't it?

Mr KATTER—Yes, that is correct.

Mr ANDREN—What was that?

Mr KATTER—It is one of the states—they named it Growzone. Growzone gave us the example from the United States of what they had done.

Mr ANDREN—Which was growth built on telecommunications infrastructure.

Mr Hogan—In Nebraska.

Mr KATTER—There was a name—Nebraska something.

Mr Hogan—Yes, I was there a few months ago. It is quite obvious what has happened.

Mr ANDREN—Is it as good as they say?

Mr Hogan—It is excellent, extraordinary. Just by opening the government up to business through the net, business gets straight into the government and vice versa. You chop out the red tape, you chop out the cost and business just booms. Like New Brunswick, Nebraska has again significantly decreased its unemployment rate, and the rate of business investment is just extraordinary.

Mr KATTER—I have a follow-up question on that last one. As I understand it, this agreement on the GST, which was hammered out between the Democrats and the government, involves a speeding up of the Kyoto protocol implementation, and there is some $66 million a year coming down which appears to me is effectively going to go to tree growing. We can put an extra $70,000 a year into the hands of almost every grazier in North Queensland who desperately needs it. The sheepmen have a minus income and the cattlemen only a reasonable one. We cannot do that really because we are on pastoral leases. If we attempt to even convert 60 hectares to freehold we undoubtedly will run into native title problems.

Is the government prepared to issue freehold title and ride the tiger? How are we going to proceed here? We cannot proceed unless we can get some freehold, and here we have an opportunity for a new industry and a way of rescuing all of those people out on the margins who desperately need rescuing. The opportunities are now being created by the government and the Democrats, if you like, and it is there. But we have a very serious problem here as far as that goes. Does the government have an opinion on that?

Mr Hogan—I am aware of the issue, but I guess the issue is a political one rather than a bureaucratic one.

Mr KATTER—It is a legal one.

Mr Hogan—Yes, it is a legal issue. As you say, though, the transfer from grazing homestead leases to freehold does trigger significant native title issues. I understand that some people in those areas do not want to take that risk. They would rather stay on leases with a higher degree of certainty than they would with only freehold.

Mr KATTER—We need only 60 hectares, though, and we are talking here about 20,000, 50,000 hectare places. All we are talking about is 60 hectares on the river for just a little farm.

Mr Hogan—I am not aware of that issue, but I can take it on board.

CHAIR—I think that is outside the realm of this particular inquiry. Following up on that whole issue of capitalising on opportunities in the regional areas, is the Queensland government actively promoting the issue of call centres?

Mr Hogan—Yes.

CHAIR—And are you experiencing problems that other areas, for example, have raised with us—the lack of physical infrastructure and the lack of training?

Mr Hogan—Yes.

CHAIR—What are you doing about it to overcome these problems?

Mr Hogan—Part of that issue is being addressed through what is called the Access Queensland project, which is developing not just the whole single government shop front process but also the call centre network for the government at least. We also have some investment incentives for local firms, or even overseas firms, to invest in Queensland to establish call centres.

CHAIR—What sort of incentives are those?

Mr Hogan—I could not comment in detail. I just know that they are there. Can I take that on notice and get back to you?

CHAIR—Would you provide us with those. Thank you.

Mr Hogan—Okay. I know that we do have investment incentives for that program through the Department of State Development.

Mr KATTER—I would like to follow up on that Hells Gate proposal in North Queensland, which came before this committee—the promotion development council. It would produce $843 million a year revenue, taking the Emerald figures and putting them on the Hells Gate proposal. On the figures there, that project can pay for itself, but it is marginal. We are talking about $500 million here. To provide a zone of comfort, I think that the state and federal governments would have to look at putting in an underwriting of between $50 and $70 million. Is the state government of the opinion that they would be prepared to do that if they could step around the national competition policy proposal? There would be policy development here in doing these developments and moving forward.

Mr Hogan—I am not aware of that particular issue, Mr Katter, but I can certainly find out for you.

Mr KATTER—Do you understand what I am saying?

Mr Hogan—I know what you are saying, but I do not know that issue.

Mr KATTER—We can do it by ourselves by bringing in players. We can undertake the project ourselves with government cooperation in the area of land laws and all those sorts of things. But there is a money issue insofar as it is lineball, and I think that they would need a zone of comfort of at least $100 million—an outlay of $500 million. For $50 million from the state and $50 million from the federal government, the country can have an extra $843 million a year of revenue. It would be a magnificent step forward.

Mr Hogan—Yes.

Mr NAIRN—In your introduction you say:

The Commonwealth Government also needs to show its commitment to regional Australia by halting the removal of Commonwealth services.

What specifically are you referring to? I cannot find any recommendations in the rest of your submission with regard to anything that may have been removed that should go back. There are references to wanting more Commonwealth funding for roads and all those sorts of things which everybody wants. I question it, because I think it is a statement that tends to be made—some sort of perception out there, that a whole heap of services have been removed.

It is a little pet thing I have taken up in a variety of areas. I am struggling to find the particular services that everybody keeps referring to as having been removed—other than, just to pre-empt your answer, the tax offices from a couple of towns in Queensland, in which case the decision was made in 1995 to remove them.

Mr Hogan—There are others: the CES, for example. The CES office in some of these country towns—

Mr NAIRN—Replaced by Job Network.

Mr Hogan—But it is a hidden network. It is not there and obvious. The point was that public servants were pulled out of the towns.

Mr NAIRN—But the service has not gone—the service is still there.

Mr Hogan—But the public servants have gone and with them have gone their families. It affects the rationale for the school, which affects the teaching numbers in the school—

Mr NAIRN—Replaced by people working in the private sector.

Mr Hogan—Not necessarily, though.

Mr NAIRN—I think you are putting—

Mr Hogan—What has happened is that the larger regional towns have taken on those roles and sent people out in cars. Where you have had previously shopfronts, or businesses, if you like, or government businesses in those towns, they no longer are there, which affects the entire economy of the town.

Mr NAIRN—But where can you show a service that has actually been removed? The service has not been removed. The service is provided in another way. I just do not think it helps the debate, that is all.

Mr Hogan—Let me put it to you, though, that people who were in that town, who in fact contributed to the economy of that town, are no longer there delivering the service. And in terms of perception, in terms of real dollars, that has a real effect on the economy of that region.

Mr NAIRN—I would challenge that that is the effect.

CHAIR—I think what Mr Nairn is alluding to is this: I think everyone understands that the changes have happened and that the service is now provided in a different way. What it seems you are saying is that that is not as transparent as the service that existed previously.

Mr Hogan—That's right.

CHAIR—However, the service is still being provided.

Mr Hogan—Yes. It is the nature of the service delivery, I guess, which is the major issue for local communities. They get quite cross about what they see as withdrawal of a service.

Mr NAIRN—What their perception of it is. I guess I am just taking you to task on the words 'halting the removal'. It is very emotional, political language for a submission from the government to a committee.

Mr Hogan—Understood.

Mr NAIRN—I just do not think it can be backed up.

Mr Hogan—I note again the withdrawal of Commonwealth funding for roads, for example, which is quite significant over the last five years—a real dollar decrease in road funding. That means that you do not get jobs in the local shire. If a person would normally have been driving a grader on the road, that job is no longer there because the money is not there either.

CHAIR—On that transport issue: in your submission you discuss the acquisition of 'transport corridor' land for miscellaneous transport purposes, for all forms of transport except road, rail and port infrastructure. Can you give us some details of what these miscellaneous transport infrastructure corridors are?

Mr Curthoys—Yes, certainly. Those corridors were explored and developed to be established for a full range of services, rather than just having a telecommunications corridor, a rail corridor and a road corridor which might have stretched, let us say, between Townsville and Mount Isa but have taken three or four separate paths. What this is trying to do is amalgamate those corridors into one, so you can deliver those services all in that one corridor. The corridor might be 200 or 300 metres wide but all the services can fit within them.

Mr Hogan—I can give you a very classic example. The gas pipeline from Cape York down to Gladstone will also be the route for the broadband link up and down the cost. So we are using the same corridor of government land to put in several infrastructure pieces.

Mr Curthoys—The Queensland government is also exploring using its own rail network to look at putting broadband communications up the east coast as well. So, instead of having to then separately identify an infrastructure corridor, there is one already in place and it is just piggybacking on the back of that.

Mr Hogan—Yes. And, dealing with native title issues too, Mr Katter, you deal with them only once in the same corridor rather than dealing with them multiple times across multiple corridors. It is a rational way of doing it.

Mr KATTER—I was just coming back to the point that Gary Nairn raised. I am not too sure which direction Mr Nairn was travelling there, but—

Mr NAIRN—I just wanted some facts, Bob.

Mr KATTER—You talked about the CES. The CES at Mareeba was removed completely and I had World War III on my hands there. They were removed to Atherton. Those were entirely different sort of environments, and the people did not know what was required in the fruit picking industry which was based at Mareeba. Basically, the 12 jobs arguably still exist, but they exist in Cairns now instead of Mareeba, and that has been of great detriment to the fruit-picking industry.

I do not know, Gary, whether this was what you were getting at, and I do not know whether the Queensland submission was getting at this because I did not pick it up in the submission, but the privatisation of the railway system took 500 jobs away from my old state electorate in one hit and absolutely devastated the area. Also, the competitive tendering with respect to local authorities, which I did not notice was in here, has taken another 120 jobs that I am aware of away from my old state electorate. Are those the sorts of things that you were referring to in here? I would have to agree with Gary that I did not pick up quite clearly what you were referring to in this document.

Mr Hogan—The whole basket of things, the whole range of things.

Mr KATTER—But national competition policy with respect to those issues and the flow-on effects of that?

Mr Hogan—Yes.

Mr KATTER—We lost 60 jobs at the Mount Isa airport when it was privatised. There are fewer services there. If you have an aeroplane crash, there is no fire tender to put the fire out, but the town is 15 kilometres away so I suppose you can get it out from there. But I just point those things out.

Mr NAIRN—But, Bob, you have got to match these things, as we were given some evidence earlier on: if greater efficiencies in the rail system had not been provided, you would not have a coal industry, which is only surviving as a result of it. So we can argue about these things backwards and forwards.

CHAIR—I do not think there is any need for committee members to debate this. Just on aviation, if I could refer you to your submission: you mentioned the 1998 aviation plan for Queensland, where you are looking at providing aviation infrastructure and services for the next 10 to 15 years. Can you outline for us what are the major strategies and how this is to be implemented.

Mr Curthoys—Certainly. The Queensland government has picked this up. What we are trying to do is develop a hierarchy of regional airports across the state, so that we can identify a hub and spoke network even for the airport system. People and communities come to the government all the time requesting funding for an international airport. When they are asked, ‘What do you want the international airport for?’ they answer, ‘Oh, so we can direct export to Japan.’ When the government says, ‘That’s good. What services are you going to operate?’ they say, ‘We’re going to have fruit picking,’ or ‘We’re going to have tobacco growing,’ whatever it might be that they are going to run, which operates for six months of the year. Then they are asked, ‘What do we do with the airport for the other six months of the year?’ and they just say, ‘It’ll sit there and we’ll enjoy it.’ What we are trying to do is develop a hierarchy of aviation infrastructure across the state, which can be demonstrated to operate effectively and efficiently for all people around the state, rather than just trying to pick winners in particular regions.

CHAIR—As well as that, as I know from other studies from Queensland that we have looked at, bundling or clustering infrastructure development has obvious benefits and it is much easier to get projects like that up and off and running than isolated projects like those you have identified with the airports. When you are identifying your priority for these regional airports, are you at the same time identifying potential cluster development that can spring up around those airports?

Mr Curthoys—Yes.

Mr Hogan—There is a push/pull effect. For example, the issue of flying vegetables out to Japan is a critical one for the new niche market developments now happening.

Mr KATTER—The Hells Gate project absolutely requires it.

Mr Hogan—That is exactly right. There is no point in having the best infrastructure in the world to grow the vegetables if you cannot get them out of there, if they all wilt and die on the way out on the train. So you need, as Andrew said, a strategic view about where you put the airports or whatever means you are going to use to get the stuff out and to its major market, given that our niche markets tend to be in the Middle East and in Japan, which demand high quality fresh produce, not frozen or preserved in some way.

Mr KATTER—Madam Chairman, may I ask a question supplementary to what you have asked?

CHAIR—Sure.

Mr KATTER—We have gone in North Queensland from about $100 million in horticulture to about $460 million to $470 million. In prawn and fish farming we have gone from nil, when I was appointed minister, to $450 million. Not quite so much with the prawn and fish farming, though there is a lot of product that needs to be delivered live, but particularly with the horticulture: do you really think that we have a margin big enough to enable us to take grapes and oranges and all these things by air? The logic behind the great train is that we can get horticultural product from all over Australia through to Asia within that magical three or four days, with a fast cat going daily out of Darwin.

I have not looked at the figures recently, but many years ago when I was minister I did look at the figures and I thought it was very difficult to see how you could profitably fly it all into Asia. But they are flying it in now, obviously. You are saying that it can be done?

Mr Hogan—Yes. It is not just Asia. Marketers pop out of nowhere and just bite you. There is one, for example, in the Middle East which is a developing market for exotic fruits—mangoes and those sorts of fruits.

Mr KATTER—Mango is a big product.

Mr Hogan—That is right. And once you start developing the mango industry, they tend to send their kids back to Brisbane to school, so there is a kind of extraordinary two-way effect. When you start flying high quality produce in, you tend to fly their interest back in again.

Mr NAIRN—Is most of that air cargo going in passenger aircraft now?

Mr Hogan—Yes.

Mr NAIRN—So, effectively, you have get it to Brisbane or Cairns to then go in the straight passenger aircraft?

Mr Hogan—That is right.

CHAIR—We all know, whatever level of government we are talking about, that if we are to provide the sort of infrastructure that is needed and that people have identified, and the benefits that flow from that, we have to look at the funding mechanism for this infrastructure. We have already talked about the different ways, about the BOOT system, for example. Has the Queensland government actually approved any innovative funding mechanism with the private sector to start to generate this development of infrastructure?

Mr KATTER—I think that is a very important question.

Mr Hogan—There are a couple of cases where we are investigating it. For example, the SUDAW project, which is a dam project, an irrigation project, is one such where the state is putting in some money but also employing the project to actually build and operate the dam, to build the dam and then sell the water on to the consumer. We are also looking at some potential for co-locating health facilities, public and private hospitals in the same facility. So it is not so much a BOOT but a kind of BOOT where neither side has the critical dollars to be able to provide the whole of the structure but both sides are able to bring some money to the table to develop an integrated infrastructure.

With roads, it is less so. Roads are difficult in Queensland because of the sheer distance involved. That is not so much the case in the south-east corner where you have some capacity for toll roads, but elsewhere it is just not a viable proposition—the distances are just too big to support the service costs of raising capital to build them, so it has to be government money. But, to answer your question, yes, there are examples where the state government has and is investigating these sorts of BOO and BOOT schemes.

CHAIR—But nothing has actually been finalised yet?

Mr Hogan—The SUDAW dam project is very much on the cards.

Mr NAIRN—Where is the SUDAW dam?

Mr Hogan—It is down near Surat.

Mr NAIRN—Why can you build that one and not the St George one?

Mr Hogan—My understanding of it is pretty shaky but I think it is the size of the project. It is the commercial viability and the environmental impacts together that make the St George dam a bit marginal. In terms of the national competition policy guidelines, it is therefore not to be supported.

Mr NAIRN—It is seen as a subsidy?

Mr Hogan—Yes.

Mr NAIRN—Whereas the other one is not?

Mr Hogan—That is right. It is a big, self-contained, integrated project which will go on its own merits. The problem we face is that if the state government supports infrastructure that is not commercially viable, we are penalised for doing it, and that causes great difficulty.

Mr Curthoys—On the upside, another connection between Brisbane and the Brisbane airport is the air train project, which was recently commenced, which is totally private sector funded.

CHAIR—What is that?

Mr Curthoys—It is a link from Brisbane city right through to the Brisbane airport. It will give commuters the opportunity to travel from the city either by car or train. It is private sector funded.

CHAIR—Is this light rail?

Mr Curthoys—Yes. It will connect into the heavy rail network at Toombul.

Mr Hogan—We are also very active in the backroom, if you like, in getting infrastructure projects off the ground. For example, in the recent announcement of the Marlborough nickel project up near Rockhampton, the state government was very involved in the native title negotiations. In fact, we drove the negotiations to make sure that project got off the ground. Rather than drag it through the courts over many years, we got an agreement in a couple of months by putting state negotiators in there between the project sponsors and the native title parties to get an agreement, and just drove the project. It is not just putting in money; it is also other kinds of backroom support that we can do.

Mr KATTER—Just on the finance thing again, our great problem is that we cannot borrow money for on farm irrigation because the land there does not provide sufficient for that, and also these are greenfield sites in inland North Queensland so the banks are not going to lend money. The abolition of QIDC was an absolute body blow. You would be well aware that the opposition is determined to re-establish it even though they were in fact the ones that sold it, I have to admit—they have realised the error of their ways. Is your government aware of the fact that we simply cannot get finance, whether it is for downstream processing of primary product or manufacturing? I am taking the chairman's question, which was a macro question, and putting it down into the micro: is there any program that you people have for providing finance to those people who, until recent years, always existed via the ag bank, via the PIBA bank, via the Commonwealth Development Bank, via QICD, via the RRB?

Mr Hogan—The Department of State Development has some highly interventionist, highly strategic funding packages for those sorts of projects, but they are limited, they are fairly small.

Mr KATTER—Who is it in the division of the department who—

Mr Hogan—It is the Department of State Development. If you ring Ross Rolfe, the Director-General, he will be able to put you onto the right person. I think it is the Stuart Booker, who is the deputy of that department, who is responsible for infrastructure development.

Mr SECKER—We have had two groups saying that, in the last 20 years, federal government investment in infrastructure has basically remained about the same—1.4 to 1.6 per cent of GDP—but the figure for state and local government together has dropped from six per cent of GDP to 2.75 per cent. Yet you were saying earlier that the federal share of funding in state roads has reduced. That does not seem to be in agreement.

Mr Hogan—It has certainly decreased in Queensland. I do not know about the rest of Australia.

Mr Curthoys—The population growth of Queensland from 1992 to 1997 was about 12 per cent. So there has been a huge population inflow into the state and we are having trouble with maintaining that network as the Commonwealth has, for its own reasons, changed its funding mix to the state.

Mr NAIRN—But Patrick was saying that the state investment in infrastructure has declined by over half.

Mr Curthoys—Certainly in Queensland successive governments have increased their infrastructure investment as a proportion of their state budgets, and we can certainly provide you with the budget papers to show that. Last year's state budget was $5.1 billion for infrastructure, of which $2.23 million was spent outside Brisbane and Moreton statistical divisions. So it is a huge commitment that the government is continuing to make. But I certainly know that in other jurisdictions around the nation there has been a decline at the local and the state levels.

Mr Hogan—That is a third of total budget outlays in the state put into infrastructure, so it is a very significant proportion of moneys.

Mr KATTER—Yes, but you would have to admit that as far as roads go for the Queensland government, there is $1,300 million on roads, $1,000 million on South Bank and $1,000 million on the urban rail transport system. So, whilst there may have been an expansion overall in the state of Queensland, it was confined to the south-east corner.

Mr Hogan—That is true. That is where the population pressures were enormous.

CHAIR—Queensland does not have that on its own either.

Mr Hogan—As Andrew was saying, the state had a 12 per cent in increase in population over those five years, but almost all of it went to a single area, the Brisbane and south-east area—so there was huge pressure on infrastructure.

CHAIR—As there are no further questions, thank you very much for attending. If there are any other matters we will contact you for further clarification.

Resolved (on motion by **Mr Nairn**):

That pursuant to the power conferred by section (a) of standing order 346, this committee authorises publication of evidence given before it at public hearing this day.

Committee adjourned at 12.14 p.m.