Productivity Commission

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ASU Submission to the Productivity Commission
Public Infrastructure Issues Paper

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About the Australian Services Union

The Australian Municipal, Administrative, Clerical and Services Union, trading as the Australian Services Union (ASU) is one of Australia's largest Unions, and represents approximately 120,000 employees. The ASU was created in 1993. It brought together three large unions – the Federated Clerks Union, the Municipal Officers Association and the Municipal Employees Union, as well as a number of smaller organisations representing social welfare, information technology workers and transport workers.

Today, the ASU's members work in a wide variety of industries and occupations and especially in the following industries and occupations:

- Local Government (both blue and white collar employment)
- Social and community services, including employment services
- Transport, including passenger air and rail transport, road, rail and air freight transport
- Clerical and administrative employees in commerce and industry generally
- Call centres
- Electricity generation, transmission and distribution
- Water industry
- Higher education (Queensland and South Australia).

The ASU has members in every State and Territory of Australia, as well as in most regional centres. The ASU has significant concerns with a range of proposals that may come across the desk of the Productivity Commission. We note the infrastructure in place that are currently owned by large business community investors. For example, that is the case with airports such as Sydney's Kingsford Smith and Melbourne's Tullamarine Airports. However, regional airports are largely the responsibilities of regional local governments and are often affected by questions of infrastructure and opportunities for development. We are principally concerned with regional development and coastal and city development. Issues and areas of concern to be covered in this submission include:

- Terms of reference of the Productivity Commission Inquiry into Public Infrastructure: Provision, Funding, Financing and Costs; particularly, issues associated with private sector or private financing and funding of major infrastructure projects, and to the high costs and lead times associated with major projects.
- Local Government
- Water
- Electricity
- Railway infrastructure
- Airports and other public structures.

Introduction

In making this submission to the Productivity Commission announced Wednesday, 13 November 2013, the ASU acknowledges the commitment to managing government and public expenditure on major infrastructure projects responsibly. However, the ASU strongly contends that government must do so in such a way as to ensure adequate capacity to serve the needs of all Australian communities and ensure an equitable standard of living. The ASU; also, supports the expert view that improving Australia's tax base could be addressed to pay for the public services Australians need. However, maintaining investment in public infrastructure can be as essential as taxation to managing existing funding mechanisms. In fact, investing in public infrastructure more often prevents far-reaching costs associated with the lack of public infrastructure.

The ASU; also, advises the Commission to consider a middle view: the private sector may not provide overall or greater efficiency gains to Australians in the form of quality infrastructure, and recommends that analysing the comparative value of long-term investment in current and future infrastructure. The ASU is concerned about what will be the inevitable cost of cutting investment in a lean and efficient public sector that is the envy of many developed nations around the globe? A conservative consultation process respectful of many and diverse stakeholders will be essential to answer the important question of how the Australian federal government should manipulate policy that maintains economic prosperity and that successfully supports a majority of Australians in our broad community:

> Further support for the [OECD and World Bank] assessment of Australia's public sector efficiency is provided by a 2003 paper by Afonso, Schuknecht and Tanzi. It came to similar conclusions when examining the efficiency of the public sector in 23 OECD countries, including Australia. The paper used a variety of socio-economic measures as indicators of different aspects of government's performance. Performance included administrative, education, health, and public infrastructure outcomes; as well as government ability in regards to income distribution, economic stability, and economic performance. These indicators, along with public expenditure were used to give an overall public sector efficiency score. Of the 23 nations, Australia ranked third in efficiency.[1]

Local Government

The ASU is Australia's largest Local Government union representing employees of Local Government across the whole country from small rural townships through to large metropolitan Councils. On behalf of our extensive membership, the ASU is significantly concerned about effects on communities of any financial restructuring the Commission will recommend that will trickle down to Local Government projects across the country. We are a community-based organisation and take a strong view about the success of Local Government, on behalf of those who live in rural Australia. Our members tend to live in the communities where they work:

> In both urban and regional areas, the local council is often the largest single employer; therefore, uncertainty has significant economic impacts locally. The

economic interests of Australian urban, rural and remote communities need a resolution.[2]

Therefore, ASU advocacy extends beyond negotiated industrial outcomes for members. The ASU has a true commitment to the Local Government industry with a proud history; since 1871, of representing employees and that has a far-reaching effect on the sustainability of all communities. The ASU is a significant advocate and our issues are representative of all Australians.

Local government manages large non-user pay sections of infrastructure, is a community governance and provides a wide range of equitably accessible services for which there is no other adequate provider in a market approach. Infrastructure services provided by local government includes but is not limited to, roads, cattle sales; roads; sport and recreation facilities; parks and gardens; libraries and galleries; early childhood education and care; community health services and so on. Local Government investment alone for infrastructure that supports sport and recreation is of significant importance to communities and without limits to outcomes, most local government infrastructure supports robust communities.

Investment in local government puts the industry in a position to provide a large amount of infrastructure for utilisation by the community, but there is a maintenance requirement. Local government is largely constrained in its ability to gain capital by means other than government grants and rates. However, there are some examples where local government has been able to sufficiently plan for the future through construction of infrastructure delivering on time, significant regional spend, local employment and significantly less debt to the community, and no ongoing payments.

Our only concern about Councils raising their own revenue through levy-schemes and other sources is that Local Government is in a tenuous position to take on debt for the community. It is important to keep debt at low levels to avoid issues, such as has occurred in the U.S.A., where larger scale debt generated by municipal councils, for investment in public private partnerships (PPPs) has reached a critical stage for those councils in the provision of their services. The adverse effects of a global financial crisis have dried-up private capital only to cause financing problems. The inevitability of credit squeeze belies the fact governments need to retain more traditional streams of revenue to reliably implement infrastructure programmes.[3]

A good example of an Australian community that successfully self-funded a project necessary for the community, is a project that was implemented by Coffs Harbour Council and will be described in more detail in our following section on the Water Industry. The council levied the community over a five year period: for five years a levy was collected in addition to rates contributions that in turn were placed in a fund for the development of a new dam, water recycling and fresh water treatment plants. The scheme resulted in significant community spend by the council, who managed the project and were thus able to engage local community businesses in the supply of materials and assistance in the construction, as well as ensuring that significant monies were spent through local participants and council staff in local and community jobs. The project kept money, jobs and long term expertise, in the local community and created greater spending power for the council; in turn creating additional jobs that continued to further boost the local economy. These are significant points and need to be considered at a time when scrutiny of investment is focussed on ensuring that the long term benefit to the community is in the operation of the infrastructure and not unnecessarily seen as an ongoing cost. Investment must ensure community access to infrastructure.

Local government has; also, recently been identified as being in need of development and maintenance of critical infrastructure; in particular, railways, bridges and roads. The value to rural Australia is significant in a number of ways and includes the ability of local government to be able to raise its own revenue for ongoing infrastructure construction and maintenance. With that in mind, the ASU shares concerns about regional development with a diverse range of communities; including rural and regional councils, outer metropolitan and inner metropolitan councils. The ASU would be extremely concerned if the Commission recommended any reduction to the financial capacity to deliver Local Government services.

Over time, the Commonwealth has played a role as partner in funding Local Government programs:

> Today the Commonwealth funds many programs by granting money directly to local government, across services such as roads, child care, economic development, aged care, environment protection, water efficiency and dozens of other areas.[4]

We note that Local Government provides on balance, about 80% of its own funding; however, the remaining 20% that is currently received from the federal government must remain as an important source of revenue for rural communities and smooth investment in infrastructure projects. The ASU has witnessed first-hand the damage caused to regional farms, townships and businesses when Local Government funding is not secured for major projects.[5]

Regional councils clearly rely on federal grants. It would be hoped that the Commission recommends continuing a non-partisan approach to grants for the sake of regional development. In some small council areas, a figure of greater than 50% Commonwealth funding supports regional projects. That funding is delivered by the Financial Assistance Grants system (FAGs) which assist Local Government to perform its functions, and specifically participate in a range of programs that may cross council areas. Programs include the road safety *Black Spot Program* to enhance local roads[6] and the *Roads to Recovery* (R2R)[7]; both of which help councils to maintain local roads and transport structure to a sufficient and safe standard.

General purpose funding from the Commonwealth to Local Government has diminished over the years. On the matter of reduced funding, the ASU acknowledges and urges the Commission to agree with certain findings of the Australian Local Government Association (ALGA). The ASU acknowledges that the Commonwealth is undertaking a review of the FAG system; however, ALGA recommends that the FAGs pool should be increased to meet growth rates of the Australian economy and the demand that will necessitate, for local services and rising costs associated with economic expansion.

The ASU, therefore; draws the Commission's attention to Commonwealth responsibilities to regional development. Local Government requires the capacity to deliver adequate infrastructure programs by addressing the issues of connecting programs to reliable funding schemes. Effectively sustaining Local Government is key to generating (both directly and indirectly) ongoing development opportunities within regional and remote communities that are critical to the long-term survival of rural Australia and country towns and services. Demand for Local Government to meet and coordinate community needs will only increase with an ageing population; a population with growing standards of living. For Local Government to achieve the expectation to serve projected growth, certainty of Commonwealth funding will encourage continued participation in many Commonwealth programs. Local Government should be utilised effectively as a readymade opportunity to provide solid regional growth in cooperation with the Federal Government and relevant State Governments and Territories.

Superannuation in Local Government

Local government provides many services across the Australia: in large cities through to smaller municipal areas, and in regional and coastal Australia. These services to the community are often provided through aging infrastructure that is either in need of replacement or simply new or different infrastructure to meet the communities' needs. These include provisions of services, as well as infrastructure. Municipal and Shire Councils throughout Australia should be entitled to consideration in respect to the range of infrastructure that they provide directly to the community.

We note here that there may well be significant opportunities for local government to secure its funding to provide community services in a number of mechanisms. One of these would be by the increased opportunities for rates to be paid by the community, and for councils to look at governance arrangements that ensure strong community spend and local employment that generates monies in the local community. That is to say, that the employment of persons in local community creates some difficulties if those employees do not spend their incomes in the local communities. In other words, should the construction phase see too much money spent on out-of-towners, or short-term employment projects delivering large profits to other sectors of the economy, there will be a nice shiny assets but not as much money floating around the community. The opportunities for secondary and additional positions of employment that continue to depend upon full usage of community infrastructure, cannot be overlooked in the importance to local, rural, regional and remote economies.

We also see there is a huge opportunity to utilise the great superannuation investments in this country, including local government superannuation, and in superannuation put forward by employees that work in the Local Government industry. That means that we would see mechanisms that allow Councils to invest in infrastructure by way of bonds to the community[8] and seeing some of those monies returned to the community, rather than moved to investment in other communities overseas or in other locations throughout the country. The emerging opportunities for investment in local communities with clear investment techniques, would provide ongoing local community ownership of infrastructure services, and spend.

The possibility of superannuation investment structures such as bonds, need to be designed in such a manner that councils can access them and have a low interest rate repayment, but still provide attractive interest returns to superannuation funds. Ideally, a position where superannuation funds, including industry superannuation funds, are encouraged to reinvest in their own industries and put a certain portion of finance to one side and repay a loan at a low interest rate, is be based upon the theory that a long term investment providing a minimal return is a low risk but of significant benefit to the superannuation contributor. The product is currently not unusual in green energy provision and return rates are down to six or seven per cent. However, they are long term investments and at a secure level for 18 to 20 years, often the sort of levels that are sought by superannuation funds for a steady or cornerstone investment.

Water Industry

The ASU has been part of the Australian Water Industry since branches of the Union first covered membership in local government and state authorities a century ago. The industry has seen a movement away from government control to a mix of privatised and corporatised entities facing competition that is a mix of state corporatised authorities, private-public partnerships, private water and sewerage treatment plants and local government water authorities and departments.

The Australian Water Industry supplies water for domestic and industrial purposes through both local government and; also, through state government owned corporations. While state-owned corporations use a for-profit driven model and under some circumstances generate returns to state governments, there are; however, quite often other sides of the coin responsible for creation and building of the infrastructure before it is handed over to state-owned corporations.

Distances across Australia also mean that state-owned water corporations largely operate in heavily dense population centres and include organisations such as Sydney Water and other state-owned corporations in Victoria such as Melbourne Water. This means that there is still a substantial amount of water services required for a large proportion of the Australian population where water is covered by a local government service. Some of these services can be self-funding if they are approached in the right manner.

The ASU advocates the necessity to work with local governments and ensure a commitment to undertake a solid framework for the development, construction and use of water-services from waste water reticulation and dams. The necessary planning and responsibility can successfully be taken on by local communities and provide for the future. The provision from such planning should be graciously accepted by the federal government and should be encouraged wherever possible by way of tax considerations and/or special purpose grants.

We have seen in the water industry significant interest being taken by multi-nationals in both the construction and operation phases of the water industry. However, we note that that private sector investment creates a long term debt to the community. For example, once the asset is in operation it can continue to be paid off by the community via the community via taxes and other arrangements. We do not see those circumstances as a significant positive, but rather we see the model as a negative in so far as it creates long term debt that is associated with profits moving to other communities, rather than being invested in a local community. It is often the case with private sector investment, where it is not being undertaken directly by local councils or other authorities.

Many millions of dollars have been invested by local government councils and their partners to provide secure and sustainable water supplies for the future. The impact on local budgets and water and sewerage funds is quite significant and impacts on local communities due to the onerous nature of initial but required investment.

An example of achieving a solution for the long-term sustainability of water and sewerage services in preference to the privatisation of services was evidenced at Coffs Harbour City Council (CHCC). CHCC's water and sewerage utility is at the forefront of water and sewerage planning and management in Australia, and this fact is recognised by a number of awards and commendations at National and State level.

To ensure services are cost-effective, financially viable and sustainable, CHCC recouped the costs of infrastructure and technology investment through residential water accounts.

Benefits of the Coffs Harbour Model include[9]:

- Community retains ownership of assets;
- Parity achieved in regards to charging and service delivery and quality of service;
- Councils remain viable, as economies of scale benefit local communities directly;
- Skills development through knowledge sharing;
- Reduced costs through resource sharing;
- Existing systems and future expansion continue to meet future demands;
- Maintains existing levels of local employment in water and sewerage services;
- Best socio-economic outcomes for local communities;

The ASU would like to see the Commonwealth promote and support local government initiatives such as those evidenced at CHCC to ensure the survival of regional communities. We see an opportunity for superannuation funds to play a significant role in investing in Australia's future by way of provision of infrastructure, and developments, as opposed to the sale of existing state government assets that continue to return vital benefits to the community, either in an operational sense, a community access benefit or as providers of last resort, or simply in industries that could well do without the profit motive.

The ASU believes that we need to maintain a serious interest in facilitating parties brought together from around the industry; to continue look at the issues that they face and how they can deal with those issues in isolation. That would mean discussions across the local government industry, a separate discussion for the construction industry and likewise, with some new techniques being examined for the provision of financial arrangements. Therefore, the ASU hopes the Commission will consider ensuring water infrastructure investment as a priority infrastructure area; also, seek ways to encourage innovation and new technological solutions to deliver efficient water services for a sustainable water supply, throughout Australian communities.

Infrastructure and Construction

An infrastructure scheme created across Australia that would see a common set of standards in place for the catchment and storage and utilisation of water that would be managed and signed off by the local community, installed and used by citizens domestically, and in industry, would be an ideal means to help create employment in local communities, build skills and at the same time provide ongoing benefits to Australia for the next two to three generations.

It would also assist the attempts of governments to provide resources at a local level in the community that can save on the construction of additional water pipes, infrastructure facilities and the use of alternate water provision services such as desalination plants, thus avoiding their environmental effects. Such a scheme must rely on not just the availability and opportunity for investment but it should also rely upon a licensing regime to ensure that standards are met. Regulation of use is critical in health-related areas, such as water services.

Local government stands ready to be able to assist in this through its development of infrastructure and building inspectors are able to assist in ensuring that such provisions are signed off as properly installed and any support for Government rebates and/or loans for such can be justified. In other words there will be control and regulation over this investment for the long term future of Australia.

The ASU also notes that all too often governments have looked to the private sector for the financing of infrastructure that may not necessarily be the most needed infrastructure in a society. Infrastructure developments driven solely by where the private sector is willing to invest are of concern to the ASU as we believe that:

1. The first consideration in developing any infrastructure in Australia should be what is needed for the benefit of Australia.
2. Unnecessary infrastructure development may create a skills gap for other infrastructure in Australia that may need to be constructed, but cannot be used for another opportunity until such time as the workers from the less important project have completed their work.

In addition to this it should be asked whether the government has been planning to meet the needs of society and therefore looking at the types of infrastructure that will need to be developed – not just what’s marked by the private sector as profitable investments. Infrastructure construction therefore needs to take into consideration what are the important issues faced by local councils, local communities, the local water industry and the essential public sector quality services needed to help provide substantive and increased living standards for Australian workers and their families.

Consideration must also be given to the types of construction necessary and in turn the financial incentives around these structural programs; i.e. should there be a specific tax consideration when an item is built in the public's best interest as opposed to just a normal transaction that is being considered by a State Government.

All too often infrastructure has been financed or provided by private sector on the basis that it will save money, but in turn allows private sector providers to basically purchase their own contracts for provision of services; sometimes tying taxpayers to payment for ongoing services and maintenance for the next 50 or 100 years.

The private sector may well go on to make substantial profits by way of the provision of the service, that are more attractive than construction contracts. Upfront construction costs may be minimised, reduced, or even hidden, so as to describe a more beneficial outcome in the construction; however, when taken over the full lifespan of a contract it would appear that the operation of service element to contracts are often not in the community's best interests. The ongoing charges for operation may well be excessive, compared to the initial cost of constructing the infrastructure by the private sector and the value in operating a service by the public sector.

Our concerns about failure to appropriately manage investment in public infrastructure, raises further questions about the separation between construction and operation. It makes little valid sense to argue that the best possible results for public infrastructure are achieved by way of a private sector construction of infrastructure; or, for the public sector to see infrastructure operated continuously by the private sector for the next 50 years, with no re-examination. In the case of proposed build own operate schemes the construction costs need to be clearly identified separate to operating costs so as to ensure full transparency in the offer of the construction contract, including by parties that may only wish to construct and not operate. We recognise there are opportunities for private sector investment in public sector infrastructure. However, the ongoing operations of joint public private construction must be operated or should be operated by the public sector to provide:

1. True flexibility of operation;
2. Maintenance of internal skills and resources;
3. Profits made from improved business operation are returned to the public sector;
4. Increased local employment opportunities due to direct public sector employment.

The ASU therefore believes that there needs to be due consideration of a total split between any construction of infrastructure and ongoing operation by the public sector. The ASU recommends that the government should be encouraged to facilitate the construction of national infrastructure by engaging in the most appropriate financing instruments. PPPs may be an appropriate procurement option for projects which are large (in dollar terms), complex, one-off or non-standard, or standard government projects in circumstances where there are challenges of a technical, innovation or design nature. The ASU recognises it will continue to be necessary for some infrastructure to be jointly procured by governments and the private sector; however, the legitimate role for PPPs to play is clearly on evidence of long-term value for money.

Another area of importance is the management of the infrastructure labour force, and its ability to be able to continue to work once one project is completed.

We have seen in a number of areas and industries that a critical shortfall in labour can occur because of similar demands for the same qualifications in other industries where same or similar skills are high in demand. For example, the push for wages at substantial levels in the mining industry for drive-in-drive-out/fly-in-fly-out workers provided significant benefits to those persons undertaking the mining task for others. For want of a better example, the circumstances driving the model of drive-in-drive-out/fly-in-fly-out skilled employment demands of the mining industry is not that dissimilar to the construction industry: workers are regionally based or based in a particular area for a particular period of time. At the end of the project, they leave the community.

The resultant drains on infrastructure and usage of infrastructure are not necessarily planned for properly. Lack of housing and affordable cost of living in mining areas is an entrenched issue for local government staff. All members affected by this topic are disheartened and angry that the cost of living is so high in their towns. The common opinion reflected is that the local governments, private home owners and business owners are utilising the mines to their advantage for monetary gains by charging excessive rates, rents and prices. Employing new staff and retaining existing staff who can no longer keep up with cost-of-living expenses, is problematic for Councils.

Unavailability of housing in times of major project construction growth is another area that has repercussions on communities as a whole. Non-resident workforces are often housed in local motels. Motels are paid to set-aside rooms for employees and vacancies are released after a set time on any given day. The practice can create a dilemma for a new local government employees aiming to migrate in from out of town. Securing accommodation for a short term stay is practically impossible at short notice. In some locations, motel owners have been known to recommend reserving accommodation at least three months in advance.

An immediate consequence of the lack of temporary accommodation in a town is that visitors will travel through the towns without staying, keeping tourist expenditure to a minimum and stagnating tourist economies. Another impact to tourism is that the non-resident workforces tend to spend their income elsewhere: not in the community from where they have come to work. Therefore, many local businesses do not survive for more than a year after a major project commences; the hospitality/alcohol industry notwithstanding. The resultant decline of job opportunities outside the local government and mining industries for future generations eventually devastates whole communities in the long-term.

Councils; also, have to respond to gaps in essential community services such as medical facilities; which, in regional communities have been reduced in capacity to a minimum and struggle to service any the influx of new workers. An ever burdensome challenge persists for Local Government to retain skilled employees in growth areas not least because both employer and employee become less able to meet the financial capacity required to compete with employment opportunities on major projects. Councils rely on potential employees that desire a different work and family lifestyle to the conditions of; for example, a mine. The ASU has witnessed the need for contracting-out across council workplaces in mining areas because a council is unable to recruit sufficient local people to fill vacant positions and have to source much of their labour from businesses based outside the local region.

The longevity of residency in some regions must be considered. The ASU has previously made the following recommendations. Direct funding from the federal government to local councils is urgently needed. Regional Australia is an area of national significance and funding to local levels of government is needed to reverse corrosive trends and rebuild local infrastructure and services. It is critical to attract families to remain and return to regional communities. For example, the provision of family friendly workplace conditions such as varying types of employment, are essential. Families are the supporting structure of any community, whether friends and families live in the region or a new resident moves to a location without individual social support. Families ensure diversity of a community and continuity of essential services that in turn address employment choices and assist with retaining young residents who will in their turn perpetuate the community. The ASU hopes that the inquiry will consider the need to plan and maintain balance between the competition for jobs on major projects and land and services of our regional communities.

Conclusion

In summary, the ASU questions the use of PPPs; in particular, when used to for contracts to operate infrastructure services traditionally provided by the state. The ASU cannot support full provision of major public infrastructure services by the private sector; such as, local government infrastructure roads and maintenance of public spaces, clean water and waste treatment provision and other areas of health management through quality infrastructure services, electricity and railway infrastructure, local airports and other public structures. Publicly employed workers are needed to operate infrastructure services to communities because the model provides the necessary control over day to day services that a for-profit third-party cannot.

The ASU recommends adherence to a series of caveats around PPPs, as well as creating an environment of openness and transparency that discourages the use of PPPs when public funding comparators provide better outcomes for all Australians. The ASU; also, recommends the engagement of all state governments, treasuries, peak industry groups, the private sector, financial institutions and the community and their unions.

The ASU; also, believes that there are substantial funds not being utilised by way of loans and/or other specific funding grants that could be made available to the federal government, by the superannuation industry for investment in Australia's future. Privatisation of public assets inevitably leads to a circular motion of privatisation, profit, sale and debt. Giving consideration to a minimum requirement on superannuation funds to invest in public infrastructure, for the development of new infrastructure in Australia; such as roads, and re-evaluating an ideological approach to privatisation of public assets, would add to the infrastructure for the long term.

The long-term value of public investment in infrastructure services places additional services and expertise in a more broad range of communities. Ideally, investment could be considered across a range of areas such as green wind generation where long-term minimum returns are needed to provide necessary stability for superannuation funds. To make green investment viable, returns currently need to be over 18 years or so. In addition to this the investment opportunity for superannuation funds to be used for the construction of new infrastructure, additional growth through local employment by new employment opportunities; also, builds national skills and at the same time ensures that the income does not increase debt. Again, the ASU supports very strictly pro-construction of new infrastructure assets to be paid for by governments by way of bonds, rather than an opportunity to look at privatisation and recycling of existing state-owned assets.

With respect to local, state and federal Government, the federal government provides a range of funds to state and local governments for specific projects. Those revenue streams and grants for projects currently being undertaken are important and should continue to be funded.

The ASU works with Governments whoever they are for the benefit of local government community services. The ASU has been a significant contributor to a range of reforms and Federal Government initiatives such as cost-shifting inquiries undertaken by previous federal governments. Accordingly, the ASU sees the Inquiry as an important opportunity to continue to make these contributions and would seek an opportunity for our representative to appear before the Commission, to raise issues of concern.

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