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Height of fashion hemming us in

OPINION & ANALYSYS

Public-private partnerships are robbing taxpayers of value for their money, writes John Sutton.

AUSTRALIA'S infrastructure is holding back the nation. The railways don't run on time because of track and signal failures. The dams are at low levels, but water could be saved if pipes to cities were improved.

Hundreds die needlessly on roads for want of upgrades and dual highways. Everywhere you look, from hospitals and universities to ports, there are plenty of places to invest the Federal Government's budget surplus, now tens of billions of dollars.

With so much money in the kitty, how could we be in this position? More importantly, how can we turn it around? Economics has not caused this crisis. Fashion is responsible — a fashion for budget surpluses that governments have been victims of for the past 30 years.

This has made it impossible for governments to fund large services projects. Instead, they have increasingly relied on private capital, in the form of public-private partnerships, to fund big rail, road and port projects the nation's economy needs.

But there is a better solution. And it will bring competitive cost reductions to projects by tapping private capital from the growing superannuation funds.

Infrastructure is the bloodstream of a healthy nation. But since the 1970s, regular investment of public capital has been declining. Governments then put almost 40 per cent of the country's gross domestic product into infrastructure. Now they put in less than 20 per cent.

Public-private partnerships, under heavy criticism, and rightly so, have picked up some of the shortfall. PPPs produce excessive profits for merchant banks. This has allowed so-called "millionaire factories" to become some of the largest developers and owners of toll roads in the world. But they have often robbed taxpayers and consumers of value for money because of higher borrowing costs for private financiers.

Governments can borrow funds at lower rates, but it is not politically fashionable to acknowledge that. More importantly, the Federal Government can borrow at lower rates than the states and territories.

The fashion for budget surpluses has left us with the sad reality that private toll road companies, for example, charge vehicles close to twice what they would have been charged had the project been funded from government borrowings.

There is a solution. But because the infrastructure clock is ticking, we need a dedicated Commonwealth public-sector financial institution now. We could call it the National Infrastructure Financing Corporation. Half its funding could come from the Future Fund's earnings and the rest from superannuation funds.

With this substantial capital base and the capacity to access relatively cheap finance, the NIFC would increase competition for projects and lower their cost, which would benefit taxpayers.

Targeted tax breaks would be a further way to entice super money into the projects Australia needs. Taxes on super funds are relatively low but the Government could allow tax exemptions for dividend earnings from investments in qualifying projects, and reduce or abolish the tax on capital gains from them.

Long-term returns for superannuation funds would benefit most taxpayers and stop the dripping tap of infrastructure investment in Australia before it torpedoes our economic wellbeing. There is still a place for private capital investment, but the circumstances must be subject to stringent evaluation, ensuring taxpayers and users get value for money and the projects are what the nation needs.

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