



AUSTRALIAN LOCAL
GOVERNMENT ASSOCIATION

**Submission to the Productivity Commission on
the Draft Report - Public Infrastructure**

APRIL 2014

The Australian Local Government Association (ALGA) appreciates the opportunity to make this submission on the Productivity Commission's Draft Report - Public Infrastructure, released for public comment in March 2014.

ALGA welcomes the report and generally support the policies, procedures and processes outlined in the Draft Report.

Background

The Australian Local Government Association (ALGA) is the national voice of local government in Australia. It is a federated body of state and territory local government associations that represent around 560 local government authorities across the country. This submission has been prepared in consultation with ALGA's members and should be read in conjunction with any separate submission received from state and territory local government associations as well as individual councils who may provide comment on the provision of infrastructure from their own perspectives.

The management of infrastructure remains a fundamental challenge for local government in Australia. Of the three levels of government, local Government has the largest relative task in terms of asset management and the smallest relative revenue base.

- In 2011-12 Australian Governments collectively owned more than \$1.65 trillion worth of assets of which just over \$1.01 trillion were non-financial assets. Local governments owned \$350 billion (21.2%) of these total assets but importantly, more than 31.2% of non-financial assets (valued at \$316 billion).
- The Commonwealth had revenue of around \$340 billion to maintain non-financial assets of \$98 billion – a healthy ratio of more than \$3.40 in revenue for every \$1 in non financial assets.
- The states had combined revenue of \$210 billion to maintain just under \$562 billion worth of non-financial assets; around \$0.37 in revenue for every \$1 in non-financial assets.
- Local Government had revenue of just under \$37 billion to maintain non-financial assets valued at \$316 billion; about \$0.12 in revenue for every \$1 in non-financial assets.
- This infrastructure challenge has been the subject of study by the local government sector in recent years given the scale of the issue and its impact on the financial sustainability of individual councils. In 2006 a report by PricewaterhouseCoopers into the financial sustainability of local government estimated a substantial infrastructure backlog of around \$14.5 billion and an under-spend on infrastructure renewals in excess of \$2 billion per annum. A

more recent report on the State of the Local Roads Assets prepared JRA in 2011 estimated an underinvestment in local roads alone of around \$2.2 billion per annum.

For this reason, ALGA welcomes the general inclusion of local government in the scope of the Productivity Commission's report. It should be recognized, however, that while some councils in Australia are engaged in substantial infrastructure projects, the scale of individual infrastructure projects that most councils are involved with is relatively small by government standards.

ALGA also believes that the Commission should note the context in which local government operates:

- Local government procurement (including infrastructure) is generally subject to state and territory oversight and legislation and therefore recommendations that seek to impose conditions on Federal funding to local government should take this fact into account;
- While local government public infrastructure projects are important and must at all times be subject to high standards in public administration, they are generally not large and complex projects in comparative terms (e.g. less than \$50m), and there is therefore a need, (as the Commission has acknowledged), to ensure that any further requirements upon local government in relation to procurement and management of infrastructure projects are proportionate to the scale of project, the capacity of councils to comply and benefits; and
- All major infrastructure projects, particularly major road projects, have a local dimension and it is critically important that 'first and last' mile issues are addressed as part of the project, this highlights the need for integrated planning involving all levels of government.

Local Government Funding

On a more general note on local government revenue (which has been the subject of a previous Productivity Commission report in 2008), funding, the largest source of revenue for local government as a whole is rates, with fees and charges being the second greatest source of revenue. Local government does receive ongoing funding from the Federal Government which is very important, including:

- General purpose funding under the Local Government (Financial Assistance) Act 1995 which currently amounts to around \$2.2 billion per annum. This funding is divided between general purpose grants which are provided to improve the capacity of local governments to deliver an equitable level of services to local communities, and the Identified Local Roads Grant which is aimed at helping councils meet the cost of maintaining their local roads. Both components of the grant are untied in the hands of councils and they are not provided for capital purposes. For that reason ALGA would oppose

any suggestion that the grants be conditional on procurement or project selection processes; and

- Funding under the Roads to Recovery (R2R) program is provided to assist with local roads maintenance and is tied to use on roads. The funding is subject to its own accountability requirements set out in regulation and is generally used for relatively small projects. ALGA would oppose any increase in conditionality on this funding or on Road Safety Black Spots funding and funding under the new Bridges Renewal program.

Local Infrastructure Funding and Financing

The issue of funding and financing local government infrastructure was the subject of a report from Ernst & Young (EY) report *Strong Foundations for Sustainable Local Infrastructure*, released by Minister Crean at the National General Assembly of Local Government on 18 June 2012.

The report set out a number of recommendations for funding future local infrastructure needs around:

- how councils can leverage existing funding sources for investment in new infrastructure;
- improving councils' access to finance; and
- helping councils identify and develop infrastructure.

The Australian Government commissioned the review in order to look at ways to better address the infrastructure funding gap with specific focus on local government and characterised the report as a discussion paper.

The Ernst and Young report canvassed a variety of issues including the use of tax increment financing, the establishment of a National financing authority for local government infrastructure and work on asset management and procurement.

A working party of Commonwealth, state and territory officials (including representation from ALGA) was established but the recommendations did not lead to any substantive change, primarily because of the policy positions of state governments and the differences between jurisdictions.

General Comments on the Draft Report

ALGA welcomes the Draft Report and the importance of the issues raised. ALGA does not support the over-reliance on cost-benefit analysis for project selection and transparency of decision-making. ALGA strongly supports the Commission's view that this tool should only be a starting point, and there is a strong need to appropriately consider matters outside the scope of a project level cost-benefit analysis such as, for example, equitable access to infrastructure and potentially some measure of wider economic and community benefit.

ALGA supports the notion of a pipeline of projects being developed. However, the delivery of individual projects should be dealt with in as part of a comprehensive

infrastructure plan asset management framework. This infrastructure plan should be integrated and developed in consultation with all three levels of government. From a local government perspective, as an asset manager, local government believes that major project prioritisation and selection, particularly of new road projects, needs to be appropriately balanced against the maintenance and renewal requirements of existing essential assets. In other words, asset formation should only occur in the context of detailed asset management plans, ideally, integrated asset management plans across the three levels of government.

Specific Comments on Key Themes:

Private Sector involvement.

Local Government in a number of jurisdictions has, for several decades, been open to innovative solutions to provide public infrastructure through program such as through Build-Own-Operate-Transfer (BOOT) schemes and Public Private Partnerships. These initiatives have often been undertaken with the support of state governments, for example, through the provision of support materials such as, Guidelines on the Procedures and Processes to be followed by Local Government in Public-Private Partnerships, the NSW Department of Local Government, 1 September 2005. However, the range of eligible projects has often been limited by the capacity of the project to generate revenue.

Local government procurement processes

The Commission identifies the need for good governance in the selection and provision of infrastructure including project assessment, setting infrastructure service standards, managing risk, procurement, use of user charging and performance reporting for project delivery.

As previously noted, local government procurement processes are generally guided by state government policies and legislative requirements and cover such issues as

- Open and effective communication
- Value for money
- Enhancement of the capabilities of local business and industry and
- Ethical behaviour and fair dealing

Generally, open tender processes may be required where the value of a project exceeds a certain sum – eg. \$100,000.

Application of formal project management skills and processes are available to councils as they are to the private sector, however depending on the frequency with which they are used and the cost of training/retaining staff, specialist project management services may need to be purchased as they are required or contracted out as part of the project delivery arrangement.

Noting the unique circumstances of Brisbane City Council, in size and capability, ALGA is pleased that the Productivity Commission has included the TransApex

cases studies in Volume 2 of the Draft Report. Similarly ALGA is pleased that the Queensland's Local Government Infrastructure Services (LGIS) is highlighted.

ALGA supports in-principle the establishment of specialist procurement agencies at jurisdictional level in partnership with state and territory local government associations, noting that these arrangements should be established to support councils decision-making not control council decision-making. A number of state associations have established mechanisms to support councils procurement processes and which could be used as a starting point for the development of such agencies where required.

Sale of assets

Given the nature of local government infrastructure, the sale of assets and asset recycling is not a simple issue. ALGA and state and territory local government associations have actively supported councils in the development of asset management plans. While significant progress has occurred more needs to be done. Asset management plans are an important tool to assist councils to identify potential asset sales or transfers.

In the first round of National Competition Policy in the 1990s many local governments undertook asset sales or transferred significant assets to corporatized entities. Arguably, the majority of council assets have been developed or accumulated in response to market failure and are therefore less likely to be commercially attractive entities for sale. In rural communities, for example, councils build and own sports and cultural facilities and contribute significantly to their maintenance and up-keep, not to mention the management programs conducted within these facilities. As such local government believes that there is a very limited market for the sale of council assets while at the same time ensuring that services and services levels are maintained at a community standard.

Road Pricing

ALGA supports the Heavy Vehicle Charging and Investment (HVCI).work being undertaken by the Council of Australian Governments (COAG) and the COAG Council on Transport and Infrastructure. Currently a proportion of the heavy vehicle task occurs on local roads but, with the exception of WA, no jurisdiction allocated any of the funds paid by the Heavy vehicle operators through fuel excise or registration to local road owners. The HVCI holds out the prospect that an appropriate proportion of heavy vehicle charges could be allocated to local road owners.

ALGA is represented on the Steering Board for the HVCI project and has advocated that any institutional reforms to implement supply side reform for the provision of roads should include the use of regional road groups to assist in determining investment priorities. Such groups could build on existing structures in each jurisdiction and different models may apply in different jurisdictions.

ALGA notes that the HVCI initiative is a partial market solution and strongly suggest that the lessons learned from the HVCI be used to assess relevant technology and institutional reform prior to any proposed extension to private and or light vehicles.

Conclusion

ALGA welcomes this report. The maintenance and funding of infrastructure remains a challenge for all councils and the relative importance of infrastructure has financial sustainability implications for many councils.

Infrastructure funding and finance issues will remain a problem for councils given that local government infrastructure does not generally provide a revenue stream which can be harnessed to service borrowing, many councils have limited general revenue sources (such as rates) which can service debt and value capture options such as tax increment financing are policy issues for state government.

Local government's procurement processes are generally subject to state government requirements which focus on the need for transparency and value for money.

Local government supports the HVCI reforms which hold out the prospect that an appropriate proportion of the revenue collected from heavy vehicle operators will be allocated to local road owners. This would assist councils to address the "first mile last mile" issues which if often highlighted by industry.