



AUSTRALIAN LOCAL
GOVERNMENT ASSOCIATION

**Submission to Infrastructure Australia responding
to the Infrastructure Australia Audit 2015**

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1. INTRODUCTION

The Australian Local Government Association (ALGA) is pleased to present this Submission to Infrastructure Australia (IA) in response to issues raised in the Australian Infrastructure Audit 2015 (the 2015 Audit) for consideration in the preparation of the Australian Infrastructure Plan.

As noted in the Executive Summary of the 2015 Audit, Australia's transport sector makes the greatest contribution to our economy, but also needs the greatest amount of reform. As such, this submission is focussed heavily only on national transport matters, given the high national policy priority and focus that it has from ALGA's perspective. However, this submission also addresses Water and Waste Water Services, Planning and Governance issues as well as providing summary comment on the Federation White Paper aspects and incorporates contributions from a number of the state local government associations on a range of matters contained within.

However, given the variety of approaches, policy and operation-wise, that state/territory local government associations have in dealing with a range of infrastructure associated with Telecommunications, Energy and Indigenous Communities issues, it was decided that it would be more appropriate for each of the state/territory LGAs to provide separate input on those particular issues to Infrastructure Australia, should they deem it appropriate.

2. GENERAL COMMENTS ON THE 2015 AUDIT

ALGA welcomes the general inclusion of local government in the scope of the 2015 Audit and the opportunity to provide a submission in response to the findings and key issues and challenges that the Audit has analysed. It is to be expected that with the Audit, IA would need to focus primarily on:

- A top-down assessment of the valued-add, or Direct Economic Contribution of infrastructure;
- Considering the future demand for infrastructure over the next 15 years; and
- Delivering an evidence base for further gap analysis, long term planning and future investment priorities.

It is also expected that at this early stage of laying the foundations for the development of the new Australian Infrastructure Plan the 2015 Audit has generally focused on examples of substantial infrastructure needs and therefore projects.

While some local councils in Australia are engaged in substantial infrastructure projects (e.g. Brisbane City Council), the scale of individual infrastructure projects that most councils are involved with is relatively small by the standards of the Australian and state and territory governments.

However, as the Productivity Commission made clear in its final report on *Public Infrastructure* (2014), what is 'major' or 'nationally significant' infrastructure is likely to vary between types of projects and jurisdictions. ALGA notes that the Commission deliberately did not adopt a precise definition or threshold for nationally significant infrastructure for its inquiry.

Very importantly, the Commission recognised that a number of small projects might be nationally significant when taken cumulatively. In particular, the Commission illustrated

that local councils may build roads that have small costs at the individual council level, but amount to billions of dollars when aggregated across a city or region. An important conclusion from this is that local government will need to be a key part of providing the solutions to the infrastructure challenge that Australia faces over the next fifteen years that the Australian Infrastructure Plan is seeking to address. It is also important to remember that local government, along with the other two levels of government, is also involved in public infrastructure to provide equitable access to services across the community and because there is a range of 'market failures' which could cause inadequate provision if not addressed.

The planning and funding of Australia's roads is inefficient and in urgent need of reform as noted both in the 2015 Audit and the Productivity Commission's 2014 Public Infrastructure Report. ALGA supports the notion of a more robust infrastructure pipeline being developed as part of the Australian Infrastructure Plan. However, the delivery of individual infrastructure projects should be dealt with 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.

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.

ALGA notes that local roads are not explicitly included in IA's core analysis or planning in the 2015 Audit's main text, even though they constitute around 80 per cent of national roads by length. Most road freight journeys start or finish on a local road and the freight industry has consistently nominated first and last mile issues on local roads as a major impediment to a more efficient national freight system. For local government, efficient infrastructure – particularly road, rail (for bulk products such as grain) and airports, is vital to ensure that our regional and rural councils continue to grow and are able to maintain their significant contribution to the Australian economy.

The upcoming 15-year Australian Infrastructure Plan should demonstrate a strategic commitment to reform and thought leadership that includes:

- Initiatives that support integrated planning of the road network at a regional level, including the identification of regional local road freight networks leading onto the development of regional freight plans for local connector and arterial roads;
- 'Gap' funding for first and last mile freight issues on a regional basis (aggregated by State) which needs to be initiated as a matter of urgency;
- the establishment of a national road data model to support the identification of gaps in the road network;
- a long-term commitment to the funding of local roads and an end to ad hoc short-term 'top up' announcements so that local councils can plan with certainty; and
- the identification of a robust process to achieve a sustainable balance between maintaining existing roads assets and capital investment in new road assets.

3. CONTEXT

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 562 local government authorities across the country. This submission has been prepared in consultation with ALGA's members.

The management of infrastructure remains a fundamental challenge for local government. 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 about \$562 billion worth of non-financial assets; i.e. \$0.37 in revenue for every \$1 in non-financial assets.
- Local Government had revenue of almost \$37 billion to maintain non-financial assets valued at \$316 billion; i.e. \$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 PricewaterhouseCoopers¹ 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.

In view of the above, ALGA welcomes the opportunity to present this Submission in response to issues raised in the Australian Infrastructure Audit 2015 for consideration in the preparation of the Australian Infrastructure Plan. 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.

Further, 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. This is a theme that will be explored further under the Key Issues section below.

¹ PricewaterhouseCoopers, 2006, **National Financial Sustainability Study of Local Government**

4. KEY ISSUES

4.1 LOCAL GOVERNMENT TRANSPORT AND INFRASTRUCTURE FUNDING

4.1.1 Local Government Funding

Local government revenue, which was the subject of a previous Productivity Commission report in 2008, comprises council rates, the largest source of revenue for local government as a whole, with fees and charges being the second greatest source of revenue.

Local government nationally employs, owns and manages non-financial assets estimated at \$355 billion (2012-13)². The sector raises around 3.5 per cent of Australia's total taxation revenue per annum³ and has annual expenditure of around \$32 billion (2012-13), just under 6 per cent of total public sector spending⁴.

Local government expenditure is directed towards the provision of local services across the nation. Apart from roads and transport, these services include: housing and community amenities, water, communications, recreation and culture, and social security and welfare⁵. Unpublished research commissioned by ALGA in 2012 shows that a majority of Australians agree that local councils play an important role in their lives⁶. It should be noted that at an aggregate level, local government undertakes its work while being around 90 per cent self-funded. However, many rural/regional the councils do not have the same means to collect equivalent revenues from their funding sources as urban councils.

4.1.2 Local Infrastructure Funding and Financing

The issue of funding and financing local government infrastructure was the subject of a review commissioned by the Australian Government, resulting in a report from its consultants Ernst & Young (EY) titled *Strong Foundations for Sustainable Local Infrastructure*, released by Minister Crean in June 2012. The report set out a number of recommendations for funding future local infrastructure needs structured 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.

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

² ABS Cat. No. 5512.0 **Government Finance Statistics, Australia.**

³ ABS Cat. No. 5506.0 **Taxation Revenue series.**

⁴ ABS Cat. No. 5512.0 **Government Finance Statistics, Australia.**

⁵

⁶ Unpublished research 2012

4.1.3 Amalgamation of Local Government and Shared Services Arrangements

Finding 31 of the IA 2015 Audit is one of the few key findings that specifically highlights the local government sector. It states that:

“Amalgamation of local government in some areas, and other reforms such as shared services arrangements, will be necessary if local councils are to have the scale and financial capacity to meet their local infrastructure responsibilities.”

Amalgamation

Amalgamation proposals are brought forward from time to time by state and territory governments, usually premised on the widespread notion that economies of scale exist in the provision of goods and services within the level of local government, such that economic benefits can be derived from terminating numerous small local government authorities through this process, forced or voluntary. It is also widely assumed that attempts to redress the poor financial position of this level should await resolution of this ‘structural problem’ (Business Council of Australia 2006, Department of Transport and Regional Services 2005). There is currently such a process underway in New South Wales. This process is being handled by the NSW state local government association dealing directly with the state government.

While ALGA does not involve itself in such state governance matters, it is worth considering the empirical evidence available on this subject. Byrnes and Dollery⁷ (2002) reviewed 24 different studies into the relationship between local authority size and the cost of service delivery in several countries. The outcomes were that “overall, 29 per cent of the research papers find evidence of U-shaped cost curves, 39 per cent find no statistical relationship between per capita expenditure and size, 8 per cent find evidence of economies of scale, and 24 per cent find diseconomies of scale. From this evidence alone one must conclude that there is a great deal of uncertainty about whether economies of scale exist in local government service provision.”

Further, many of the empirical studies based on the Australian experience have also been criticised for employing single rather than multi-variate analysis with omitted variables (demographic/geographic characteristics) such that the true impact of population size has, generally been overestimated (Byrnes and Dollery 2002). It is not surprising then that local government grants commissions introduce variables such as population density, remoteness, ethnicity, indigenous status, age structure, non-resident service provision, climate and terrain into their analyses of the appropriate size of their equalisation grants, rather than distributing them on a strict per capita basis (Department of Transport and Regional Services 2005). This in turn suggests that the optimal size of a local council may differ for rural and remote communities from those based around regional centres and metropolitan areas (Soul and Dollery 2000). This in turn has led to commentators suggesting that alternative means exist for achieving economies of scale in key functions without amalgamation, for example Regional Organisations of Councils (ROCs) in NSW, strategic alliances for joint provision (e.g. Dollery and Johnson 2005).

In view of the above evidence, there is the need to consider very carefully whether the amalgamations should proceed as suggested in Finding 31.

⁷ J Byrnes and Brian Dollery, *Do Economies of Scale Exist in Australian Local Government? A Review of the Empirical Evidence*, 2002

Shared Services Arrangements

In terms of the matter of shared services arrangements and related aspects, ALGA makes the following observations. 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 appropriate.

It's also worth noting that local government procurement, including infrastructure, is generally subject to state and territory oversight and legislation. In addition, while local government public infrastructure projects are important and must at all times be subject to high standards in public administration, individual projects are generally not large and complex in comparative terms (e.g. less than \$50m). Therefore there is a need, as the Productivity Commission has acknowledged⁸, 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.

Solutions

Adequate grant levels are absolutely critical to these authorities being able to function in the best interests of their constituents and to equalise services and infrastructure availability across the community they serve.

It should be noted that considerable local government funds are spent on vital additional work that relates to broad national issues. See further elaboration of these issues under the General Purpose Grants Funding section and Roads to Recovery Program, Black Spots Program & Bridge Renewal Program section that follow immediately below.

4.1.4 General Purpose Grants Funding

Financial Assistance Grants (FAGs)

Local government acknowledges the support it receives from ongoing funding from the Federal Government, which is very important. This support includes:

- General support funding under the Local Government (Financial Assistance) Act 1995 which currently amounts to around \$2.3 billion per annum. This FAGs 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.

Although horizontal fiscal equalisation is one of seven federally legislated principles for the allocation of FAGs, the Productivity Commission has observed that 'the current level

⁸ Productivity Commission, 2014, **Public Infrastructure**.

of FAGs is insufficient to achieve horizontal fiscal equalisation' and that 'there is a case to review the provision of Australian Government general purpose grants to local government'⁹.

Although FAGs are intended to supplement the ability of local government to support functions, they have fallen over time as a proportion of overall Commonwealth taxation revenue. As a proportion of total Commonwealth taxation revenue in 2013-14, FAGs amounted to around 0.67 per cent, continuing a long trend of reduced FAGs as a proportion of the Commonwealth's taxation revenue. The decision to freeze the indexation of FAGs until 2017-18 will see that proportion of revenue drop to less than 0.60 per cent. By contrast, FAGs represented around 1 per cent of total Commonwealth taxation revenue in 1995-96 and 1996-97.

The Federation Review

ALGA notes the current Australian Government's decision to establish reviews into the Federation and the taxation system has called on the Government to ensure that the reviews consider the overall suitability and sustainability of local government funding.

The White Paper on the Federation provides an opportunity to consider the roles and responsibilities of each level of government and the importance of ensuring they are adequately resourced to carry out those roles. As part of this process, ALGA believes that the Cost Shifting IGA should be reviewed and strengthened so that all levels of government agree to comply with its principles whenever new or additional functions, or new or increased service standards affecting local government, are being considered. Cost shifting by the Commonwealth and state governments has been estimated to have a negative impact on councils of up to \$1.1 billion annually¹⁰. The Local Government Association of Queensland now estimate \$1.1 billion to be the estimate of cost shifting for Queensland councils alone.

Given the demands upon local government and its limited capacity to raise additional own-source revenue, adequate revenue growth for general purposes can only be achieved through an increase in the quantum of intergovernmental financial transfers.

ALGA is seeking the review of both the base funding for FAGs, and the indexation methodology, so that communities can have the certainty they need to plan adequately for future challenges. ALGA believes that a review of these arrangements would help to ensure a revenue stream for local government that will reasonably keep pace with demand for service delivery and infrastructure provision. In turn, better funding levels will boost community resilience and Australia's overall prosperity in the future¹¹.

Solutions

- Immediate restoration of indexation of the Financial Assistance Grants.

⁹ Productivity Commission report, **Assessing Local Government Revenue Raising Capacity**, (April 2008), Finding 5.4, p. Xxxvii.

¹⁰ House of Representatives Standing Committee on Economics, Finance and Public Administration, **Rates and Taxes: A Fair share for Responsible Local Government** (October 2003).

¹¹ See speech by Treasury Secretary Dr Ken Henry AC, 'Fiscal Policy – More than just a national budget' (30 November 2009), in which he acknowledges that '[whatever the size of government, fiscal sustainability is important for maintaining macroeconomic stability, reducing aggregate economic vulnerabilities; and in those ways, improving aggregate economic performance. It reduces the degree of uncertainty about future policy settings and facilitates growth-enhancing economic decision-making, especially regarding the accumulation of physical and human capital.'

- A review of the adequacy of the base and indexation methodology of the Financial Assistance Grants; and
- Appropriate resources to aid in the prevention of cost shifting, including working towards a stronger Inter-governmental agreement.

4.1.5 Roads to Recovery Program, Black Spots Program & Bridge Renewal Program

Roads to Recovery Program (R2R)

Funding under the R2R program is provided to assist with local roads maintenance and is tied to use on roads. The Roads to Recovery Program is a true partnership between the Federal and local governments. Under the terms of the Roads to Recovery Program local government has complete management responsibility for the delivery of the Program without Federal intervention. It is also a testament to the effectiveness of the direct relationship between the Australian Government and local councils. The major outcomes of investment under the Program include improved productivity and road safety, both national objectives.

There is of course more to do on our local roads. The continued underinvestment in local roads hinders local and regional social and economic development and ultimately affects the development of the nation as a whole and councils are under great pressure to maintain their vital roads expenditure.

ALGA welcomed the decision to extend the current Roads to Recovery program to 2019, funded at \$350 million per annum. While this measure was a positive step, it is vital that this program is supported and protected for the long-term by making the funding permanent.

Black Spots Program & Bridge Renewal Program

ALGA also welcomed the decision to increase funding to the Roads to Recovery and Black Spot programs, through a one-off doubling in 2015-16. This will enable councils to increase funding to key projects. This 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, as well as to funding under the new Bridges Renewal program.

However, this additional funding is being provided at a time when the general purpose funding for council activities is being reduced by around 13 per cent through the decision to freeze FAGs (including the identified local road component). ALGA estimates that the permanent reduction in the FAGs base will exceed the full value of the Roads to Recovery program by around 2020.

State/Territory funding

In addition, local government also acknowledges the funding it receives from the respective states and territories, in varying degrees, for addressing local, regional and remote roads and bridges.

Solutions

- A permanent doubling of Roads to Recovery funding; and
- A doubling of the program funding for Bridge Renewal.

4.2 MAINTENANCE AND ASSET MANAGEMENT

The need to focus on resilience and improved maintenance was one of the key ‘Challenges for the Future’ identified in the Australian Infrastructure Audit. The Audit noted that “Most of the infrastructure that Australians will use in 2031 has already been built, but maintenance standards are often below par.” The Audit also noted that “There is evidence that regional and rural roads, for example, are less well maintained than roads in urban areas, and ... are at risk of deteriorating without greater investment in maintenance.”

Asset management is one of the key strategies to be applied to address this major challenge and local government has been doing considerable work in this area, as outlined below. However, improved asset management alone cannot meet the backlog in funding to address the issue.

4.2.1 New Infrastructure versus Maintenance of Existing Infrastructure

South Australia provides a useful case study. Councils in South Australia are the custodians of over \$21 billion of infrastructure and other assets on behalf of their communities. They have an obligation to ensure that assets they control are managed efficiently and effectively and that decisions regarding the acquisition of new assets and the sale and maintenance of existing assets are undertaken in an open and transparent fashion.

Relative to annual operating revenue, the South Australian Local Government sector is three times more asset intensive (i.e. value of assets/operating revenue) than the State Government and nine times more asset intensive than the Commonwealth Government. It follows that asset management is a more critical responsibility for Councils than it is for other spheres of government. Sound asset management is the key to the financial sustainability of every Council.

Frequently, Councils are subject to political pressure to accept funding for (or even donation of) additional new infrastructure. The acquisition of new infrastructure necessarily increases a Council’s ongoing maintenance obligations for these assets. There is far less emphasis in public discourse and hence relatively less public and political understanding of the scale of the ongoing maintenance required, to address the consumption (i.e. ongoing maintenance and funding for eventual renewal/replacement) of existing assets.

Councils may be exposed to financial risk over the longer term if their budget processes have little regard for ongoing costs associated with the maintenance of these assets beyond the annual budget. It is incumbent on Councils to carefully consider information about their stock of infrastructure and other assets, and the financial contribution that current ratepayers are making to offset the consumption of assets (i.e. the gradual erosion of the remaining service potential of the assets).

4.2.2 Asset Management

A Case Study: Councils have an obligation to manage their local roads effectively and to continue to improve their asset management. Local government is committed to continuous improvement in asset management. In 2007, Local Government Minister from all jurisdictions and the President of ALGA agreed to develop a Local Government Financial Sustainability Nationally Consistent Frameworks (*LGPMC Financial Sustainability Frameworks*). By 2009 the framework comprised of several components which were designed to support continuous improvement within the sector. For example, the Municipal Association of Victoria (MAV) has instituted the Step Program to build council capacity in asset and financial management.

In 2013 ALGA commissioned Jeff Roorda and Associates (JRA) to prove the concept of the development of a national state of the assets (local roads) report. The work concluded that a national report was feasible. JRA further developed an innovative way of data collection directly from councils, as well as a detailed analysis of local government assets across three dimensions which provide key indicators of the overall 'state of these assets'.

The three indicators are:

- Quality/Condition – the physical condition of the infrastructure that allows it to meet the intended service level;
- Function – the ability of the physical infrastructure to meet program delivery needs; and
- Capacity/Utilisation – represents the ability of the physical infrastructure to meet service needs.

Importantly, the project also captures self-reported levels of confidence in the data as a measure of the reliability and risk of reliance on the reports data.

Solutions

Further assist councils to understand and manage their local road networks.

ALGA proposes four strategies to be employed:

- funding support to assist councils to continue to develop skills in asset management;
- support for ALGA to work with state and territory associations, the Institute of Public Works Engineering Australia (IPWEA), as well as other key stakeholders (e.g. the jurisdictions and the Commonwealth Government) to develop tools for councils to use to enhance their skills in asset management;
- support for ALGA to work with jurisdictions and the Commonwealth Department of Infrastructure and Regional Development through the auspices of Austroads to facilitate alignment of asset management planning at the state and local levels (e.g. through progressing the Austroads Board Strategic Project on *Data Harmonisation* as a priority); and
- support for ALGA to continue to monitor progress in local government asset management and develop regular national State of the Asset reports on local government assets.

In addition, there is a need to help councils to improve the linkage between asset management plans and council financial plans. ALGA's 2014 State of the Assets Report highlights the critical importance of the link between council asset management plans and financial plans. Local government acknowledges that traditional accounting methods, including theoretical methods used for the provision of depreciation, frequently do not reflect the actual condition of councils' assets.

As a consequence, financial statements may not accurately reflect the financial position and capital budget needs for councils. A considerable number of local councils have now established asset management plans and financial management plans and are linking them together. However, at the same time, there is still a reasonable proportion of rural and remote councils that need further support to develop asset management plans to link these plans to financial plans of councils to ensure councils are operating in a sustainable manner.

ALGA proposes two strategies to help meet this need:

- funding support to assist councils to continue to develop skills in assets and financial management; and
- support for ALGA to work with state/territory association IPWEA and other key stakeholders to develop tools for councils to use to enhance their skills in asset and financial management.

4.2.3 Maintenance

Local roads are the capillaries of our communities linking our homes, schools, farms and businesses. They are the building block of our nation's transport network, providing access to and from our front gates to local, regional, state, national and international services and markets. Without local roads there would be no access to schools, health facilities, social facilities and markets.

The local road system has developed and expanded so that its 650,000 kilometres is over 80 per cent by length of all roads in Australia and a significant component of the national transport system. The National Transport Commission has estimated that 36 per cent of all kilometres travelled in Australia are on local roads. The economic importance is demonstrated by 30 per cent of medium vehicle and 16 per cent of heavy vehicle kilometres being on local roads.

The maintenance of the local road system is one of local government's major tasks. For most of the councils, it is the single largest item of expenditure. Total expenditure on local roads by councils was estimated by the Bureau of Infrastructure, Transport and Regional Economics to be just over 13 per cent of local government aggregate expenditure (\$3.127 billion) in 2007-08¹². An equivalent figure in 2015-16 would be well in excess of \$4 billion.

Councils have an obligation to manage their local roads effectively and to continue to improve their asset management. However, improved asset management alone cannot meet the backlog in funding to address the issue. The ALGA study released in 2010¹³ into local road funding found expenditure on local roads has been less than the life cycle cost for the past five years and that the shortfall in funding to simply maintain rather than improve Australia's local roads in the period from 2010 to 2025 is estimated to be around \$1.2 billion annually. The study quantified what councils knew; the local road system - the capillaries of our communities - is breaking down, an untenable position for Australia.

¹²

¹³

Since 2000, the Federal Government has recognised the needs of local roads are beyond the financial capacity of local government and has provided supplementary funding under the Roads to Recovery Program (R2R) to support maintenance of local road infrastructure. Local government is grateful for the significant contribution that R2R has made to improving local roads and the economic, social and community benefits the program has achieved to date. ALGA also welcomes the decision to extend the current R2R to 2019, funded at \$350 million per annum, as well as a subsequent one off doubling of the funding to \$700 million for the 2015-16 financial year announced in the May 2015 Budget.

ALGA notes with interest that, in preparing for the Australian Infrastructure Audit, Infrastructure Australia engaged GHD¹⁴ to undertake a desktop study to review infrastructure maintenance as an input to the Audit. The scope of this work extended to maintenance of publicly-owned infrastructure in the transport (roads and rail), water (supply and sewerage) and energy sectors across all three tiers of government.

The report's purpose was to identify major or common issues of national significance facing governments meeting the maintenance requirements of publicly-owned infrastructure.

GHD report's key findings relating to local government are very telling, as follows¹⁵:

- “As a broad observation, assets owned by local government present greater maintenance challenges than those owned by state and territory governments (or their trading enterprises);
- Rural roads owned and operated by local government are also facing major challenges with respect to adequate maintenance. Rural roads are important for regional economic activity – particularly in the agriculture and resources sectors and to provide access to and from remote communities. Local roads are also an important component of the national land transport network and form the first and last mile of many land-based supply chains. Insufficient maintenance on local roads could affect future freight productivity and economic growth;
- Some local governments face significant challenges in regards to their financial sustainability, which impacts their ability to deliver road maintenance programs. This is a particular problem for local governments with large road networks, declining rate payer bases and an inability to attract and keep appropriately qualified personnel to manage these assets.”

The GHD report notes in its Conclusions¹⁶, inter alia that:

- “There is an ongoing role for state and territory governments in particular, to provide access to financial management, asset management and planning assistance to build capacity within local councils;
- However, there is also a need to explore options to increase local council revenues and pursue resource-sharing initiatives in order to ensure that maintenance of road and water and sewerage assets meet reasonable service levels on a sustainable basis.”

Further, the GHD report notes that “At the national level, ALGA forecasted a shortfall of \$17.6 billion for maintenance and renewal expenditure for local roads across Australia

¹⁴ GHD, March 2015, *Infrastructure maintenance – A report for Infrastructure Australia*

¹⁵ GHD report, op cit at 6 above, Findings, pages iii and iv

¹⁶ GHD report, op cit, Conclusions, page viii

between 2010 and 2024. This equates to an additional 39 per cent above the estimated funding availability for the corresponding period (IPWEA, 2013¹⁷). On this point, the GHD report states that whilst ALGA's role includes being a lobby group for local government, ALGA's analysis is, in GHD's view well argued.

Solutions

- A permanent doubling of Roads to Recovery funding; and
- A doubling of the program funding for Bridge Renewal.

4.3 FIRST MILE/LAST MILE ISSUES (REGIONAL AND CITY)

ALGA strongly supports the Federal Government's focus on improvements in productivity through investment in infrastructure, recognising that local roads play a vital role in the nation's transport network. Improving the productivity of that network through investment that improves access for freight vehicles and connectivity between regional freight roads plus local collector roads and state and national freight routes are important issues for local government.

At the same time, the issue of first and last mile access plus pinch points (e.g. bridges), are important factors in the national road transport productivity equation. We must unlock local and regional productivity improvement through investment that improves access for freight vehicles and connectivity between local roads and preferred state and national freight routes.

4.3.1 Heavy Vehicle National Law (HVNL) Reform

In the lead up to the introduction of the HVNL, which became operative in February 2014, the Regulatory Impact Statement (RIS) prepared by the National Transport Commission (NTC) noted that "Local Governments have welcomed the prospect of improved technical assistance regarding pavements and bridges and all parties (i.e. including industry) strongly support the ability of the regulator to chart and respond to access 'hot spots'." One of the key access 'hot spots' mentioned in the RIS text was the last mile issue.

While last mile issues are taken seriously by local councils under this reform, it must be acknowledged that the HVNL reform doesn't generate direct revenue for local councils to address last mile issues to improve local council freight networks, thus limiting the capacity of councils to grant access and to realise the productivity benefits of this reform in their areas.

Solution

The reintroduction of a \$100 million per annum Strategic Regional Roads Program, previously funded by the Commonwealth Government to ensure that first mile/last mile and freight connectivity issues are addressed to improve national productivity.

Further aspects and solutions on the first mile/last mile issue are developed and proposed in the following section.

¹⁷ IPWEA, 2013, *Road Asset Benchmarking Project 2012 – Road Management Report*

4.4 FUNDING AND CHARGING FROM A HEAVY VEHICLE ROAD REFORM PERSPECTIVE

4.4.1 Heavy Vehicle Charging and Investment Reform

Following the public release of the final COAG Road Reform Plan (CRRP) Report, the Heavy Vehicle Charging and Investment (HVCI) reform project commenced, overseen by a board of senior officials from the three tiers of government and the freight industry to develop the integrated package envisaged by CRRP. Apart from developing various charging options, including a national fuel-based charge and a state-specific mass-distance-location charge, HVCI also considered institutional reforms including, as supported by ALGA, the development of regional local government groups that could better support a coordinated approach to road provision.

Australia currently has 562 local councils, each with a road provider function, which play a critical role in providing distribution networks for freight. Despite this, the HVCI rightly acknowledged in its submission to the Productivity Commission's inquiry into Public Infrastructure, that local councils are currently excluded from directly receiving revenues from heavy vehicle charges. This compromises local government's ability to prioritise heavy vehicle expenditure as councils would like.

Instead, councils are reliant on council rates and government grants to provide their road networks (and a myriad of other competing council services) resulting in a range of last mile and pinch-point infrastructure issues limiting the key freight routes capacity within their local road networks. Before it was finalised, HVCI was preparing to work with ALGA to expand the Regional Road Group (RRG) concept nationally. It should be noted the RRGs are mature models well established in Queensland and Western Australia, with Victorian and South Australian regional council groups continuing to improve their support and capacity for supporting a coordinated approach to regional road network provision.

4.4.2 Productivity Commission's (PC) recommendation for Regional Road Funds and Road Groups

The PC's *Public Infrastructure* inquiry final report stated "... substantial gains could be achieved by transitioning to an economically sustainable approach to the provision and funding of roads. The first step the PC envisaged in this transition was the establishment of road funds at the state, territory and local government levels. In particular, councils could be supported by the state government and local government associations to adopt the road fund approach using regional road groups, particularly in regional areas." Whilst the PC acknowledged the complexity of the challenge, it has identified the key characteristics of these regional arrangements, including the direct funding requirements.

Responding to the PC's *Public Infrastructure* inquiry final report, the Federal Government has acknowledged that "...opportunities to test the practical application of Road Funds could be implemented as pilot schemes, such as building on the regional-based Roads and Transport Alliance model currently in place in Queensland, which allows multiple local governments to cooperate and have greater input into road improvements specific to their regions' needs."

ALGA supports the concept of regional road funding arrangements and the establishment of regional road groups of councils across Australia and subsequent regional road planning. However, this has been on the understanding that the funds

provided for improving specific heavy vehicle access are new funds – not funding recycled from existing funding programs for local government services and general access. This is because local governments would be addressing improved economic access for heavy vehicles, thereby generating regional, state and national and transport operator productivity benefits, which are worthy of explicit recognition.

Recent discussions between ALGA and the Federal Department of Infrastructure and Regional Development suggest that the South Australian regional road funding model (the Special Local Roads Program) may offer the most promising option to develop up a pilot project in conjunction with the South Australian Government's intention to look at a Heavy Vehicle Roads Pricing Trial.

Noting that councils primary responsibility is the management of their own assets and that the freight task is only part of local government's responsibilities, strategic regional investment on local roads will require additional resources from major beneficiaries including state and national governments that benefit increased productivity and industry.

Solutions

Support for ALGA to explore the feasibility of using Regional Road Group plans and regional funding models as the basis for strategic investment in boosting productivity in particular through addressing first mile/ last mile¹⁸ road access for freight vehicles.

ALGA notes that the Australian Government has a range of existing funding programs under which first mile/last mile projects could be funded. However, ALGA believes there continues to be scope for a more defined Australian Government program addressing regional investments in local roads where the benefit accrues to surrounding local governments, or to the state or Commonwealth governments.

There is a need to facilitate strategic investment in regional infrastructure that will increase local, regional, state, national (including export) productivity.

ALGA proposes that the following three strategies be employed to meet this need:

- Given the importance of the first mile/last mile from a broader transport perspective, ALGA will continue to advocate for a Strategic Regional Roads Program through our Budget submission and through our election documents;
- Advocate for a significant regional strategic Investment program to address regional infrastructure barriers and increase regional, state and national productivity. These funds should be additional to those provided by councils and through grants to provide universal access of all road users; and
- ALGA looks forward to developing up a pilot project in conjunction with the South Australian Government's intention to look at a Heavy Vehicle Roads Pricing Trial by identifying local road infrastructure that could form part of the SA Government's Heavy Vehicle Roads Pricing Trial.

4.5 AIRPORTS

¹⁸ First mile/last mile road access can be defined typically as those instances where local government roads generally provide a critical link between places for freight, such as commercial and industrial sites, and national or state/territory strategic road freight networks. However, access to or from these higher level roads for higher productivity vehicles is not available on the initial goods pick-up point or final haul of a shipment to its major goods receiver's depot.

We note that in the *Our Infrastructure Challenges Executive Summary* of the 2015 Audit the Transport Section states in regard to airports that additional airport infrastructure capacity is required as “Demand for airport services is expected to approximately double between 2011 and 2031.” Whilst Australia’s 10 busiest airports handle more than 80 per cent of total passenger traffic, that means that Australia’s regional, rural and remote airports and aerodromes handle an important remaining 20 per cent of that passenger demand.

We note that the most important finding regarding airports from the 2015 Audit is that “A number of smaller airports are unlikely to have the throughput to cover their maintenance and potential capital costs. Governments will need to prioritise their outlays in support of these airports.

To put things in context, prior to 1991 many of Australia’s local airports were owned by the Commonwealth Government. Ownership and operational responsibility was then transferred to local government through the Aerodrome Local Ownership Scheme.

However, it has become apparent that in all cases other than the largest regional airports, the owners (in the vast majority of cases local councils) are not resourced to carry out the necessary major maintenance and capital works required to operate these airports in a financially self-sustaining manner.

Recent studies such as the 2012 Deloitte Access Economics *Connecting Australia – the economic and social contribution of Australia’s airports*, found more than half of regional airports nationally operate at a loss. Additionally, the 2015 Audit comments that airport operators face significant challenges given that they do not have the necessary throughput to cover their airport maintenance and potential capital costs.

The 2012 Hudson Howells report for the Local Government Association of SA Regional Airports Project, found that virtually none of the South Australian airports are financially viable in their own right and that “the funding of necessary airport upgrades that are being triggered by regulatory change, the shift to larger aircraft and consistent growth in passenger numbers, in most cases, cannot be funded from airport revenues”. Furthermore, the small rates base of South Australian regional councils allows few opportunities for adequate cross subsidization of airport works from rates revenue.

Nevertheless, all studies emphasize the importance of the infrastructure in connecting communities and enhancing broader economic performance in order to maximise benefits to regional communities.

Regional aerodromes are critical to mail and time-sensitive freight deliveries, emergency and general medical services, the delivery of a range of government services, regional tourism access, the conduct of business in the communities and the facilitation of fly in-fly out work forces in the resources sector. Many of the airports are business generators in their own right, generating employment through aircraft maintenance, hangars, flight training, etc.

Solution

As an interim response, local government supports Infrastructure Australia's conclusion that Governments (federal and state) will need to continue to prioritise their outlays in support of the number of smaller regional and remote airports that are unlikely to have the throughput to cover their maintenance and potential capital costs.

4.6 PLANNING AND GOVERNANCE

4.6.1 Land use and Transport Planning

Local governments are responsible for local transport planning and management including the management of their own transport assets. Local government recognises the interconnectedness of local transport networks, including freight corridors and the importance of cross boarder linkages. For this reason local government supports regional transport planning.

All states and the Northern Territory have or are exploring regional transport planning mechanisms. In Queensland, Western Australia and South Australia there are well established regional structures that support regional transport planning. In other states, including Victoria, councils are working with their state roads agency on regional transport plans. In Tasmania given its size, councils and the state government have decided to treat the whole state as one region. Regional Transport Plans provide road managers and in some instances industry players the opportunity to identify cross boarder issues, support better coordination and regional priorities.

Solutions

There is a need to support councils to participate and develop stronger regional transport plans.

ALGA proposes the following three strategies be employed to meet this need:

- Share models for Regional Transport Planning between state and territory associations and actively promote regional transport planning and regional collaboration;
- Encourage state governments to assist with the building of the capacity of councils to undertake regional transport planning; and
- Encourage regional groups of councils or their equivalents to adopt best practice regional transport planning processes to identify key barriers to freight access within the region.

4.6.2 Collaboration

Road reforms are relatively new and challenging for all stakeholders. Local government recognises that transport planning is evolving and that over time the system will mature.

Local government believes that while in the short term focus must be placed on jurisdictional readiness to manage freight access, steps should be initiated to ensure that actions taken by one actor do not impede the integration of plans across levels of government.

Transport planning should be driven from the bottom up rather than imposed by higher levels of government. Accordingly local government supports the development of local, regional and state plans that will feed into a National Transport Plan. This plan can then be used to assist in prioritisation of investment decisions taking into account the needs of local communities as well as other major stakeholders.

Solutions

There is a need to work with other levels of government to integrate regional plans into state and national transport plans and planning processes.

ALGA proposes the following three strategies::

- Support for ALGA to work with jurisdictions to promote the needs for integrated transport planning between the 3 levels of government;
- Support for ALGA to work through the COAG Transport Council to inform jurisdictions of local government initiatives on regional transport planning; and
- Support for ALGA to continue to work with jurisdictions to minimise the risks of unilateral action by one actor limiting the capacity of others to achieve integration of the transport and investment plans.

4.7 FEDERATION WHITE PAPER

Local government is the third sphere of government in Australia's Federal system, although it is not mentioned in the Constitution, but nor is COAG. While at a principles level the broad location and functional responsibility of each level of government can be described, the specific roles and responsibilities of levels of government should and currently do vary according to the need for government involvement, the capacity of each level of government, changing perceptions of national interest and existing responsibility for particular issues.

In terms of overlap, the Commonwealth should fund national interest aspects of an activity, regardless of where policy and operational responsibility for that activity lie. A national interest test should apply where the service or infrastructure to be delivered results in benefits that are captured in part or in full at the national level. For example, national productivity and improved roads safety outcomes lie behind the provision of funding through Roads to Recovery (R2R) and Black Spots Programs which augment local government's own efforts.

The national interest also applies in ensuring an equitable and reasonable level of local services and infrastructure to all residents in communities throughout Australia. This reflects the need to avoid gross disparity in the environment and opportunities enjoyed by Australians and lies behind the provision of Financial Assistance Grants (FAGs) to local government. The distribution of FAGs to all councils takes account of horizontal fiscal equalisation principles, but balances it with a minimum grant component that aims to maintain public confidence in, and acceptance of, the funding distribution.

4.8 WATER AND WASTE WATER

The 2015 Audit notes at Finding 13 that “Across various sectors, gaps in service quality already exist and will grow. ... noting also that “Gaps in the quality and reliability of water services in some rural towns are also evident. The 2015 Audit notes at Finding 14 that “There is a need for serious public discussion about infrastructure service levels and funding. At Finding 46 the 2015 Audit states that the “Underinvestment in the maintenance of some parts of Australia’s infrastructure networks, most notably in regional Australia, could reduce the ability of those networks to provide reasonable levels of service in the future.” Finding 46 also states that “The most significant risks are in:

- a. local roads, especially in regional and remote areas, ...;
- b. regional rail infrastructure ...; and
- c. regional town water services provided by local councils.”

We also note that Findings 74 to 81 also raise further specific issues that need to be considered.

Using the example below of how waste water services are required to be provided by local councils in South Australia, there are several key external constraints that local councils operate under that works against such councils delivering appropriate service levels and addressing the underinvestment of maintenance in this area.

4.8.1 Waste Water

Wastewater treatment in South Australia is undertaken by both the SA State Government and local government. The State Government provides full sewage collection, treatment and disposal services for metropolitan Adelaide and the major provincial cities, whilst local government is responsible for effluent and some sewage collection, treatment and disposal services for many country towns. Local government currently operates 172 separate “community wastewater management systems” (CWMS) in 45 Council areas throughout the State.

A CWMS is a system designed to collect, treat, re-use and/or dispose of primary treated effluent from septic tanks on individual properties. The collection system is a network of pipes and pumping stations which transport the effluent from the septic tanks to the treatment site.

There is social inequity in the availability (or lack of availability) of this service. Due to the economies of scale involved in constructing and maintenance of a CWMS system, it is not possible to deliver this service to people in smaller towns and communities, as cost-effectively as it can be done in larger towns.

SA Councils are prohibited from charging more for CWMS than SA Water charges to deliver equivalent sewage services in metropolitan areas. Even if this prohibition was relaxed there would be community resistance to paying more, in the country, than city residents pay for an equivalent service.

Therefore, installation of new CWMS in any additional areas requires some subsidy. Many communities have been waiting for decades for subsidies to be extended to them.

4.8.2 Water services

In terms of how urban water and waste water services are dealt with in Queensland, they are predominantly the responsibility of local governments, especially outside of

Southeast Queensland. All local governments are either registered water providers or are shareholders in statutory authorities that deliver urban water services that meet the needs of more than 300 communities. Thus, local government is directly responsible for the delivery of potable water and waste water services to all of Queensland's communities where they are provided. In Queensland, the value of these assets is estimated to be between \$15-20 billion (approximately 21.5% of total assets).

Solution

Local government would support the need for serious public discussion about infrastructure service levels and funding in the water sector that also includes consideration of the social inequity in the availability (or lack of availability) of this service.

5. CONCLUSION

ALGA welcomes the general inclusion of local government in the scope of the 2015 Audit and the opportunity to provide a submission in response to the findings and key issues and challenges of the Audit.

The maintenance and capital funding of infrastructure remains a challenge for all local 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 rural and remote councils have limited general revenue sources (such as rates) which can service debt.

ALGA's general comments in Section 2 in response to the findings and key issues and challenges of the 2015 Audit conclude with a range of strategic issues that ALGA wishes to see addressed in the upcoming 15-year Australia Infrastructure Plan, including:

- Initiatives that support integrated planning of the road network at a regional level;
- 'Gap' funding for first and last mile freight issues on a regional basis; and
- The establishment of a national road data model to support the identification of gaps in the road network

Our responses to other key issues dealt with throughout Section 4 of this submission also provide a range of suggested solutions for dealing with most of those issues. ALGA looks forward to an on-going dialogue with IA as part of the development of upcoming 15-year Australian Infrastructure Plan.