

24 July 2008



Committee Secretary  
House of Representatives Standing Committee on  
Infrastructure, Transport, Regional Development and Local Government  
PO Box 6021  
Parliament House  
CANBERRA ACT 2600

Dear Sir/Madam,

### **Inquiry into a New Regional Development Funding Program**

The Australian Local Government Association (ALGA) represents the interests of more than 560 local government authorities at the Federal level. Its membership is made up of the associations of local government in each state and territory. The ACT Government is also a member in its role as the local authority in the Australian Capital Territory.

ALGA wishes to bring to the Committee's attention the importance of ensuring that the Commonwealth continues to maintain an active regional policy role, and the need for any future regional program to be adequately funded and directed to projects that will make a tangible difference to Australia's future and Australians' wellbeing.

This submission argues that any future regional development program needs to:

- engage local government formally in any institutional arrangements; and
- focus primarily on addressing the deficiencies in local and regional community infrastructure because that infrastructure underpins the social, economic and environmental life of local and regional communities.

In focusing on community infrastructure a program should aim to:

- fund the renewal of ageing local community infrastructure that is reaching or has reached the end of its economic life; and
- Fund new infrastructure where demonstrated to be more effective in delivering on the long-term interests of local communities. Such funding should take into account full lifecycle costing.

#### Local Government in Australia

Local government in Australia is a dynamic and extremely diverse sector, consisting of more than 560 councils. These range from the Brisbane City Council (population close

to 1 million and expenditure of \$1.4 billion in 2005-06) to councils like Jerilderie Shire (population less than 2,000 people and an annual expenditure of less than \$7 million).

As a sector, local government has an annual expenditure of more than \$20 billion, which represents around 2 per cent of the national GDP. In employment terms, local government accounts for 1.3% of the Australian workforce (about 165,000 employees). More importantly, this sphere of government provides multiple essential services and infrastructure that serve as the foundation for local and regional communities. For numerous rural, regional and remote communities, local government is often the only institutional presence and one of the key drivers of economic activity.

The key benefits and strengths of local government include:

- Wide and established networks of political governance and public administration;
- Strong links and accountability to the communities it represents;
- Practical service orientation and sound organisational skills which make it capable of innovative, timely and flexible response;
- Strong links with local government and local businesses and industries that facilitate and foster opportunities for valuable 'bottom up' approaches to regional development; and
- Its role as a local information provider, to support both Commonwealth and State/Territory regional policy development and implementation.

#### Role played by local government in regional development

Local governments have a long history of participating in regional-based programs, and are active participants in regional-based organisations and committees. Over the past twenty years, councils have played an important, but ad hoc role in a variety of regional economic development organisations, including the Area Consultative Committees established by the previous Australian Government.

ALGA believes that existing and any new regional institutional arrangements should strategically and formally engage local government.

Councils can and have contributed significantly to the economic and social growth of their regions by focusing their efforts in three key strategic areas: creating and maintaining the investment environment; facilitating new local investment; and attracting external investment through the creation of new business and capital. Actions geared to creating and maintaining the investment environment in regional communities are considered to be of prime importance. If these actions are successfully implemented, investment is likely to flow both within, and outside the region.

Given the significant role played by local governments in regional development, ALGA has maintained a key interest in this policy area. ALGA is a member of the Regional Development Ministerial Council and contributes to policy debate through its annual Regional Cooperation and Development Forum, and sponsorship of the State of the Regions Annual Report.

As such, ALGA is primarily concerned that any future regional development program recognise the leadership role played by local government, and the critical role that the delivery of local community infrastructure development plays in stimulating much needed regional development activity.

## Creating and Maintaining a Conducive Investment Environment

Creating and maintaining an appropriate investment environment is a prerequisite for sustainable economic growth. All sectors have responsibility for advancing economic growth, including the local government sector, but there are substantial resource constraints faced by local government. These constraints underline the need for the three spheres of government to work in partnership to ensure local and regional economic opportunities are maximised.

Infrastructure, both hard and soft, underpins economic activity and is fundamental to an efficient and effective national economy. In this context, 'hard' infrastructure includes items as roads, water, sewerage, energy/utilities, and telecommunication networks. 'Soft' infrastructure would normally account for items such as education, health, community and recreation services and facilities.

Many of these 'soft infrastructure' services are increasingly being delivered by local and regional governments. Local governments need to be supported to facilitate and coordinate delivery of such infrastructure as well as to ensure that their own 'hard' and 'soft' infrastructure is maintained and developed to reflect best practice standards and reasonable community expectations.

### Local and Regional Community Infrastructure.

Over the past thirty years, the range of functions undertaken by local government in Australia has expanded beyond simply delivering physical infrastructure like roads and services like waste management.

Today it is increasingly common to find councils involved in the delivery of social, cultural, environmental and economic services. The Productivity Commission report *Assessing Local Government Revenue Raising Capacity* (April 2008) reflected on the changing role of local government, observing that '[t]here has been a particularly notable transition of local government roles, from being essentially providers of property-related services to increasing involvement in the provision of social services, including health and welfare services, community housing and recreation and sporting facilities' (p.17). This expansion of services and facilities being delivered by local government has arisen through a combination of internal strategic assessment, community expectations, State and Commonwealth Government inducements, and as a result of the withdrawal of services by these other spheres of government. The latter has led in many cases to 'cost shifting'.

Cost shifting is a real and serious concern to local government and the result of previous cost shifting onto local government is that local communities have sometimes been disadvantaged as a result of councils deferring capital expenditure including replacement and renewal of their local community infrastructure. Local government welcomes the development of an Intergovernmental Agreement (IGA) Establishing Principles Guiding Intergovernmental Relations on Local Government Matters which was signed by all spheres of government in 2006. This IGA seeks to prevent the negative impacts of such costing shifting onto local government by another sphere of government.

## The Case for a Local Community Infrastructure Fund

ALGA commissioned PriceWaterhouseCoopers (PwC) in 2006 to specifically investigate the financial sustainability of local government at the national level in the context of these pressures. PwC found that many councils are often forced to spend scarce resources attempting to address service and infrastructure gaps that are actually regional or state responsibilities, with the result that some existing community infrastructure in local communities has not been adequately or suitably maintained. PwC estimated that the cost of the backlog of infrastructure renewals was around \$14.5 billion per annum.

Local government currently owns and manages around \$12 billion worth of community infrastructure, much of which was constructed in the 1960s and 1970s and has now reached the end of its economic life. As a result of the PwC report, ALGA subsequently adopted in both its Strategic Plan 2007-2010 and pre-budget submissions 2007-08 and 2008-09, an approach that called for the Australian Government to establish a Local Community Infrastructure Renewals Fund (the Fund). ALGA envisaged that such a Fund would support local and regional councils in delivering more timely and quality renewal works across a range of essential community infrastructure assets. Essential community infrastructure assets are those which enhance social inclusion and wellbeing of local communities. Examples of infrastructure that could be renewed under such a Fund include community centres, aged care services, libraries, health clinics, and sport and recreation facilities such as swimming pools, children playgrounds and walking/cycling paths. All of these types of community infrastructure help bring communities closer together, enhance feelings of wellbeing and social inclusion, and contribute to communities being active and well connected.

Local government plays a vital role in fostering the wellbeing of local communities. As the sphere of government closest to the people, it is best able to identify the local needs of the communities it represents. Local government plays an important role in public health and conducts numerous activities in health protection and health promotion that positively impact on the reduction of chronic disease within communities. This is done by a combination of factors, including education about healthy lifestyles and by providing infrastructure that promotes physical activity.

Having adequate local community infrastructure to promote social inclusion and/or physical activity in local neighbourhoods is essential to achieving a range of good public policy outcomes. For example, when cycleways, parks and gardens, and pedestrian paths are maintained, they result in active communities.

In rural and regional Australia, it is not uncommon for the main community infrastructure to be a sports oval or other outdoors recreational facility. These types of assets are often the reason why a local sports team exists or does not exist. Facilities that are not maintained adequately provide little by way encouragement to local community members to socialise and be active participants. This in turn denies achievement of national outcomes, such as healthier Australians.

Accordingly, ALGA proposes that the Local Community Infrastructure Renewals Fund be around \$250 million per annum over at least four years in order for the Australian Government to make a real impact in this area.

Local Government is pleased that the Federal Government has recognised the need for a Regional and Local Community Infrastructure Program (commencing 2009-2010) in the Federal Budget 2008-09. ALGA hopes that the Program will assist local governments to renew ageing community infrastructure. Local government is keen to see this infrastructure updated, and asks that the Australian Government consult local government regarding the possible scope and extent of such a program, and its part in a broader regional development policy.

ALGA considers that any future regional development program should therefore focus funding priorities on proposals designed to enhance local community infrastructure, particularly if it can be demonstrated that it will lead to multiple benefits for the locality in question.

#### Allocating Funds under a new Local Community Infrastructure Program

ALGA does not favour adopting an application-based process for allocating funds under a new Local Community Infrastructure Renewals Fund. Adopting an allocation mechanism similar to that for the Regional Partnerships Program would result in likely delays as an appropriate application form/process was developed. Administrative costs would be relatively high (especially compared with an alternative allocation model) and the potential for political interference would continue because a government minister would remain responsible for finally approving (or rejecting) funding for each individual project.

An alternative would be to establish a set allocation (similar to the Roads to Recovery – R2R - allocation) under which each council would receive some funding which it could use to apply to eligible projects. The prioritization of the projects would be left to each council but a regular report acquitting the funding would have to be provided by each council to the Federal Minister. This style of funding has strong community support and has not been the subject of criticism implying political interference in project choice.

The funding would be distributed to councils on the basis of need (or some proxy of need).

The distribution of funding could be based either on a single stage or two stage process, depending on whether there is an initial interstate distribution and then an intrastate distribution based on relative need (along the lines of the Local Government Financial Assistance Grants - FAGs or R2R), or a single national distribution based on relative need.

A two stage process would involve an initial distribution between the states and then a distribution within a state based on relative need.

#### Interstate distribution - Illustrative Options

The interstate distribution of the funds would ideally be based on an assessment of need at the state level. This would need to draw together information on relative community infrastructure needs, perhaps based on aggregating information from State Local Government Grants Commissions although data consistency issues would need to be addressed. A less desirable option would be an interstate distribution based on population or adjusted population (such as the GST distribution).

### Intrastate distribution

In a two-stage process there would also be a challenge to get a distribution of funding which reflected the relative need within each State.

Funding distribution could be based on a model similar to R2R (if roads infrastructure could be considered a proxy for community infrastructure). This would not be a perfect or even preferred solution but would have an advantage of using a methodology known by councils and accepted by the public.

An alternative model might be to base a council-level distribution on the FAGs distribution as a whole – which reflects roads needs and general purpose needs (albeit modified by the minimum grant principle which sees 30% of the general purpose component of the FAGs distributed on the basis of population).

A preferred option would be a distribution based on a more accurate assessment of community infrastructure using Local Government Grants Commission data on community infrastructure assets (the Grants Commissions collect data to assist them with estimates of council expenditure).

ALGA notes that it would not support the general use of population as a proxy for community infrastructure need. In such a case smaller rural councils which are particularly vulnerable in terms of community infrastructure backlog would be substantially disadvantaged because of their small populations.

### A Mixed Allocation Model

A compromise between the application-based approach which applied under the Regional Partnerships Program and a set allocation to councils might be to adopt a two pools approach whereby a proportion of the funding is provided to councils under a set allocation, with the remaining proportion determined by application. Additionally, to avoid the disadvantage of an application-based approach for small councils, funds could be allocated to small population councils on the basis of a set allocation with more populous councils required to compete for some proportion of their funding through an application process.

### The Regional Partnerships Program

ALGA anticipates that individual councils and State and Territory Local Government Associations will provide their own more detailed comments on the efficiency and effectiveness of the program and make recommendations on how any future regional program may best be rolled out. ALGA, therefore, does not intend to make extensive comments on the Regional Partnership Program (RPP).

The RPP was introduced by the previous Federal Government in mid-2003. The program consolidated a number of separate regional programs which sought to stimulate economic activity at the regional level. Specific objectives of the RPP included: stimulating growth in Australia's regions by providing more opportunities for economic and social participation; improving access to services in a cost effective and

sustainable way; supporting community planning; and assisting communities to make structural adjustments.

RPP was not a local government program. Councils were among those organizations/bodies eligible to apply for funding along with companies and community organizations. Local government projects are estimated to have constituted about one-third of total projects. There were, however, possible implications for councils from many of the community-based projects which were funded by under the RPP, given that the program sometimes funded the construction of facilities on council land with councils then becoming responsible for the continuing maintenance of those facilities without ongoing funding.

RPP funding was also based on recommendations from Area Consultative Committees (ACCs). Local governments were not, as a matter of form, represented on ACCs and, in ALGA's view, this led to a less than optimal assessment of community needs under the RPP. ALGA believes that local government should be formally incorporated into any new structure which the Government establishes to provide input into the allocation funding under any new regional development program.

#### Conclusion

ALGA acknowledges that designing regional development programs can be complex. Regional development relies on multiple ingredients and the active participation of multiple stakeholders. ALGA believes, however, that a new national regional development program needs to support the role played by local government, particularly in the area of upgrading existing local and regional community infrastructure, and providing for appropriate new local community infrastructure.

ALGA therefore recommends that a key funding requirement for any future regional development program is that it allocates sufficient funding for local and regional community infrastructure renewal and maintenance.

ALGA would be happy to expand on this submission before the Committee if required.

Yours faithfully



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**Chief Executive**