

## **INQUIRY INTO LOCAL GOVERNMENT AND COST SHIFTING**

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### **Introduction**

The purpose of this submission is to outline a new funding model to achieve greater value for public monies invested into rural communities for resource management and regional development purposes through new roles and responsibilities for local governments, acting in consortia.

There is currently a significant flow of public monies into natural resource management from the Natural Heritage Trust (NHT) funds and through state agencies of natural resource management, or their agents, eg. Catchment Management Boards/authorities. While the intent of this funding process is designed to empower local communities with natural resource information and funds, the reality is that local governments, rural industries and service delivery companies are largely non-participants in the process. Consequently, opportunities to use the funding process to generate natural resources information for regional development and investment are being lost.

This situation comes about because of a lack of a *whole of government* approach to regional development and rural sustainability. Consequently, there is a lack of program integration at a *grass roots* level. While the state governments are slowly moving towards a regional planning model based on public demand for regional planning (primarily to underpin economic development and investment) there remains a disjunct between this planning intent and the processes of funding and implementing resource intelligence for regional planning.

In many respects, the current programs are not producing the fundamental data sets that drive regional development and investment. For example, most regions lack the climate, soil, salinity, hydrology, terrain, land condition, land use and infrastructure information to make proper assessments of their competitive advantage or sustainability issues.

Consequently, there is increasing disquiet among local governments, community and industry groups that the current programs of the commonwealth and state agencies to address natural resource management issues are ineffective. These programs are contributing to a decline in rural communities rather than arresting the sustainability of the communities.

### **Why is a New Approach Required?**

Numerous past studies on rural investments in Australia have highlighted the following issues:

- Local communities need to be more regionally focussed to better understand their local competitive advantage opportunities and the limitations to sustainability. This is because natural resource and infrastructure values and process do not conform to local government and catchment boundaries.
- Local communities need resource intelligence to enable them to be proactive and insistent on building competitive capability. They need comprehensive and

reliable resource information to win investor, industry and state government recognition of the infrastructure and skill needs that are building blocks for private investment.

- Intense and counterproductive competition between local governments, catchment management boards and state agencies for public funds is at the root case of major institutional and private investors being more attracted to city investments where the critical mass of infrastructure and commercial intelligence resides.
- The lack of local government and industry clustering and collaboration is stifling investor recognition of commercial advantages for investment in a region. This situation stifles the development of new innovations in rural industries and the creation of new market niche opportunities. Also, some local governments need to *play catch up* in terms of understanding and advancing regional development and sustainability. These councils need other local government partners and the support of *local champions* to sponsor their local growth and competitive advantage that they would not otherwise achieve on their own.
- The lack of political acknowledgment of the *public interest* value in resource intelligence and how such intelligence leads to both resource investment and sustainability outcomes in regional areas. Rural resource intelligence is also critical to sustaining food and water resources supplies to cities. Public investment into resource intelligence in regional areas will be significantly greater for regional areas due the sheer size of the areas and complexity of natural resource process that vary greatly in terms of climate, soils, vegetation, hydrology and terrain across these regions.

In many respects, regional growth and investment has declined in Australia because most regions do not fully understand their competitive advantage and distinctiveness that arises from a full appreciation of their unique location and natural resource values. This appreciation by local governments will not eventuate while a significant proportion of public funds for resource assessment and management are controlled and manipulated by catchment management boards and state resources agencies, that lack accountability to local communities.

### **Basis for a New Model**

Environmental Research and Information Consortium Pty Ltd (ERIC) has implemented an alternative approach to developing regional data sets of natural resource information to support both regional development and sustainability requirements. However, implementation of this approach is limited due to the lack of local government access to national and state funding sources.

This ERIC approach is based on the following premise:

- local governments have the primary legislative authority for land use planning, baseline resource mapping, decision support to resource development, resource monitoring and environmental reporting. They also manage major municipal facilities such as water supply, sewage and waste services that are critical to environmental health and sustainability concerns. Local governments are also the primary initiators of regional development and investment activities and therefore the major users of resource intelligence for planning and management.
- Rural companies and corporations are the key drivers of rural growth and prosperity. They also hold the key to rural investment, employment growth and sustainability. The ability of industry to readily access and use reliable resource

intelligence determines their investment decisions and capability to sustain resource use in a profitable and ecologically sustainable manner.

- Resource services companies provide information and solution services to local governments and rural industries and are an essential link in the integration and application of intelligence for local decision making. This can include liaison to attract enterprise investment or new funding for regional development purposes. These companies can provide a business approach to resource use and management that meets international standards for environmental management (ie. ISO14000)

The proposed approach essentially involves:

- Linking 3 or 4 local governments as a consortia or region to achieve the *economies of scale* and *critical mass* to develop cost effective data sets of biophysical information that underpins regional development and sustainability. (The ready availability of remotely sensed data from satellites and aircraft, coupled with advanced computing techniques in turning these data into resource intelligence have enabled significant efficiencies to be achieved in deriving resource intelligence over large regions)
- Partnering local governments with local companies and corporations that have a business growth and investment link to the region, to share in the project with a monetary and knowledge contribution.
- Ensuring the project is driven by outcomes linked to regional development and sustainability. That is, attracting new enterprise development opportunities to the region while ensuring all of the necessary biophysical intelligence is available to all stakeholders to achieve sustainability in resource use. This ensures a balance between environmental protection and economic growth and without compromising future resource use opportunities.
- Seeking funding contributions from local governments, industry and the regional development and natural resource management agencies of state and commonwealth governments, as appropriate. An alternative funding model is described at Attachment A. This attachment includes recommendations to change the strategic principles and practices that apply to commonwealth and state funding programs for natural resource management.

### **Priorities in Resource Intelligence Mapping to Stimulate Regional Development and Sustainability**

Local government capacity to engage in the process of regional development and natural resources management compares badly with the capacity of commonwealth and state agencies in terms of access to public interest data and funds. The critical data requirements for local governments to engage in regional development and investment are:

- Climate: Climate is the most important factor that controls rural production and productivity, and lifestyle decisions. Any resource assessment for investment or sustainability requires state layers of climate intelligence about temperature, rainfall, evaporation, frost risk, cold air drainage, etc. to determine the suitability of a site for an enterprise, or the impacts of climate on enterprises and lifestyles. These information layers are generally not available from government sources and nor are they factored into resource assessment programs by state agencies. This situation is leading to poor investment decisions and currently attributes to the failure of many rural enterprises.

- **Soil Properties:** State initiated programs to collect soil landscape data are totally inadequate for rural enterprise site selection, investment assessment and land use management decisions. The use of gamma-ray data has been demonstrated to highly cost effective in producing very reliable soil property maps that are useful for both regional and paddock level assessments. These data also provide the best opportunity to accurately produce salinity hazard and risk maps, and find new supplies of groundwater for rural development. For example, only 50% of NSW has gamma-ray coverage and most of the important economic zones lack coverage on the coastal, tablelands and the cropping areas of the western slopes. There is a need to complete this geophysical data coverage to ensure the pressures on development in these key economic areas are adequately addressed for enterprise site selection and resource protection. Also, the state should distribute these data sets to authorised services companies (at the cost of distribution) to promote regional development and sustainability
- **Infrastructure:** The current condition of public infrastructure intelligence and the ease of access to this information in Australia are very poor. These data generally describe the type and location of public and private infrastructure and are invaluable in assessing rural development or investment opportunities. There is an urgent need for the a number of state governments to release statewide infrastructure data sets to resource services companies (at a cost of distribution) for use and to provide feedback on the accuracy and gaps in these data. This initiative should include public access to state wide coverages of the contour and optical satellite data that enable resource services companies to assess a wide range of infrastructure, vegetation, hydrology, terrain and land condition attributes for farmers, local governments, and regions. It is more effective and efficient for the state government to acquire optical satellite data sets annually and distribute the data sets to authorised services companies (at the cost of distribution) to promote regional development and sustainability, then expect local governments to acquire the data.

## **Summary**

The Australian community is not getting an acceptable *return on investment* from the allocation and use of natural resource management funds through natural resources management agencies and catchment management boards. The process is overly focused on land and water control and protection, fosters duplication and wastage and is not integrated with regional development and sustainability initiatives by rural local governments and industry. The current process is contributing to rural economic decline by channelling funds into non-productive activities, and creating information that is either unreliable or unsuitable for regional development and investment decision making.

The key actions required by the commonwealth and state governments to arrest rural economic and sustainability decline are:

- Establish a regional development and investment model based on partnerships between consortia of local governments, rural companies and resource services companies to establish and use the resource intelligence necessary to underpin development and sustainability decisions.
- Provide a high priority to funding the collection and integration of climate, soil property and infrastructure information for the whole of the state. This includes the completion of geophysical data coverages by the Departments of Mineral Resources for important economic zones, particularly on the coastal strip.

- Establishing a new funding process for resource development and management funds (including the commonwealth's NHT funds). This process should be managed by the commonwealth Department of Transport and Regional Services. This also requires state governments to consolidate funds into a single regional development program that aims to support regional investment and sustainability programs.

## **ATTACHMENT A: A NEW MODEL FOR SUSTAINABILITY FUNDING**

### **Introduction**

This paper proposes that the Inquiry in Local Government and Cost Shifting examine a new model for the application of natural resource management funds (including the Natural Heritage Trust (NHT) funds)) to support regional development initiatives for sustainable land use planning, resource conservation, resource management and investment.

A major public concern is that the natural resource conservation and management programs are not linked to sustainable development objectives or outcomes, and in particular do not address rural development and investment interests. Generally, the public perceives that public monies allocated to natural resource management are ultimately accountable in terms of sustainability or rural economic development and productivity.

For example, the major source of public funds for natural resource funding is the NHT fund that during the next 5-7 years will allocate \$1.4B to a national salinity and water quality program of which the states will contribute 50%. Currently and historically, the NHT fund has directed monies through commonwealth and state agencies that in turn allocate the funds to community, groups, catchment management boards or state and commonwealth agencies.

Two key issues arise from this funding process:

1. The key organisations that are closely involved in the implementation of rural sustainability activities, ie. local governments, rural industries and the resource management services companies are generally excluded from the funding process.
2. There is a public perception that the NHT funds are not reaching the target areas where sustainability can be achieved. A recent survey by *The Farmshed Weekly* website shows that 90% of respondents believe that the salinity funds are not making it to the paddock.

It can be concluded that the current funding process is not only politically unsustainable but is failing to meet fundamental economic, industry and environmental objectives. This includes the loss of opportunities to develop and advance environmental information technologies in service s companies.

There is a case to change the focus of the natural resource programs so that they underpin local, regional development and investment policies and programs where natural resource intelligence is used by local governments and local industry to support sustainability initiatives and attract rural investment.

This requires consortia of local governments (regional groups) to lead programs of sustainable development, in partnership with local companies or corporations and resource management services companies. This is the only mechanism for achieving outcomes from mutually support expenditures from public and private sources. The state agencies involved in the regulation of natural resource use have a major conflict of interest when they control and access public funds that are aimed at sustainability and regional investment initiatives.

There is a need to focus political attention on sustainable rural communities and demonstrate that public investment into rural Australia is hitting the mark in arresting rural economic decline and a loss of resource sustainability.

### **Key Issue**

Public funds for natural resource management are not integrated with regional development and industry development programs. However, natural resource intelligence is fundamental to sustainable development and investment decisions. The current public R&D and NHT funding processes militate against government support for R&D, innovation and service delivery by private companies, and marginalises local governments that are primarily responsible for land use planning, natural resource management and sustainable development.

There is a role for commonwealth and state agencies but this should be limited to policy, regulation, monitoring and evaluation (control and quality assurance), with service delivery left to industry.

Industry development and growth in Australia (ie. wine and sport) have been successful where the industry has engaged in clustering, collaboration and innovation. Unfortunately, the natural resources management companies have been stifled in attempts to achieve an effective contribution to sustainability in rural Australia through clustering, collaboration and innovation due to competition from state agencies (in delivery of services) and lack of support from commonwealth agencies.

### **Background**

The focus for public investment into the NHT is primarily aimed at building capability within community groups to address land and water degradation. This focus does not promote international standards (ISO1400) for environmental management systems (EMS) by building regional biophysical baselines, decision support systems, monitoring and evaluation and corporate reporting processes. Also, community groups have no capacity to manage EMS or be accountable for EMS outcomes.

State agencies largely control the use of the funds through the specification of the NHT bids and subsequent tenders for work. Control is also exercised through catchment management boards that are essentially extension service agents of the state agencies, and the formation of commercial arms of the agencies that bid for the NHT funds. The imposition of catchment management boards between state agencies and local governments has been a total failure as the Boards have no capacity to implement sustainability initiatives, without the skills and knowledge services of local governments and services companies. Also, the Boards are primarily concerned with resource conservation values and give little attention to resource development and investment values.

Public R&D funds that support environmental services are monopolised by the public agencies that use a *revolving door* process to access public funds from other R&D agencies (eg. Land and Water Australia) to meet cost recovery quotas. This closed-door process promotes only public agency solutions to AHT funds projects and disregards innovation within industry. In many cases, new public R&D products or services promoted by government agencies have not been subject to independent validation assessment by industry, or evaluated in terms of cost benefit compared with innovations within industry.

All of the above situations militate against the interests of local government roles in sustainable land use planning and stifles the capability of land and water or environmental management companies to deliver innovative services to rural Australia.

There is considerable evidence of collusion; market sharing and bid rigging among commonwealth and state agencies that aim to maximise agency access to the R&D and NHT funds. While the National Competition Policy, the Commonwealth Government's Industry Policy 2000 and the Industry Action Agenda's for the Environment and Spatial Information Industries were supposed to promote industry innovation and export, economic growth and environmental sustainability; these elements of commonwealth policy are not central to public R&D and the NHT funding processes.

### **Case Study on Salinity Funding**

Environmental Research and Information Consortium Pty Ltd (ERIC) claims that soil and salinity mapping research undertaken by the company over the past 10 years has demonstrated that the modelled results from government agencies for salinity risk do not represent reality.

The major issue confronting salinity is the classic battle between the modelled results and reality. ERIC believes that the classic model of *rising groundwater* causing salinity is flawed. ERIC's salinity mapping results demonstrate that increased salinity is due primarily to soil degradation. Degraded soils decrease water percolation and increase the mobilisation of salt that moves laterally through preferred pathways of geological fractures and prior streams. Poor enterprise site selection and land management practices have caused a loss of soil organic matter and this is a major factor in soil structure decline.

In this respect the National Land and Water Resources Audit estimates of salinity (in the sample areas reviewed by ERIC) are grossly exaggerated. Yet the Commonwealth is proposing salinity modelling technologies and management solutions that have not been independently validated by industry or demonstrated to produce reliable salinity hazard or risk maps. Consequently, the salinity strategies promoted by Commonwealth and State agencies will not only mislead industry and rural investment but promote solutions that will have no consequence for salinity management, land use planning, regional development and investment.

There is increasing evidence that national tree planting programs to reduce groundwater accession and engineering works that pump saline water to the surface are not having any appreciable effect on salinity. Also, agricultural production and productivity has increased significantly over the past 40 years with little evidence that salinity is impacting on agricultural growth. Public concerns for salinity are also waning due to the negative and singular focus on land and water control that stifles regional development.

Unfortunately, the belief systems that evolve from the *rising groundwater model* are controlled through a plethora of Commonwealth and State agencies, including catchment management boards and authorities. The National Salinity and Water Quality programs have become a vehicle for the commercial arms of State agencies to siphon Commonwealth funds. Increasingly, these funds are being used by the States



for land and water regulation activities and less for activities that underpin sustainable development initiatives, such as better enterprise site assessment, land condition monitoring and environmental reporting by local governments.

Australian companies with leading edge innovation in resource mapping and management have been sidelined in the salinity funding programs, along with local governments. The state government's approach to address salinity and water quality issues has been to control consultancy arrangements that will see most of the work go to the commercial arms of state government agencies or multi-national companies. Also, the consultancy conditions prescribe technologies and methodologies that preclude any new innovations in industry that don't match the belief systems of the agencies. Of most concern for rural Australia is a government approach to subjectively modelling salinity rather than use objective mapping techniques that are available within industry.

ERIC believes that the answer to salinity is to address it as part of an alternative and integrated national program of sustainable development that is based on partnerships between consortia of local government, community groups and industry. Rural communities need a strong economic base to support sustainable development initiatives. Local governments must be given the resources and leadership position to attract investments that lead to economic growth through good land use planning and management. The management of soil biota and organic matter to sustain soil structure is critical to salinity management. This includes the recycling of organic matter from urban and other production or processing systems back into farming systems. In effect, salinity management requires soil management programs, not groundwater management programs.

In addition, it is more likely that local governments will use industry innovations, promote sustainable development of rural industries, and ensure access to the *stock of common good* public data, information and knowledge for local land users.

Australian companies are demonstrating a high level of capability in environmental R&D, innovation and delivery of environmental services. However, it is unacceptable that local government and private companies should be excluded from active involvement in the delivery of environmental R&D and NHT funds projects due to flaws in the implementation of funding models for public R&D and NHT fund.

## **Solutions**

Actions and models to provide a more effective process include:

- The commonwealth government acceptance of the Productivity Commission recommendations to eliminate cost recovery by government agencies where they create non-neutral competition and stifle industry access to public funds that would otherwise support industry R&D, innovation and export.
- The commonwealth government, through the new commonwealth Natural Resource Management Ministerial Council propose a new funding model that allocates all NHT funds to a consortia (region) of local governments under a new government program of natural resource management. This arrangement would be similar to the current commonwealth model of directly allocating transport infrastructure funding to local governments.
- Control natural resource management (including NHT) funding through regional development initiatives or programs. That is, funds would be allocated to

consortia of local governments that have partnership arrangements in place with community groups, rural industry producers and service providers. The current linkage of natural resources management funds to agriculture, land and water and environment agencies is narrowly focussed and works against industry, regional development or other rural economic needs.

- Subject all public R&D and NHT funds to public tender and conditions that support initiatives in the National Competition Policy, industry and regional development policies.