



**INTERIM SUBMISSION**

**House of Representatives Standing Committee on Infrastructure,  
Transport, Regional Development and Local Government**

**INQUIRY INTO A NEW REGIONAL DEVELOPMENT  
FUNDING PROGRAM**

**JULY 2008**

*Western Australian Local Government Association  
15 Altona Street WEST PERTH WA 6005  
PO Box 1544 WEST PERTH WA 6872  
Tel: +61-8-9321 5055  
Fax: +61-8-9322 2611  
[info@walga.asn.au](mailto:info@walga.asn.au)*

*Contact: Ian Duncan, Economist  
Tel: +61-8-9321 2040  
[iduncan@walga.asn.au](mailto:iduncan@walga.asn.au)*



## EXECUTIVE SUMMARY

Provision of community infrastructure and facilitating regional economic development have become core activities of Local Governments through the direct investment of their own resources and the development of partnerships with investors from the public and private sectors.

The Federal Government has important roles and responsibilities in economic and community infrastructure development.

In formulating policy and arrangements to invest funding in regional economic development and community infrastructure the Western Australian Local Government Association (WALGA) requests that the Standing Committee on Infrastructure, Transport, Regional Development and Local Government consider the following recommendations that:

1. The Standing Committee on Infrastructure, Transport, Regional Development and Local Government convene hearings in Western Australia to provide Local Governments and communities the opportunity to directly contribute to the development of new regional development funding programs based on their understanding of their unique circumstances and practical experience in working with the previous funding programs.
2. The size and boundaries of the previous Area Consultative Committees (which generally align with State Regional Development Commission areas) be broadly maintained in the formation of Regional Development Australia Committees; with minor changes to optimise their alignment with communities of interest, cognisant of existing groupings of Voluntary Regional Organisation of Councils.
3. Local Governments representatives are included in the membership of the Regional Development Australia local committees and are supported in meeting their obligations to provide communication back to Councils.
4. Voluntary Regional Organisation of Councils and Local Governments are included among the key stakeholders that need to be engaged in the process of identifying priorities for community infrastructure and economic development strategies in each region.
5. “Community infrastructure” and “regional development” (which includes economic and social development) are clearly defined and the costs and benefits of separate programs targeting community infrastructure and regional development are evaluated.
6. Successful funding proposals to be clearly identified as regional (or local) priorities in a Strategic Plan, Plan for the Future or similar document and be supported by a business case, including a cost-benefit analysis where appropriate.

7. The new program allows proponents to apply for funding for feasibility studies and investigations to develop projects that are community priorities.
8. Proposals to fund community infrastructure should include a business plan clearly illustrating the sustainability of the investment including operation, maintenance and renewal funding.
9. That the rationale for project assessment decisions at both regional and national level is documented and made available (with appropriate confidentiality considerations) to the public.
10. The RDA's will support proponents establish projects including the development of tailored milestones and payment schedules.
11. The Department of Infrastructure, Transport, Regional Development and Local Government tailor the information requirements, assessment process and project monitoring to project size and risk. In terms of size project could be grouped according to the quantum of funding sought:
  - < \$25,000
  - \$25,000 - \$250,000
  - \$250,000 - \$1,000,000
  - > \$1,000,000
12. Performance standards for assessment of project applications be established and adhered to, with potentially different timeframes being applied to projects of varying size and complexity. For the majority of proposals assessment and communication of outcomes should be completed within 12 weeks.
13. A contact person for the Department is appointed at the time of receipt of the project and all communication be channelled to and through this person (or their alternate).
14. Local governments are directly involved in the administration of programs targeted specifically at delivering improved community infrastructure.
15. A tailored approach to payment milestones is developed according to the demands of the project, recognising the financial capacity of the proponent.
16. Flexibility is provided within the program design to enable budget appropriations to be carried forward where delays in project implementation result in funds not being expended within the expected timeframes.
17. For projects exceeding a pre-determined size and complexity an authorised officer of the administering department (or RDA) is appointed in an alliance capacity to the team charged with delivering the project. This officer would be familiar with the project, issues arising and authorised to act on behalf of the Department to negotiate optimal outcomes and record the reasons and rationale for decisions made.

## **ABOUT WALGA**

The Western Australian Local Government Association (WALGA) is the united voice of Local Government in Western Australia. The Association is an independent, membership-based group representing and supporting the work and interests of all 142 Local Governments in Western Australia.

The Association provides an essential voice for almost 1,400 elected members and over 12,000 employees of the Local Governments in Western Australia and Christmas Island and Cocos (Keeling) Island Councils. The Association also provides professional advice and offers services that deliver financial benefits to the Local Governments and the communities they serve.

WALGA welcomes this inquiry into a new Regional Development Funding Program. This interim submission will be considered by the WALGA State Council at the next opportunity. Individual local governments and Voluntary Regional Organisations of Councils have been encouraged to provide their own submissions, particularly as this allows them to highlight their specific perspective and draw on their experience in working with the previous programs in both seeking funding support and managing projects and government reporting requirements.

This submission provides a range of recommendations for consideration in the development of new regional development funding programs. WALGA looks forward to the opportunity of further consultation and discussions on this matter and would particularly encourage the Committee to conduct hearings in Western Australia to provide Local Governments the opportunity to present and discuss opportunities to ensure that Commonwealth Government support for regional development delivers the best possible outcomes for all Australians.

### ***Recommendation***

**1. That the Standing Committee on Infrastructure, Transport, Regional Development and Local Government convene hearings in Western Australia to provide Local Governments and communities the opportunity to directly contribute to the development of new regional development funding programs based on their understanding of their unique circumstances and practical experience in working with the previous funding programs.**

## **BACKGROUND**

The Regional Partnerships Program was introduced by the Australian Government in mid-2003 to consolidate a number of existing programs and facilitate a wide range of groups to apply for funding support. The stated intent was that the program would support the development of self-reliant communities.

In Western Australia at least 225 projects have received funding totalling more than \$49.5 million since the program was introduced. Local Governments were the funding recipients in approximately 48% of these approved projects and received over 54% of the funding approved. Local Governments are also a participant in many of the projects

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developed and managed by incorporated community groups, which accounted for a further 35% of projects approved.

The total amount of funding provided under the Regional Partnerships Program equates to approximately 5% of the value of Untied Equalisation Funding to Local Governments in Western Australia, or about 3% of total Federal Funding to Local Governments in Western Australia. Nevertheless, for individual regions who were able to implement major projects with the support of funding from the Regional Partnerships Program, this funding was very important.

The Regional Partnerships Program was facilitated through and funded the Area Consultative Committees (ACC's). The ACC's are non-profit, community-based organisations that seek to address local problems through building networks and partnerships as well as provide information and facilitate access to a wide range of Australian Government funded programs. The membership of the ACC is drawn from the community, local business and government representatives.

The Australian Parliament House of Representatives has initiated this Inquiry into a New Regional Development Funding Program. The Terms of Reference require the Committee to report on the Australian National Audit Office's Performance Audit of the Regional Partnerships Program and make recommendation on ways to invest funding in genuine regional economic development and community infrastructure with the aim of enhancing the sustainability and liveability of Australia's regions.

The Committee's report is to:

1. Provide advice on future funding of regional programs in order to invest in genuine and accountable community infrastructure projects;
2. Examine ways to minimise administrative costs and duplication for taxpayers;
3. Examine the former government's practices and grants outlined in the Australian National Audit Office report on Regional Partnerships with the aim of providing advice on future funding of regional programs; and
4. Examine the former government's practices and grants in the Regional Partnerships Program after the audit period of 2003-2006 with the aim of providing advice on future funding of regional programs.

## **POLICY CONTEXT**

At the broadest level the goal of the Regional Partnerships Program was designed to stimulate economic activity at the regional level. Thus its objectives were related to regional economic development, which is not a consistently defined concept but in some way seeks to bring together financial, social, human, natural, built and institutional capital in order to better provide for the needs of sustainable communities.

Fluctuations in economic growth and development are observed in both space and time in every country. Some of the differences in economic performance of regions are the result of, or at least exacerbated by, government policy at a Federal or State level. In some situations these differences are at least partly the result of market failure.

Consequently governments typically intervene through various policy measures to address these failures.

The Regional Partnership Program was designed to fund projects that help communities<sup>1</sup>:

- Provide opportunities for economic and social participation;
- Improve access to services;
- Plan their futures; and
- Make structural adjustments.

The objectives of the program were to:

- Stimulate growth in regions, by providing more opportunities for economic and social participation;
- Improve access to services in a cost effective and sustainable way (particularly for small or disadvantaged communities);
- Support community planning; and
- Help communities make structural adjustments.

In 2006/07 there was particular focus on;

- Economic growth and skill development;
- Indigenous communities; and
- Youth.

From the Terms of Reference for this Inquiry it is not clear whether the scope is intended to cover the recently announced Regional and Community Infrastructure Program, the Better Regions Program, other yet to be announced programs, or some combination of these. The optimal administrative arrangements and guidelines for future regional funding programs depend on the purpose of the funding as well as the quantum of funding to be managed through the program.

## **LOCAL GOVERNMENTS AND REGIONAL DEVELOPMENT**

Local Governments have a large and growing role in fostering economic development within their jurisdiction<sup>2</sup>. Local Government has an implicit charter to serve local communities, which includes building the capacity required to help its community to adjust to economic dislocations and disturbances and to identify and capitalise on opportunities for growth and development as they arise. Local Government is a key player in its local (and regional) economy in a number of ways:

- it spends money on development infrastructure that facilitates business and community activity and sustains environmental quality including roads, sports grounds, libraries, swimming pools and public parks;
- it provides important community services that support economic activity and promote the health and well-being of the local population such as recreation services, child care and aged care. These assist in social cohesion and the development of local identity;

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<sup>1</sup> Regional Partnerships Guidelines. Department of Transport and Regional Services. July 2006

<sup>2</sup> Facilitating Regional Economic Development. Local Government Perceptions and what it can do. S Lennon and W O'Neill 2003.

- it is an effective partner in the early stages of project development through its role in development approvals (e.g. planning, building and health); and
- it is often the point of contact for local businesses and the community in relation to day-to-day concerns that affect the immediate environment for business production and quality of life (e.g. local land use conflicts and their resolution, lobbying other spheres of government for attention to problems outside the Council's responsibility).

Successful economic development depends on high quality leadership. In many instances this leadership will be drawn from local business and community leaders, many of whom are actively involved in Local Government.

In the context of both economic development and the Regional Partnerships Program, the term "regional" is misunderstood by some to refer to geographic areas distant from the capital cities of each State. "Region" applies as much to a part of the metropolitan area as it does to a remote community. However, in reality under the previous program 75% of the funding approved in Western Australia was outside the Perth metropolitan area. It has thus provided a significant capital injection to community infrastructure and economic activity in rural and remote areas over the life of the program.

The recent Productivity Commission study into *Local Government Revenue Raising Capacity*<sup>3</sup> highlighted that local governments in rural and remote areas rely more heavily on their ratepayers for funding than do urban local governments, and there is less capacity to pay in for essential community infrastructure in those areas.

However, some metropolitan regional areas are clearly disadvantaged as can be seen by a range of measures of socio-economic performance and Federal Government support is essential to achieve delivery of community infrastructure, economic and social development in these regions. Similarly high growth regions both in metropolitan areas and "sea-change"/ "tree-change" communities also have high demands for community and social infrastructure that is often difficult to fund.

While Local Governments have taken a lead role in economic and social development of their jurisdictions, it can be argued that this is local rather than regional in scope. When dealing with issues at a regional scale, local governments in Western Australia typically operate within the framework of Voluntary Regional Organisation of Councils (VROC's) or similar groupings such as Regional Road Groups which are responsible for the management of some road funding program allocations at a regional level. To operate most effectively, ACC's need to continue to develop relationships with the VROC's and Local Governments as well as the State Government Development Commissions to create a co-operative view, rather than a competitive one.

### ***Recommendations***

**2. That the size and boundaries of the previous Area Consultative Committees (which generally align with State Regional Development Commission areas) is broadly maintained in the formation of Regional Development Australia**

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<sup>3</sup> Productivity Commission, April 2008



**Committees; with minor changes to optimise their alignment with communities of interest, cognisant of existing groupings of Voluntary Regional Organisation of Councils.**

**3. That Local Governments representatives are included in the membership of the Regional Development Australia local committees and are supported in meeting their obligations to provide communication back to Councils.**

**4. That Voluntary Regional Organisation of Councils and Local Governments are included among the key stakeholders that need to be engaged in the process of identifying priorities for community infrastructure and economic development strategies in each region.**

## **INVESTMENT CRITERIA AND GUIDELINES**

The guidelines for the previous Regional Partnerships Program were broad and to some extent reflected both the wide ranging objectives of the program and its evolution over time. For future programs it will be necessary to clearly define “community infrastructure” and “regional development”, which includes economic and social development. The eligibility of (rural) medical infrastructure for funding under the new program needs to be considered, particularly given the demonstrated benefits of co-location of a variety of community service providers.

In order to ensure that funds are invested wisely for maximum community benefit, the new program(s) must retain opportunity to apply for funding for investigations and feasibility studies, which are critical prior to developing proposals for a major community infrastructure project or other programs.

It is strongly recommended that all proposals are clearly identified as a regional or local priority in an Activities Plan, Plan for the Future. Each proposal should be supported by a business case, including a cost-benefit analysis and clearly illustrate the sustainability of the investment including operation, maintenance and renewal funding. There are examples of infrastructure being provided to communities, by public and private sector investment, that the community is unable to sustain operation and maintenance costs.

### ***Recommendations***

**5. That the Government clearly define the terms “community infrastructure” and “regional development” (which includes economic and social development) and that the costs and benefits of separate programs targeting community infrastructure and regional development be evaluated.**

**6. That successful funding proposals to be clearly identified as regional (or local) priorities in a Strategic Plan, Plan for the Future or similar document and be supported by a business case, including a cost-benefit analysis where appropriate.**

**7. That the new program allows proponents to apply for funding for feasibility studies and investigations to develop projects that are community priorities.**

Capital costs are typically a small component of the total cost of community infrastructure over its lifetime. Consequently it is important to ensure that the total costs of operation, maintenance and renewal are reasonably forecast and understood as part of the process of developing the project and assessing its viability. This will require the business case for the project to be extended over at least ten years to demonstrate that the project is sustainable.

***Recommendation***

**8. That proposals to fund community infrastructure should include a business plan clearly illustrating the sustainability of the investment including operation, maintenance and renewal funding.**

## **FUNDING APPLICATIONS AND ASSESSMENT**

The processes associated with applying for Federal Government funding has the potential to be an inefficient use of Local Government (ratepayer) resources if the requirements are unclear, or the program is underfunded such that even high quality and highly valuable projects have little chance of success due to the intensity of competition between projects. The short-form application used by some ACC's serves as a useful and less resource intensive mechanism to capture key details of a potential project for consideration at the regional level so that detailed work is completed on a smaller number of projects that have a high probability of success. However, some Local Governments have expressed frustration with problematic software used for the application process.

The previous Regional Partnership Program provided little feedback or guidance to proponents concerning the process and assessments of projects made at a regional level by the ACC's or by the Department in Canberra. A narrow range of generic feedback comments are unhelpful. However, an accessible analysis of projects funded (and declined funding) and the reasons for those decisions provide both transparency of the decision making process and powerful information for project proponents to use in developing project concepts.

***Recommendation***

**9. That the rationale for project assessment decisions at both regional and national level is documented and made available (with appropriate confidentiality considerations) to the public.**

The advice provided by ACC staff to project proponents is highly valued and contributes to the development of stronger projects and proposals. New arrangements through RDA need to provide a mechanism to support project proponents and facilitate linkages between the three spheres of government, industry and community stakeholders.

***Recommendation***

**10. That the RDA's to support proponents establish projects including the development of tailored milestones and payment schedules.**

The previous application and assessment process provided a truncated application and assessment process for project seeking funding of \$25,000 or less. Additional information was required for projects seeking funding of more than \$250,000. Increasing requirements in both information provision and assessment processes in line with the quantum of grant funding sought is considered appropriate. Given the wide range in size of funding applications, in order to focus resources on those projects with the highest risks it is recommended that an additional project size range be included, with a threshold of \$1 million. Projects seeking more than \$1 million in Federal Government funding would require additional analysis and support in project implementation.

***Recommendation***

**11. That the information requirements, assessment process and project monitoring be tailored to project size and risk. In terms of size project could be grouped according to the quantum of funding sought:**

- < \$25,000
- \$25,000 - \$250,000
- \$250,000 - \$1,000,000
- > \$1,000,000

The data provided in the ANAO Audit Report<sup>4</sup> demonstrates that in broad terms the time taken for assessment and decisions is of the order of 20 weeks. Given that non-residential construction costs are increasing at approximately 1% per month, and have been increasing at higher rates than this in previous years, it is not surprising that significant cost increases relative to budgets have been noted. Retaining the availability of funding from other project participants may also be difficult if the assessment period is long. From the perspective of project proponents both a long assessment period, and the variability of time taken to complete assessments makes the process difficult.

***Recommendation***

**12. That performance standards for assessment of project applications be established, with potentially different timeframes being applied to projects of varying size and complexity. For the majority of proposals assessment and communication of outcomes should be completed within 12 weeks.**

**13. That a contact person for the Department is appointed at the time of receipt of the project and all communication channelled to and through this person (or their alternate).**

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<sup>4</sup> Australian National Audit Office, 2007, Vol 1: Summary and Recommendations, p52

## **PROJECT DELIVERY AND PROGRAM ADMINISTRATION**

The most efficient administrative arrangements will depend on the objectives of the program. If the express purpose is increasing the availability and quality of community infrastructure, as implied for the Regional and Local Community Infrastructure Fund, then there is likely to be significant benefits from direct inclusion of Local Governments (and / or Voluntary Regional Organisations of Councils); and potentially State Government departments in delivery of the program. The current Roads to Recovery Program delivers substantial funding to locally managed capital projects with very low administrative costs. The Roads to Recovery program provides certainty of funding into the future, to enable Local Governments to plan required supporting expenditure, local autonomy in decision-making and relatively streamlined, accountable reporting from the funding recipient to the Federal Government.

### ***Recommendation***

**14. That Local governments are directly involved in the administration of programs targeted specifically at delivering improved community infrastructure.**

The timing of payments under previous programs has been problematic for some proponents who must meet initial funding requirements while awaiting first payments from the Commonwealth. There is an opportunity to improve the deliverability of the program through a more flexible approach to payment milestones.

### ***Recommendation***

**15. That a tailored approach to payment milestones is developed according to the demands of the project, recognising the financial capacity of the proponent.**

The report prepared by the Australian National Audit Office<sup>5</sup> (ANAO) commented critically on the fact that over its first three years the Regional Partnership Program expenditure was around 20% below the Budget allocation. Such under-spending reflected the Program's continuous approval arrangements, reliance on ministerial approvals and short-term project focus. However, while under-spending has financial management issues for the government, this analysis does not consider the reality of the environment in which the Program has operated particularly the lack of capacity in the non-residential construction industry in Western Australia which has made implementation of projects within agreed timetables impossible in some cases.

The arrangements governing previous programs did not adequately recognise the reality of State and Local Government funding cycles. Other spheres of government are not able to budget expenditure for major projects in anticipation that funding will be received from the Commonwealth Government.

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<sup>5</sup> Australian National Audit Office, 2007, Vol 1: Summary and Recommendations, 24

Furthermore, the program requires proponents to finalise funding with a wide range of providers who often have similar requirements. From an administrative perspective the Department cannot over-allocate the Budget appropriation on the assumption that historically a certain percentage of projects will not adhere to their timetables. Thus the under-expenditure should not be regarded as a negative and the new arrangements need to be designed with sufficient flexibility in budget appropriations to recognise the reality of delivering these types of projects.

### ***Recommendation***

**16. That programs be designed with flexibility to enable budget appropriations to be carried forward where delays in project implementation result in funds not being expended within the expected timeframes.**

Communication between all parties and improved outcomes are likely to result from a partnership contracting approach (alliance contract), in preference to a funder – provider model. A partnership approach requires on-going dialogue and flexibility to changes and the empowerment of authorised officers to amend agreements within defined bounds.

The notional centralisation of all decision-making authority with the Minister or a Council of Ministers generally creates a more adversarial relationship with the project proponent applying to the Department for any changes in funding, activities, timing etc. In this case the Department, as representative of the Australian taxpayer largely seeks to make decisions based on the (at times) limited information that the proponent makes available.

### ***Recommendation***

**17. That for projects exceeding a pre-determined size and complexity an authorised officer of the administering department (or RDA) is appointed in an alliance capacity to the team charged with delivering the project. This officer would be familiar with the project, issues arising and authorised to act on behalf of the Department to negotiate optimal outcomes and record the reasons and rationale for decisions made.**

## **LESSONS LEARNED**

In learning from the successes and failures of previous programs it is important to distinguish between individual cases where politicians have taken decisions and then allocated responsibility to deliver against those commitments to the Regional Partnerships Program, from systematic limitations to the structure and / or administration of the program.

Despite interpretation in some sectors that the ANAO report was highly critical of political interference, this case was not made strongly in the report. From the evidence presented, the Ministerial decision varied from the Departmental recommendation on less than 4% of decisions. Given a degree of subjectivity in the assessment of all proposals for funding, this level of disagreement is not surprising despite the implication of other motivations.

Ideally the process for assessing applications should be free from all political intervention, a position supported by a number of previous government inquiries. At the very least, the rationale for all decisions, favourable and unfavourable, must be made public regardless of who the decision maker is.