4

Infrastructure

4.1 This Chapter discusses one of the major effects of cost shifting – the declining state of the infrastructure of the nation.

4.2 It is clear from Chapter 3 that cost shifting by State governments has been a major cause of the increasing financial concerns of local government and neglect of asset maintenance. Also, State-imposed restrictions on council revenue are burdening local councils particularly in the case of the huge distortions created by rate capping in NSW. This situation is not new and has been building for many years under successive governments.

4.3 In many instances the cost of a service is shifted from a State government onto local government without any corresponding transfer of income to provide the service. WALGA claimed that the result of cost shifting on local government finance over many years has put pressures on the ability to maintain and replace assets at appropriate levels.[1]

4.4 The Committee recognises that there have been instances of unwise investment in infrastructure in order to meet community preferences which have put a council's future at a financial disadvantage. For example, a council must make decisions on whether to build and maintain up to six swimming pools within easy driving distance from its constituents, or to maintain other essential infrastructure such as roads.

1 WALGA, Submission No. 310, p. 4.

4.5 Elected representatives in local government should be accountable for the longer term consequences of how they spend their money. Councils must manage their public assets adequately for the long term advantage and health of its community and the nation at large.

4.6 To overcome additional costs, local government has tended to decrease funding of infrastructure maintenance and replacement. For example, in the year 2001/02, Maroondah City Council diverted $4.66 million from service programs and infrastructure works to cover the costs of extra responsibilities handed over by the State government.[2]

4.7 Also, Stonnington City Council in 1997 had $22 million available for capital renewal whilst the 2003 amount is budgeted at only $18 million. According to Stonnington City Council, the reduction of $4 million could be directly related to this council's estimation of a cost shift of $4.4 million. In other words, the impact of cost shifting upon Stonnington has been a reduction in new capital works, asset sales and a reduction in services in some non core areas.[3]

4.8 Hearings and submissions have revealed that infrastructure has been allowed to run down because local government has had to replace the funds withdrawn by the States, often with little or no notice, on social, health, recreational and cultural programs.

4.9 Increasingly, Federal FAGs to local government have been used to fund these services rather than local infrastructure. In the case of Diamantina Shire Council in remote Queensland, all of its FAGs money was used on state government roads by having to match state government funding dollar for dollar, despite the Council having over 1100 km of local government roads to look after.[4]

Local government's role in infrastructure

4.10 Local government plans, develops and maintains key infrastructure for its communities. It provides and maintains infrastructure such as local roads, bridges, footpaths, water and sewerage (in Queensland, Tasmania and regional New South Wales), drainage, waste disposal and public buildings.

2 Maroondah City Council, Submission No. 88, p. 1.

3 Stonnington City Council, Submission No. 238, p. 10

4 Diamantina Shire Council, Official Hansard, 12 March 2003, Longreach, p. 623.

4.11 Of the nation's 810,000 km of public roads, almost 640,000 km (80%) are local roads. The Australian Bureau of Statistics estimates that at June 2001, local government owned land and fixed assets worth $147 billion. Land is worth about $41 billion and buildings, other construction infrastructure, and plant and equipment are worth $106 billion. Other construction infrastructure, which includes local roads, are worth $90.7 billion.[5]

4.12 Local government's capacity to fund infrastructure is constrained by its general revenue raising capacity. As the Committee identified in Chapters 2 and 3, a number of factors have contributed to downgrading the maintenance of local infrastructure, including:

- pressure to broaden the range of local government services;
- unfunded mandates from State and Federal governments; and
- revenue raising restrictions imposed by State governments.

4.13 **There has also been some evidence received pointing to State governments reclassifying roads from their status as State controlled roads to a lesser status, resulting in a lessening of the State government's burden towards the upkeep, maintenance and care of the roads. In other words, costs have been directly transferred to local government.** Examples are in Appendix C.

The extent of infrastructure needs

4.14 The Committee heard that there is a significant infrastructure renewal gap across the country and asset standards are decreasing.

4.15 Burnie City Council referred to the infrastructure in many areas as being in a parlous condition and likely to contribute to councils becoming unsustainable.[6] Strathbogie Shire Council stated it would require an increase in rates of 60% to address its infrastructure renewal gap.[7] The Victorian group of CEOs estimated that for the infrastructure maintenance and renewal gap is to be bridged, it would require more than doubling of the current FAGs from $1.45 billion to $3 billion.[8]

4.16 Research has been carried out in some States on the extent of the infrastructure gap.

5 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, pp. 62 & 68.

6 Burnie City Council, Submission No. 361, p. 2.

7 Strathbogie Shire Council, Official Hansard, 19 February 2003, Box Hill, p. 547.

8 The Victorian group of CEOs, Submission No. 357, pp. 5-6.

4.17 In Victoria, a report of the Victorian Auditor-General in June 2002 found that over the previous five years renewal spending on local roads was deficient by between $1.4 billion and $2.75 billion. [9]

4.18 In NSW, an analysis of 2001–02 council annual reports by the Department of Local Government showed councils needed to spend $579 million a year on infrastructure maintenance but are spending only $423 million a year, leaving an annual shortfall of $156 million a year. [10]

4.19 In SA, an independent study of council infrastructure, *A Wealth of Opportunities*, estimated that South Australian councils are under funding infrastructure renewal by $95 million per annum.[11]

4.20 In WA, councils provide statistical data each year to WALGA for publication in its *Local Government Road Assets and Expenditure Report*. The 2000–01 assets and expenditure report stated that councils should be spending $293.1 million a year on road preservation, but are spending $231.8 million, leaving a deficit of $61.3 million.[12]

4.21 Two estimates of the funding needs for local roads identified by DOTARS were:

- ALGA in its submission to the Federal Road Funding Inquiry in 1997 argued that there was a gap between local road needs and local road expenditure by councils of about $1 billion per annum. However, if Roads to Recovery funding, State direct spending on local roads, and the increase in FAGs for local roads is taken into account, the gap would now be closer to $490 million per annum; and
- using a different methodology and more up to date information, DOTARS identified an annual local road deficit of about $630 million and put the value of local roads at about $75 billion. The deficit was derived by extrapolating from local road deficits identified in recent State reports in Western Australia, Victoria, New South Wales and South Australia by local road length to estimate a deficit for Australia.[13]

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9 MAV, Submission No. 294, p. 3.

10 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 66.

11 LGASA, Submission No. 223, p. 4.

12 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 67.

13 DOTARS, Submission No. 387, p. 6.

An infrastructure study

4.22 In its discussion paper released in February 2003, the Committee sought responses to the option to conduct a national study into local infrastructure needs and funding. This task would require a commitment to participate on the part of all jurisdictions to ensure the achievement of desired outcomes.

4.23 Many respondents to the questionnaire supported this option. For example, the MAV welcomed 'a realistic and positive contribution from the Federal government addressing national infrastructure needs, including funding programs to address the infrastructure gap.[14]

4.24 However, many councils claimed that while there would be advantage in filling the knowledge gap in infrastructure deficit, the bigger issue is to address funding the problem. Councils claimed that funds for infrastructure maintenance and renewal are required urgently. Also, councils claimed that much of the information is already available in annual reports and other studies. For example, LGASA questioned whether an additional study is required when a national study would not be significantly different in character to those of SA and Victoria where detailed studies have already been conducted.[15]

4.25 ALGA referred to a national infrastructure study as being useful but suggested that, rather than another study, a more productive way forward might be to make effective linkages between local government and other specific infrastructure work, through for example, AusLink.[16]

4.26 If a national study were to be undertaken, the LGGCs stated that they did not have the expertise or the resources to undertake 'such an enormous project'. The NSW LGGC considered it more appropriate for government agencies with specific technical and engineering expertise to assess the state of infrastructure.[17] However, the NT LGGC stated it would be amenable to facilitating the specific technical and engineering expertise required for this purpose provided proper roles and guidelines can be developed and funding sources identified.[18]

14 MAV, Submission No. 384, p. 9.

15 LGASA, Response to Questionnaire No. 120, pp. 5-6.

16 ALGA, Submission No. 352, p. 3.

17 NSW LGGC, Correspondence received 17 July 2003, p. 3.

18 NT LGGC, Correspondence received 18 July 2003, p. 3.

4.27 The President of LGAT stated that when considering infrastructure needs in a national study, it is important to remember in some areas, sea or air links are more critical than road and rail links.[19]

4.28 Victorian local government has developed the Step Asset Management Program which provides a systemic approach to understanding the range of asset holdings in Victoria and provides an ongoing source of information on managing those assets. The methodology used in the Step Program could form the basis of an audit of the state of the nation’s infrastructure.

Recommendation 9

4.29 **The Committee recommends that local government bodies be required to audit the state of their infrastructure (using a nationally accepted methodology) and provide status reports to the Commonwealth Grants Commission as one of the inputs into the needs based formula for Federal FAGs to local government.**

- **The infrastructure data collected should be used to adjust FAGs where councils are found to be negligent in managing infrastructure.**

Roads funding

4.30 DOTARS estimated that total spending by all levels of government on local roads was about $3.3 billion per annum.

4.31 State direct spending on council roads fell by $18 million from $252 million in 1997–98 to $234 million in 2000–01. Meanwhile Federal spending on local roads under FAGs increased by $80 million from $365 million in 1997–98 to $445 million in 2002–03. In addition, $1.2 billion was made available to local government for roads over five years to 30 June 2005 under the Roads to Recovery program. [20]

19 LGAT, Official Hansard, 18 February 2003, Hobart, p. 421.

20 DOTARS, Submission No. 387, p. 5.

Local Roads grants

4.32 The current FAGs Act retains a separate Local Roads pool for the provision of untied local roads funding. The formula used to distribute these grants to the States and Territories is historical. A history of events that have led to the current interstate distribution of local roads grants is at Appendix D.

4.33 The Committee received many submissions, particularly from SA, which claimed that their share of the local roads grants component of FAGs was unfair and requested that the Federal government examine the issue of interstate distributions.

4.34 SA receives less per head than other States of these grants and a lower per capita and per road length amount than any other State or the NT. The LGASA claimed that the distribution of identified local road grants on a road length or population basis would provide an additional $24.7 million or $9.4 million per annum respectively for South Australian councils:

> Significantly, the Commonwealth recognised the inequity in the existing ongoing Identified Local Road Grant allocations when it chose to depart from its traditional Identified Local Road Grants formula in determining the distribution of Roads to Recovery fund between the states and territories. For example SA councils will receive $100m or 8.3% of this amount over a 4-year period. This is $34m more than would have been received if the identified Roads Grants formula had been applied.[21]

4.35 In comparing the difference in identified local roads funding between two similar councils – Grant District in South Australia and Glenelg Shire in Victoria - a large discrepancy in funding is demonstrated. If Grant District Council received the same roads grant per kilometre as Glenelg Shire ($703.94), it would have been better off by $898,012 during 2001-02. [22]

4.36 On 30 November 2000, the Deputy Prime Minister and Minister for Transport and Regional Services commented on the interstate distribution of the Local Roads grants in the Second Reading Speech for the Roads to Recovery Bill in the House of Representatives. He said:

21 LGASA, Submission No. 223, p. 6.

22 DOTARS, *Local Government National Report: 2001-02 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, pp. 139 & 155.

> In the Roads to Recovery Program the government has recognised that the historical methodology for allocating funding between States and Territories contains inherent anomalies. Therefore we have rectified this by establishing a fairer allocation based on historical precedents, length of local roads and population.[23]

4.37 During its review of the *Local Government (Financial Assistance) Act 1995,* the CGC also received some submissions questioning the appropriateness of the interstate distribution of the Local Roads grants. The CGC found that combining the General Purpose pool and the Local Roads pool would make the process of distributing grants simpler and easier to understand. Also, only one assessment of road needs would be required across the country.[24] The CGC did not take this issue further because it was restricted from considering the interstate distribution of FAGs.

4.38 The Committee recognises the disadvantages to South Australian councils under the Local Roads component of FAGs and agrees that the historical formula of the Local Roads component lacks transparency. Also, as the Local Roads component and the General Purpose component are untied, local government can use these grants towards any local priorities, infrastructure or otherwise.

4.39 The interstate distribution of FAGs is discussed further in Chapter 6. Also discussed in Chapter 6 is the issue of combining the two FAGs pools.

Roads to Recovery

4.40 The decline in infrastructure renewal placed an increasing focus on revenue from the Federal government to support local government activities. This was recognised by the Federal government in the development of the Roads to Recovery program which has been well received by local governments across Australia.

4.41 R2R began in January 2001 and will expire on 30 June 2005. It aims, in particular, to provide councils with the financial capacity to repair roads that are approaching the end of their life. The grants are paid

23 The Hon. John Anderson, House Hansard, 30 November 2000, p. 23142.

24 Commonwealth Grants Commission, *Review of the Operation of the Local Government (Financial Assistance) Act 1995,* June 2001, p. 32.

directly to councils and are additional to FAGs. Interstate allocations take into account population, length of road, and historical factors.[25]

4.42 The R2R guidelines urge councils to cooperate to enable larger projects to be implemented on key interregional road links. Councils are also encouraged to work with the States and Territories to ensure a coordinated approach to the development of regional roads.[26]

4.43 The Committee notes that the objective of the AusLink initiative is sustainable economic growth, development and connectivity at the national and regional levels of Australia's land transport network.

4.44 All councils which made submissions and appeared at hearings overwhelmingly supported the long-term retention of the R2R. For example, Dungog Shire stated:

> … this program needs to continue indefinitely. The direct linkage between the Federal and Local Governments with this beneficial program has proven highly successful, and there is little doubt that the funding has been correctly and responsibly targeted.[27]

4.45 In its Federal Budget Submission 2003-04, ALGA sought assurance that the R2R program would continue beyond 2004-05.[28]

4.46 LGMA maintained that a significant outcome of the R2R funding model is the requirement for a regional perspective to program development. In comparison to the Local Roads Component of FAGs, the R2R program was preferred as it is simpler to administer and does not involve the States in distribution.[29] Many councils supported the direct funding from the Federal government to local government under R2R:

> If the federal government is going to give money I cannot see why it has to go through that state government body, or whether there is a specific reason for it. If we have a set of criteria by which we have spend it, if we have to show how and where we have spent it, I cannot see why we need a second Big Brother looking over our shoulders.[30]

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25 DOTARS, Submission No. 387, p. 7.

26 DOTARS, Submission No. 313, p. 9.

27 Dungog Shire, Submission No. 393, p. 4.

28 ALGA, *Strengthening Australia's Communities: Federal Budget Submission 2003-04,* p. 5.

29 LGMA, Correspondence received 31 July 2003, p. 5.

30 Mulwaree Shire Council, Official Hansard, 30 April 2003, Moruya, p. 835.

4.47 Despite the overall support of R2R, the Committee received evidence that R2R funding has led to further cost shifting. This is despite the Prime Minister seeking an assurance from all Premiers and Chief Ministers that they would at least maintain their own expenditure on local roads when R2R was introduced. All States except Western Australia replied giving these assurances.[31]

4.48 **WALGA stated that the WA government reduced its annual local government road funding by $18 million per annum from 2003-04**.[32] **A number of councils in WA reported that State funding for roads had been reduced or withdrawn following the injection of funds through the Federal government's R2R program**.[33]

4.49 The Committee is required under the Inquiry's terms of reference to recommend budget neutral outcomes to the Federal government. However, the Committee considers the continuation of the R2R program funding to be worthwhile because:

- it is designed and tied specifically to the improvement of road infrastructure;
- it is directly paid to local government;
- local government supports its distribution methodology; and
- it further strengthens a partnership between the Federal and local governments.

4.50 The Committee considers that, if R2R funding is to be continued, there must be an assurance from each State government that road funding will be maintained at least at pre-R2R levels. If not, the Commonwealth could consider cutting R2R funding by the same amount obliging the State government to reconsider its road funding. This would help to reduce cost shifting by the States on roads.

Recommendation 10

4.51 **The Committee recommends that SPPs directed to local government, such as roads, should be conditional on States not reducing their effort.**

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31 Treasury, Correspondence dated 12 August 2003, p. 5.

32 WALGA, Official Hansard, 6 August 2002, Perth, p. 3.

33 Shire of Dalwallinu, Submission No. 359, p. 1; Correspondence from the WA Minister for Planning and Infrastructure to the CEO, Mingenew Shire Council, dated 5 May 2003.

Funding the infrastructure shortfall

4.52 Suggestions received to fund the infrastructure shortfall included:

- increase and tie funding from the Federal government, perhaps as a component of FAGs;
- local government increasing its own revenue;
- enhance private sector involvement and investment;
- allocate 20% of fuel taxes to roads and public transport initiatives to continue the R2R program[34]; and
- a whole of government approach to funding infrastructure.

Tying and increasing Federal funding

4.53 One possible solution is for the Federal government to tie grants to infrastructure for, say, four years then revert funds to general purpose payments. Alternatively, infrastructure needs could be addressed as the first priority of FAGs until standards are met.

4.54 A group of Victorian CEOs suggested that FAGs be paid in two equal parts, the first to infrastructure renewal and the second for other social and community objectives. Under the Victorian CEOs' model, the infrastructure component of FAGs would be distributed between the States on the basis of the value of assets under management, but adjusted for the size of any infrastructure gap and the capacity of a local government to bridge that gap.

4.55 In line with this suggestion, Eurobodalla Shire Council called for the tying of at least part of the grant to the upgrade and maintenance of infrastructure.[35]

4.56 The Victorian group of CEOs also called for an increase in FAGs to enhance the capacity of local governments and:

> … enable them to fund essential infrastructure important to national economic capacity while also giving them the ability to enhance local social and community well being within a framework of local choice and priorities.[36]

4.57 The NSW LGGC maintained that if capital funding is required it should be paid for by way of specific purpose payments.[37]

34 LGAQ, Submission No. 363, p. 5.

35 For example: Eurobodalla Shire Council, Submission No. 278, p. 11.

36 The Victorian group of CEOs, Submission No. 357, p. 3.

37 NSW LGGC, Correspondence received 17 July 2003, p. 3.

Increasing local government revenue

4.58 The Committee recognises the limitations on local government finances to maintain its infrastructure. The Committee has identified deficiencies in local government's revenue base relative to its increased roles and responsibilities, of which cost shifting has played a major part.

4.59 Despite the financial difficulties of local government, this sphere of government is responsible for maintaining local infrastructure. Local government cannot always look to the Federal government for funding; it must also identify and respond to challenges to increase its own revenue. Measures suggested include:

- reducing expenditure or saying 'no' to other demands on funds dedicated to infrastructure;
- increased user charges; and
- increased reliance on borrowing but only where it is responsible to do so.

Saying 'no'

4.60 In Chapter 2 the Committee referred to councils beginning to say 'no' to their communities which are expecting more services. The Committee considers that councils need to refuse to take on extra responsibilities which are shifted from the States without funding.

4.61 In some cases this is already happening. The Committee heard in Melbourne that some councils are becoming better at refusing to take on extra responsibilities. For example, Glenelg Shire Council refused a VicRoads proposal for a road safety officer because it did not fit in with the council's plan or budget.[38] Other councils in Victoria are also refusing to raise their HACC service because they believe they are doing enough already.[39] The President of the Local Government Association of the NT stated:

> Local government in the Northern Territory is continually at the crossroad of deciding whether or not to perform services on behalf of other spheres of government. In some instances it will be saying that it is going to withdraw from them because it cannot sustain them. This has already happened in a couple of cases.[40]

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38 Glenelg Shire Council, Official Hansard, 19 February 2003, Box Hill, p. 494.

39 Monash City Council, Official Hansard, 19 February 2003, Box Hill, p. 494.

40 LGANT, Official Hansard, 8 October 2002, Darwin, p. 222.

4.62 Councils are also stepping back from accepting infrastructure grants that require the council to match funding provided by a State or Federal agency. The Mayor of Bega Valley Shire Council stated:

> We basically said as a council, 'It is fine to get the funding for some new infrastructure—a new toilet block or a new boardwalk or whatever—being matched fifty-fifty, but do we really need that or are we better using that $100,000 or $200,000, or whatever the matching figure is, to do something that the community really needs, like fixing the roads or upgrading some old timber bridges?' We made a conscious decision to reduce the matching grant funding and use it for only stuff we really need rather than stuff that looks nice and maybe has a nice community feel.[41]

User charges

4.63 While local government is somewhat restricted in its revenue raising capacity, it still has the power to be entrepreneurial in its approach and develop alternative funding sources. For example, some councils subdivide and develop land, operate trading undertakings and enter into commercial enterprises, such as running caravan parks and conducting markets.[42] Also, the City of Ryde wondered whether an infrastructure or tourism tax would be worth considering.[43]

4.64 The Committee notes with interest that preliminary investigations into the feasibility of a community bond issue to finance asset maintenance are being carried out by Penrith City Council which stated:

> The concept of a community bond as a way of funding this responsibility has the appeal of local communities investing in their own infrastructure.[44]

4.65 The SA Centre for Economic Studies reported on the appropriateness and adequacy of South Australian local governments' revenue and evaluated options to increase revenue sources. It concluded that financial support from other spheres of government was declining, however, the local government sector needs to accept responsibility for determining the services and activities it undertakes for its

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41 Bega Valley Shire Council, Official Hansard, 30 April 2003, Moruya, p. 328.

42 WA government, Submission No. 298, p. 4.

43 City of Ryde, Official Hansard, 28 April 2003, Sydney, p. 713.

44 Penrith City Council, Correspondence dated 3 September 2003, p. 1.

communities and ensuring that it raises sufficient revenue to undertake its determined roles. [45]

4.66 The Committee also heard the opposing argument that local government has exhausted its capacity to increase user charges. Access Economics claimed that there is already a high level of reliance on user charges by the local sector and that user charges raise equity considerations.[46]

4.67 Lgov NSW stated that the restricted taxation base has led to a growing reliance on fees and charges but this recourse is reaching its limitations with user charges being the second largest source of revenue and already representing 27% of local government operating expenditure in NSW.[47]

4.68 The MAV also described the plight of the most struggling councils to increase revenue:

> … many of these at-serious-risk councils are rural councils with limited population and extensive roads infrastructure. A significant number are characterised by declining populations, relatively low levels of local income and limited or no opportunities to generate dependable revenues from development and discretionary sources such as parking or municipal enterprise. The proximity and structural characteristics of these councils also means that the funding issue cannot be addressed through further municipal restructure. [48]

Increased borrowing

4.69 Borrowing to fund capital spending typically is not a common practice for local governments across Australia. Differences in borrowing levels can be observed between the local sectors in different States. For example, borrowing is more common in Queensland and Tasmania, where local government has broader responsibilities for water and sewerage necessitating higher capital expenditure.

4.70 Access Economics maintained that, although borrowing for capital expenditures is a legitimate and economically sound strategy for local

45 LGASA, Submission No. 223, p. 7.

46 Access Economics, *The Case for Increased Funding for Local Government: An assessment prepared for the City of Port Phillip*, February 2003, p. 19.

47 Lgov NSW, Submission No. 226, p. 7.

48 MAV, Submission No. 294, p. 25.

governments to follow, there may be limited scope for additional net borrowing by the local sector as well as limited revenue raising options from many of its assets. Access Economics concluded that constraints on borrowing might instead lead to a reduction in services in order to keep budgets in balance.[49]

4.71 Some councils claimed they had limits on borrowing capacity because much of the infrastructure does not have revenue-generating capacity.[50] WALGA stated that borrowings as a source of funds are limited to capital and other infrastructure improvements and the use of such funds add to the operational financial pressure.[51]

4.72 ALGA claimed that much of local government is not capable of generating sufficient revenue returns to service debt. Furthermore, high debt levels are not a sustainable strategy for financing local government service provision.[52]

4.73 However, DOTARS suggested that while some councils heavily rely on FAGs, the local government sector as a whole is in a sound financial situation:

> In assessing local government's financial capacity, relevant issues are that:
>
> - Local government has maintained its share of revenue from its own sources, despite providing an increasing range of services; and
> - Its overall debt levels have declined over recent years.
>
> … Indeed in 2000, for the first time since records commenced in 1993, total cash, deposits and lending exceeded gross debt [1,440 m]. The position was even healthier in 2001 [2,003 m].[53]

4.74 Local government's financial position overall is in good shape. Nationally, local government has a net surplus of some $600 million. However, ALGA stressed that conclusions can not be drawn from an analysis of aggregated data; the surplus is derived from a relatively small number of councils, including Brisbane City Council which accounts for almost 10% of the total surplus.[54]

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49 Access Economics, *The Case for Increased Funding for Local Government: An assessment prepared for the City of Port Phillip*, February 2003, p. 12.

50 City of Port Phillip, Official Hansard, 27 June 2003, p. 881.

51 WALGA, Submission No. 310, pp. 8-9.

52 ALGA, Submission No. 141, p. 24

53 DOTARS, Submission No. 103, p. 30.

54 ALGA, Correspondence dated 22 July 2003, p. 3.

4.75 Some councils referred to the pressure to adopt zero debt objectives as part of financial planning. SSROC stated 'we also need to stop the rhetoric that 'borrowing is bad, debt free is good', because that ignores some of the intergenerational equity principles'.[55] The LGAQ believed cautious use of increased borrowing could assist in funding the infrastructure gap.[56]

4.76 The Committee considers that judicious use of borrowing may assist local government to meet some of its financial needs if it is accompanied by increased revenues to enable the debt to be serviced.

4.77 The Committee believes that local government is accountable for its actions and its financial decisions. It is a legitimate sphere of government and should do more to identify and respond to challenges itself.

Private sector involvement

4.78 Pressure on local government financing has raised the issue of involvement of the private sector in local government infrastructure delivery. In a study commissioned by the National Office of Local Government and the Local Government Ministers' Conference, SGS Economics & Planning Pty Ltd (SGS) sought to identify how the private sector could most appropriately become involved in local infrastructure, given its management and operating efficiencies.

4.79 SGS found that private sector financing of local government infrastructure is very limited. While outsourcing arrangements are common, very few councils have ventured past the stage of leasing stand-alone facilities. The outsourcing arrangements used by local government are traditionally once off contracts for small components of the overall infrastructure network, with council bearing virtually all risks.

4.80 It was also acknowledged that the lack of local government capacity is a major stumbling block for private sector infrastructure financing. According to SGS, the major difficulties faced by local councils in involving the private sector in infrastructure provision arise in two separate areas:

- lack of skills on the part of councils in defining contracts and service definition; and

55 SSROC, Official Hansard, 28 April 2003, Sydney, p. 707.

56 LGAQ, Submission No. 363, p. 4.

- a large proportion of councils, particularly rural and remote councils, face difficulty in attracting private sector interest.[57]

4.81 DOTARS concluded from the SGS study that the key challenges for local government in financing infrastructure from the private sector centre on:

- offering the right infrastructure components to the private sector;
- transferring the appropriate risks to the private sector for the right price;
- pricing community service obligations if and when necessary; and
- achieving all of this in a transparent, binding and, if required, a long term contractual arrangement.[58]

4.82 The Committee notes that SGS developed guidelines for preparing a *Local Government Infrastructure Financing Manual* to build local government's capacity to engage the private sector in infrastructure delivery.[59]

Whole of government approach

4.83 The major issue confronting all levels of government is the replacement of assets and the maintenance of existing assets and the intergenerational legacy.

4.84 The provision of infrastructure is essential when viewed from a whole of government perspective – infrastructure provides for the local, regional, state and national public good. Infrastructure should therefore be a collective responsibility and, as such, be jointly funded by all spheres of government.

4.85 The CEO of the City of Stonnington emphasised that if the infrastructure gap is not dealt with on a national level, then national policy will be affected:

> The important thing we would emphasise is that helping local government makes good national policy.[60]

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57 SGS Economics & Planning, *Guidelines for a Local Government Infrastructure Financing Manual*, July 2002, p. 30.

58 DOTARS, Submission No. 103, pp. 26-7.

59 SGS Economics & Planning, *Guidelines for a Local Government Infrastructure Financing Manual*, July 2002, pp. 49-52.

60 City of Stonnington, Official Hansard, 27 June 2003, p. 882.

4.86 The group of Victorian CEOs maintained that each sphere of government has a responsibility to maintain and enhance infrastructure:

- the Federal government would put emphasis on **nation building** by strengthening the infrastructure base, hence enhancing our ability to represent and compete internationally and achieving social equity through equal access to basic services and infrastructure;
- the States would focus on **capacity building** and would have responsibility for State infrastructure and assessing infrastructure needs; and
- local government would concentrate on **community building** by delivering local infrastructure.[61]

4.87 In terms of infrastructure funding, the Committee believes a coordinated approach between each level of government will offer the best outcome for the community.

4.88 The possibility of a Federal / State / local government partnership is being addressed in the context of AusLink.

Committee conclusions

4.89 The tying of grants is not a popular concept; local government claims it is too diverse, each council having differing priorities on funding. Also, tying Federal grants to infrastructure alleviates the responsibilities of the State and local governments.

4.90 Alternatively, if FAGs are left untied, it is up to local government to use the grants in the most efficient manner for its local community. Local government will need to consider options for increasing its own revenue: say 'no' more often to the State governments which are cost shifting, say 'no' to its constituents when demands cannot be met, consider further user charges and the value of increased borrowings, and involve the private sector in infrastructure delivery.

4.91 If the Federal government provides untied funds to local government, it must be assured that local government is doing its best to maintain its essential infrastructure.

61 The Victorian group of CEOs, Submission No. 357, p. 4.