4 April 2014

Public Infrastructure Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

infrastructure@pc.gov.au

Dear Commissioners

Submission to the *Public Infrastructure Inquiry with reference to the Draft Reports March 2014*

The Local Government Association of Queensland (LGAQ) is pleased to provide this submission to the *Public Infrastructure Inquiry Draft Reports* (the Inquiry) released March 2014. The LGAQ has also registered its interest in participating in the Brisbane hearing on 11 April 2014.

Queensland's 77 councils (from January 2014) manage $76 billion of non-financial assets, with an average of $1.8 billion of assets being added to local governments' asset base each year for the past 6 years (ABS 5512, 2013). Local government provides, manages and maintains this asset base on behalf of communities, and this significant contribution supports regional and the national economies.

Road assets are a key component of this asset base. Queensland councils manage over 150,000 kilometres of road network and bridges, with an estimated value of $43 billion. Queensland councils spend over 33% of their annual budgets to maintain these assets, which in 2011-12 amounted to over $2.7 billion. The 2013 *National State of the Assets Report* (Australian Local Government Association) provides an overview of local government road assets across Australia.

The second most significant asset class for Queensland councils is water and waste water infrastructure, which has an estimated value of $25 billion (excluding approximately $6 billion of storm water assets). For 2011-12 approximately $11.4 billion of additional water and waste water assets were held by public enterprises operating in South East Queensland – Allconnex, Queensland Urban Utilities and Unitywater. Wide Bay Water also operates as a government owned enterprise and in 2012 operated $735 million of non-current assets. The share-holder councils of Allconnex decided to re-integrate their respective water operations from July 2012 (Department of Local Government, Community Recovery and Resilience and corporatised water entity annual report data).

Numerous State and national based inquiries have demonstrated that providing, managing and maintaining this level of infrastructure places the local government sector under financial stress, which results in a backlog of infrastructure provision, maintenance and renewal (AEC et al 2013). Cost-shifting - including as a result of the withdrawal of funding, subsidies or services by another level of government - adds to the burden. Local government becomes a 'provider of last resort' for priority infrastructure and service needs of communities and a number of councils provide facilities for child care, education, health and housing.

A fundamental issue for the provision of public infrastructure is the ability to connect use or consumption of an asset with a revenue stream to the provider. These mechanisms, including direct pricing and 'user-pays' charges, can be constrained by regulatory, technical and practical barriers. The LGAQ supports research to find solutions to these challenges, particularly for local government which has constrained revenue

LOCAL GOVERNMENT ASSOCIATION OF QUEENSLAND

options. Current work being undertaken by the Council of Australian Governments (COAG) Heavy Vehicle Charging and Investment (HVCI) Reform unit which is examining ways to implement a user pays scheme for heavy vehicle use of roads is noted as a useful example of work in this area.

The LGAQ notes that a number of recent papers - including the 2013 *State of Play: Australia's Key Economic Infrastructure Sectors* by Infrastructure Australia and the 2012 paper *Strong Foundations for Sustainable Local Infrastructure* by Ernst & Young - suggest alternative options for providing public infrastructure.

A number of Queensland councils with the capacity to service a loan currently use debt financing to provide certain infrastructure, and this is typically funded from general rates revenue. Due to the scale and demand for some projects in the highly urbanised South East of the State, Brisbane City Council has entered into some joint venture projects utilising innovative joint ownership / management and tolling arrangements.

Queensland councils are supported in their assessment of whether to use debt financing by the Queensland Treasury Corporation (QTC), which undertakes a detailed review of council finances and also provides loan services to councils. QTC's services support the council decision process and reduce transaction costs for councils. The Queensland State Government also guarantees council loan borrowings.

On the cost side, the LGAQ and its member councils continue to pursue 'value for money' procurement solutions including in delivering public infrastructure. The LGAQ's LocalBuy provides procurement services to councils across Queensland to provide savings at the procurement stage. Expert infrastructure project management and procurement services are available through Local Government Infrastructure Services Pty Ltd (LGIS) to assist in effective management of project budgets and infrastructure project delivery.

The LGAQ supports the Productivity Commission's work to investigate matters relevant to this Inquiry and to recommend approaches to prioritising infrastructure needs and funding options that will deliver services to meet needs across all communities.

The LGAQ is pleased to provide this submission and to make any further contribution. If you would like to discuss any of the comments, please contact Simone Talbot, Manager - Advocacy - Infrastructure, Economics & Regional Development on [redacted].

Yours sincerely

[redacted]

Greg Hoffman PSM
GENERAL MANAGER – ADVOCACY

Submission to the

Inquiry into

Public Infrastructure: Provision, Funding, Financing and Costs
Draft Reports March 2014

Productivity Commission

Local Government Association of Queensland

4 April 2014

The Local Government Association of Queensland

The Local Government Association of Queensland (LGAQ) is the peak body for local government in Queensland. It is a not-for-profit association setup solely to serve councils and their individual needs. LGAQ has been advising, supporting and representing local councils since 1896, allowing them to improve their operations and strengthen relationships with their communities. LGAQ does this by connecting councils to people and places that count; supporting their drive to innovate and improve service delivery through smart services and sustainable solutions; and delivering them the means to achieve community, professional and political excellence.

1. Terms of Reference and Local Government

Scope of the inquiry

In reporting on funding and financing and the scope for reducing costs for public infrastructure projects, the Commission is to analyse and develop findings on the following:

1. How infrastructure is currently funded and financed in Australia, including by the Commonwealth, the States and the private sector.
2. The rationale, role and objectives of alternative funding and financing mechanisms, including:

   a. the full range of costs and benefits of different models

   b. the issues and costs associated with the allocation of project risks, availability of finance, contracting arrangements and delivery models for construction projects

   c. the disincentives to private sector investment

   d. broad principles for the use of these funding and financing mechanisms

   e. the roles of the Australian Government, the States and Territories, Local Government and the Private Sector in the implementation of these mechanisms, & the relationship between the parties

   f. creation of revenue streams to attract private sector finance; for example, through user charging, availability payments etc.
3. Consider the financial risks to the Commonwealth posed by alternative funding and financing mechanisms, as well as their possible impact on the Budget and fiscal consolidation goals.
4. Examine the cost structure of major infrastructure projects in Australia, including where infrastructure project costs have increased considerably, compared with other countries.
5. Provide advice on ways to improve decision-making and implementation processes to facilitate a reduction in the cost of public infrastructure projects, including in relation to:

   a. measures to improve flexibility and reduce complexity, costs and time for all parties

   b. access to the market for domestic and international constructors, including barriers to entry, and what effect this has on construction costs

   c. 'greenfield' infrastructure projects.
6. Comment on other relevant policy measures, including any non-legislative approaches, which would help ensure effective delivery of infrastructure services over both the short and long term.

LGAQ has confirmed with the Office of the Productivity Commission that the scope in point 1 extends to local government. As noted in our cover letter, Queensland's current 77 councils (from 1 January 2014) manage $76 billion of non-financial assets, with an average of $1.8 billion of assets being added to local governments' asset base each year for the past 6 years (ABS 5512).

Road assets are a key component of this asset base. Queensland councils manage over 150,000 kilometres of road network and bridges, with an estimated value of $43 billion. Queensland councils spend over 33% of their annual budgets to maintain these assets, which in 2011-12 amounted to over $2.7 billion. The 2013 National State of the Assets Report (Australian Local Government Association) provides an overview of local government road assets across Australia.

The second most significant asset class for Queensland councils is water and waste water infrastructure, which has an estimated value of $25 billion (excluding approximately $6 billion of storm water assets). For 2011-12 approximately $11.4 billion of additional water and waste water assets were held by public enterprises operating in South East Queensland – Allconnex, Queensland Urban Utilities and Unitywater. The shareholder councils of Allconnex received approval to re-integrate their respective water operations from July 2012. Wide Bay Water Corporation also operated $735 million of non-current assets in 2012.

2. LGAQ Comments on matters raised in the Issues Paper November 2013

LGAQ provided the following comments on matters raised in the Issues Paper November 2013:

1. LGAQ suggests that the distinction between funding options and financing mechanisms be made early in the Report, like the distinction made in the Issues Paper between infrastructure delivery / ownership / operating arrangements and cost issues. While a range of financing mechanisms are theoretically available for public infrastructure, including to local government, this will always be subject to a pricing / demand / revenue scenario or other funding that establishes project viability.
2. Local government has demonstrated that it is open to alternative delivery and financing models. Funding to achieve fiscal equalisation and other revenues remain key if local government is to continue to deliver services and infrastructure for communities, whether directly or through a provider. Revenue options for local government, including for infrastructure projects, are regulated.
3. A number of Queensland councils with the capacity to service a loan currently use debt financing to provide certain infrastructure, and this is typically funded from general rates revenue. Due to the scale and demand for some projects in the more urbanised South East of the State, Brisbane City has entered into joint venture projects utilising innovative joint ownership / management and tolling. Queensland councils are supported in their assessment of whether to use debt financing by the Queensland Treasury Corporation (QTC), which undertakes a detailed review of council finances and provides loan services to councils. QTC's services support the council decision process and reduce transaction costs. The Queensland Government also guarantees council loan borrowings.
4. Over the past 10 years increased local government costs in providing services and infrastructure, including servicing debt, has been primarily met from growth in own-source revenues. Queensland local governments' total general rate revenue has increased by approximately 100% in nominal terms over the past 10 years, demonstrating that local government and communities have met the cost of increased demand for service and infrastructure created by growth over this period from the growth-driven increase in own-source revenue. Over the same period, funding from the Commonwealth has remained relatively static, and Queensland State funding has been reduced in nominal terms. However, local government own-source revenue growth is limited and many local government areas are not expected to experience the same rates of growth over forward years. Given the narrow base on which they are levied and in consideration of communities' capacity to pay, the rate at which local government rates have increased is not sustainable into the future.
5. Significant progress has been made over recent years, particularly since the 2008 Queensland local government amalgamations, to reduce costs and achieve efficiencies in procurement, infrastructure project management and delivery by local governments for their communities. LGAQ, LocalBuy[1], LGIS[2] and Resolute[3] work with councils to provide services and advice infrastructure projects.
6. In regional areas, service and infrastructure demand from resource projects are placing a growing burden on local government, including additional costs associated with increased demand from the transport task and supporting site workforces. These costs include capacity augmentation and additional maintenance due to accelerated depreciation of assets through higher rates of consumption. Typically this is paid for by local governments and their communities and represents a significant opportunity cost to local government.
7. A further contributor to local government costs has been the result of cost-shifting by other levels of government and Queensland councils are providing services and infrastructure that, in most other parts of Australia, would be provided by State and Commonwealth Governments. In some communities this includes child care, education, health and housing facilities and services. This was confirmed by the 2003 House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into cost shifting and local government.

---

[1] LocalBuy provides procurement services to local governments including pre-qualified supplier information across a broad range of goods and services, contract negotiation and support www.localbuy.net.au

[2] LGIS provides infrastructure strategy and solutions to clients including local governments on procurement, project management and assurance, program delivery and NDRRA support www.lgis.com.au

[3] ResoluteIT provides information technology services and solutions to over 70 local authorities, not-for-profits and medium sized businesses to help them take advantage of changing technology to improve service delivery and reduce costs www.resolute.com.au

8. Consistent with the statement that "These analyses will provide the basis for the Commission to make recommendations to improve outcomes in infrastructure provision for the benefit of the community as a whole" (p1), full social benefits / costs including access and equity outcomes, positive externalities and intergenerational equity aspects (see Thompson J, 2003) should be considered as part of a complete consideration of these issues.

3. Summary comments on the Draft Report Key Points (Volume 1 p2)

In response to the 'Key points' presented on page 2 of Volume 1 of the Draft Report:

- Any 'comprehensive overhaul' of processes should recognise and promote current good practice. LocalBuy and LGIS offer procurement and infrastructure project services to local government in Queensland, and potentially to local governments in other parts of Australia, and such arrangements are commended for broader consideration.
- Reform of governance and institutional arrangements must include an examination of the need to reform current restrictions placed on local government revenue, including on user-charging, and restrictions on financing and procurement options while maintaining appropriate prudential controls. The arrangement whereby the Queensland Treasury Corporation (QTC) reviews borrowing requests by Queensland councils is noted as an effective model for broader consideration.
- While user charges may provide revenue for some infrastructure, it should be recognised that due to low population density / low usage rates in many regions there will always be roads and other assets that are not financially viable in a direct cost recovery sense. It will remain a core role of government to provide infrastructure to meet a level of public welfare required by communities but which is not being provided by the private sector for reasons of insufficient rate of return, scale or other economic reasons.
- On road pricing, LGAQ supports the work being undertaken by the Heavy Vehicle Charging and Investment (HVCI) project. As an intermediate step and process building block toward applying this to light / private vehicles, LGAQ recommends that all current taxes, charges, excises etc. collected from road users ostensibly for roads be hypothecated directly to road infrastructure managers at all levels of government according to their respective responsibilities for road assets. Hypothecation is a key element to improving the connection between demand, costs, revenues and provision including under existing revenue collection methods for roads as it improves transparency and accountability and makes 'politicisation' of project selection discussed on p238 of the Draft Report more difficult.
- The scope for delivering infrastructure more efficiently is not necessarily determined by whether it is delivered by public, public corporatised or private providers, or by public or (initially) private finance, but rather the arrangements and diligence exercised throughout each of the stages of project selection, design, financing, delivery, operation, maintenance and renewal / replacement.
- While there may be general opportunities for increased debt financing, Queensland councils who have the capacity to borrow and have identified a suitable infrastructure project have used debt financing under the stewardship of the QTC as noted above and this model is commended for consideration.
- While aggregate data sets on public infrastructure construction are not common, project-specific data is collected through project management processes, and quantity surveyors regularly provide unit rates and other comparators against which individual project costs are compared, as well as data on construction times for particular tasks. That is, project managers have access to data to support effective project management and an aggregation of key data could be achieved by encouraging reporting to some centralised data clearing house.
- Changes in infrastructure costs will be a direct result of what is happening in factor markets - regional, national and international. The resources sector boom has had a significant impact on project costs in some regions, particularly on the availability of some skilled workers including in engineering.
- Labour productivity measures are useful at a broad level, but regional and project-specific features will influence productivity measures and measures for different projects should be compared with caution. For example, wet days during a project can have a significant influence on productivity measures.
- The availability of infrastructure deliverers will vary across the market segments of project size, location and over time. This will significantly influence the degree of competitiveness and project costs.

- Moves to reduce public sector procurement stage costs are an important objective and there are mechanisms and arrangements in place to support cost reductions, however appropriate quality assurance measures and asset 'whole of life' considerations like maintenance need to be recognised.

4. Comments on Draft recommendations, findings and information requests

LGAQ provides the following comments in relation to selected ***Draft recommendations, findings and information requests*** presented in the Draft Report Volume 1 (pp33-44).

DRAFT FINDING 6.1

Where project selection decisions are consistent with recommendations made in this report, there is additional capacity for the Australian and State and Territory Governments to finance public infrastructure from their own balance sheets through the issue of sovereign debt and/or through tax.

LGAQ comment - While generally there may be opportunities for increased debt financing by the public sector, Queensland councils who have identified a suitable infrastructure project have used this form of financing under the stewardship of the Queensland Treasury Corporation (QTC) and this model is commended for consideration.

54 of Queensland's 73 councils have borrowed funds for infrastructure and consequently have a debt servicing commitment. The amounts of outstanding debt held by Queensland local governments are listed by the Queensland Treasury Corporation (QTC) in Appendix A of its Annual Report (p65 Annual Report 2012-13). As noted above, Queensland councils are supported in their assessment of whether to use debt financing by the Queensland Treasury Corporation (QTC), which undertakes a detailed review of council finances and also provides loan services to councils. QTC's services support the council decision process and reduce transaction costs for councils.

LGAQ notes that local government has already experienced significant cost-shifting over time, including through the withdrawal of funding (which had been reasonably made available to achieve fiscal equalisation outcomes) and where other levels of government have withdrawn services and infrastructure. This point is also relevant to the provision of future infrastructure and 'debt shifting' onto local government for infrastructure and service delivery responsibilities of other levels of government must also be avoided.

Better institutional and governance arrangements are crucial

DRAFT FINDING 7.1

Institutional and governance arrangements for the provision and delivery of much of Australia's public infrastructure are deficient and are a major contributor to poor outcomes.

LGAQ comment – Noting that many Queensland councils outside of South-East Queensland provide water supply and sewerage services to their communities, LGAQ and qldwater[4] have consistently promoted improved pricing mechanisms and asset management practices, with the latter being legislated in the Local Government Act 2009.

LGAQ and qldwater have taken a lead role with support from the State to develop the Queensland Water Regional Alliance Program (or QWRAP for short) which seeks to work with groups of councils - currently based around Cairns, Longreach, Mackay and Bundaberg, to review institutional arrangements for urban water provision; identify the systemic risks impacting councils' operations; identify capacity and capability issues; collect robust data and information to support decision making; and improve regional collaboration and knowledge / skill transfer.

Demand management is an important tool in determining the need for increases in infrastructure capacity and augmentation. For example, LGAQ and qldwater suggest demand management initiatives be elevated as a policy priority and further supported/ and or incentivised given the opportunity to influence consumption rates and defer capital expenditure as an asset management strategy.

[4] qldwater is the central advisory and advocacy body within Queensland's urban water industry, the Queensland Water Directorate (qldwater) works with its members to provide safe, secure and sustainable urban water services to Queensland communities www.qldwater.com.au

Any ‘poor outcomes’ in the public water supply sector in Queensland are attributable to the combination of ageing infrastructure, a historical under-investment in assets due to constrained revenue, skills shortages, rapid industry growth (for example in key resource regions), varying and extreme climatic conditions and the removal of State water subsidies (fiscal equalisation). Strict environmental legislation and standards have also increased operating costs and to a certain degree forced the over capitalisation of assets.

Since State subsidies were removed and infrastructure charges capped, the only options for small councils has been to seek efficiencies, borrow or raise rates. Even where these mechanisms are appropriately used, some communities are still too small to support required infrastructure standards.

For many years, the Water and Sewerage Program (WASP) and the Small Community Assistance Program (SCAP) helped to fill this gap. The LGAQ has a formal policy position of advocating for the return of a dedicated water and sewerage subsidy program. This is reflected in the 2013 LGAQ Advocacy Action Plan which calls for “Reinstatement of the Local Government Grants and Subsidy Program to pre-2012 budget levels in real terms in 2014/15”.

A more comprehensive discussion including suggestions for improving the operation of the water supply and sewerage sector in Queensland is available from LGAQ’s submission to the Productivity Commission’s 2010 Inquiry in to Australia’s Urban Water Sector (2010).

DRAFT RECOMMENDATION 7.1

Institutional arrangements for the provision and delivery of public infrastructure should incorporate good governance arrangements, including:

- *the principal objective of ensuring that decisions are undertaken in the public interest*
- *clear and transparent public infrastructure service standards*
- *effective processes, procedures and policy guidelines for planning and selecting public infrastructure projects, including rigorous use of cost–benefit analysis and transparency in cost–benefit assessments, public consultation, and public reporting of the decision (including a transparent review of the decision by an independent body, for example, an auditor-general or Infrastructure Australia)*
- *efficient allocation and monitoring of project risks between government and the private sector*
- *use of transparent and competitive processes for the selection of private sector partners for the design, financing, construction, maintenance and/or operation of public infrastructure*
- *sufficiently skilled employees who are responsible and accountable for performing their functions*
- *principles and processes for considering funding arrangements, including application of user-charging as the default funding arrangement where this is appropriate, and transparency of funding decisions (including public reporting of decisions and periodic review by an independent body, for example, an auditor-general or Infrastructure Australia)*
- *principles and processes for selecting efficient financing mechanisms and transparency of financing arrangements*
- *performance reporting and independent evaluation of public infrastructure project performance.*

DRAFT FINDING 7.2

For the proposed reforms to institutional and governance arrangements (draft recommendation 7.1) to have their intended effect, governments at all levels must commit to and support them, even when that leads to project selection decisions that are not politically expedient. The proof of that commitment lies in rejecting projects that have obvious appeal yet fail a transparent cost–benefit test and in choosing projects which may not be as popular but offer long-term net benefits to the community.

LGAQ Comment - On Draft recommendation 7.1 and Draft finding 7.2, LGAQ submits that there are models of good governance including in Queensland which contribute to good infrastructure planning and delivery outcomes. The arrangements for these are consistent with the key elements of accountability, transparency and capability of public sector decision makers across both local and state government identified in Draft recommendation 7.1.

The Roads and Transport Alliance model is commended as a model that provides an integrated, road infrastructure prioritisation function across both State and local roads. A 'clear definition of roles' is achieved through a three-level governance structure that includes a Board, Regional Road and Transport Groups (RRTGs) and Technical Committees.

For an overview of the Roads and Transport Alliance see http://www.tmr.qld.gov.au/business-industry/Business-with-us/Alliances/The-Roads-and-Transport-Alliance.aspx

Some individual councils such as Brisbane City Council also apply rigorous major project processes. Robust project management can be undertaken by the public or private sector as the professional skills and systems for project management are available to public and private sector project entities. The adoption of these practices should be promoted to facilitate consistent best practice and to support the movement of professionals between sectors / projects.

DRAFT RECOMMENDATION 7.3

Australian Government funding or other forms of assistance (such as loans and government guarantees) for public infrastructure that is provided to local, State and Territory Governments should be conditional on the following:

- *use of effective cost–benefit analysis and transparency of assessments including the methodology and assumptions*
- *evidence of a demonstrable net public benefit from the project which is not obtainable without Australian Government support*
- *evidence that competitive processes will be used for the selection of financing, design, construction, maintenance and operation of public infrastructure services where these tasks have been outsourced to the private sector*
- *evidence that the relevant government has efficiently used opportunities for users and other beneficiaries to fund the infrastructure through measures such as user charges, betterment levies and property development charges*
- *ex post evaluation and publication of public infrastructure project outcomes.*

Consultation on the criteria to be applied and any potential implementation issues associated with such an approach should be undertaken with local, State and Territory Governments.

All governments should be encouraged to apply the above principles and actions to their own-funded projects.

LGAQ Comment – Project funding acquittal and other reporting requirements currently include many of these elements. The promotion of a consistently applied, standardised cost-benefit analysis could include all of the elements presented in Draft recommendation 7.3.

There are a number of useful references on cost-benefit analysis for infrastructure projects, including http://ec.europa.eu/regional_policy/sources/docgener/guides/cost/guide2008_en.pdf

INFORMATION REQUEST 7.1

The Commission's current inclination is that the package of measures proposed in this report would be sufficient to constitute a 'pipeline' that would assist purchasers and tenderers in forward planning and to minimise costs. The Commission seeks views on the appropriate organisational framework to collect and disseminate information about a pipeline of projects and the extent to which private organisations should provide information about their plans to build significant infrastructure.

LGAQ Comment – A framework including methods for prioritising and tracking a pipeline of infrastructure projects across the three levels of government and potentially the private sector would require specific design, implementation and maintenance. The Queensland Government Department of State Development, Infrastructure and Planning currently manages a process at the state level, products from which include an annual major projects conference and a major projects map publication.

INFORMATION REQUEST 7.2

The Commission seeks further information from participants on the costs and benefits of land corridor and site preservation strategies. In particular, it seeks evidence on the effectiveness of current jurisdictional strategies and the merits of a national regime. It also seeks views on the optimal ways in which corridors and sites can be used prior to infrastructure developments.

LGAQ comment – Any land corridor and site preservation strategies would need to include the involvement of, and appropriate regard to, local government planning on behalf of the local community.

In Queensland, local governments are required to include a Priority Infrastructure Plan (PIP) as part of their local planning scheme. The primary objective of the PIP is to integrate strategic land use and infrastructure planning processes. As prescribed by the Queensland State Government (http://www.dsdip.qld.gov.au/infrastructure-planning-and-reform/priority-infrastructure-plans.html), the PIP plays an important role in keeping the cost of living down by making sure services are provided for new developments in an efficient, coordinated and orderly way. It also means new developments can be directed to places where infrastructure is in place, so resources meet demands and local governments can best manage the costs of new or existing infrastructure upgrades.

PIPs provide the basis to understand infrastructure networks, upgrades and/or potential new trunk infrastructure to both inform and support the strategic intent and detailed land use planning within the planning scheme. A PIP details what trunk infrastructure is required, where it is required, and when it will be needed. As a result, local governments are in a better position to make decisions about development and funding allocations. PIPs deal primarily with planning and provision of trunk infrastructure. Trunk infrastructure and non-trunk infrastructure are both development infrastructure. Development infrastructure can be summarised as land and/or works for water cycle management (including water supply, sewerage and drainage), transport, parks and land for community facilities.

Generally trunk infrastructure is ‘higher order’ network development infrastructure, which is external to a development and is shared between developments. While non-trunk infrastructure is generally ‘lower order’ infrastructure that is internal to a development or connects a development to the ‘higher order’ network development infrastructure.

An important requirement of the PIP is the delineation of a Priority Infrastructure Area (PIA). Under legislation, PIPs must show a PIA that can accommodate at least 10 years, but not more than 15 years of growth for urban purposes (which is defined as growth for residential, retail, commercial and industrial purposes).

Road-specific institutional and funding reforms are required

DRAFT RECOMMENDATION 7.2

All governments should take deliberate steps towards implementing institutional reforms in the road sector for cars and other light vehicles that improve project selection processes, facilitate greater adoption of direct user charging mechanisms, and more directly link road charge revenue with future spending on roads. The consideration of institutional reforms for cars and other light vehicles should take into account the current reforms being developed for heavy vehicles under the Heavy Vehicle Charging and Investment reform process.

The Commission considers that a road fund model should form the basis of starting a long-term transition to a more commercial approach to project selection and road provision for cars and other light vehicles. To be effective, the road fund needs to have access to adequate sources of funds, a significant degree of autonomy, and transparent processes for determining the level and allocation of funds.

Institutional and governance arrangements adopted should include a formal procedure for consultation with road users and the broader community, as well as systematic post-project evaluation and periodic review of the arrangements.

DRAFT RECOMMENDATION 4.1

The Australian Government should actively encourage State and Territory Governments to undertake pilot studies on how vehicle telematics could be used for distance and location charging of cars and other light vehicles. To do so, the Australian Government should: offer to partly fund these pilot studies; work with the States and Territories to coordinate and share experiences; and ensure that motorists are consulted, potentially via roads and motorists associations. The pilot studies should be designed to inform future consideration of a (revenue-neutral) shift to direct user charging for cars and other light vehicles, with the revenue hypothecated to roads.

LGAQ comment – The LGAQ notes considerable work including recommendations on alternative funding models for roads is available in the Commonwealth Report '*Australia's future tax system - Report to the Treasurer December 2009*' specifically in section 8.1 p53-4 of the Overview Report, and in *E1 User charging* and *E3 Road transport taxes* of Part 2 Volume 2 and commends this reference.

The HVCI project, when implemented, will achieve more direct user charging, payments to providers and user benefits for heavy vehicles. LGAQ supports the work being undertaken by the HVCI and it would be instructive for this project to proceed and the lessons learned captured before seeking to extend a similar system to private / light vehicles.

On the discussion on p133, while it may be a general expectation by road users that the current suite of charges and taxes relate to road infrastructure provision, it is not clear how revenue from various sources ostensibly collected to fund road infrastructure is directed to the road infrastructure effort. The historical 'loose' relationship goes to the matter of transparency, price and investment signals.

Reforming governance and institutional models must also include reforms that improve transparency through the hypothecation of revenues currently collected for road and transport purposes in order to address impressions of double / over-charging and improve community acceptance of direct user charging.

On Draft recommendations 7.2 and 4.1, and the discussion on p17, a persisting reason that contributes to the unpopularity of direct road user charging is the lack of transparent hypothecation of current road-related charges including fuel excise and vehicle registration charges. This is true for both road users and road infrastructure managers who need to constantly source funding to meet the road maintenance and building task.

LGAQ also supports the hypothecation of future direct road user charges to be returned to the road asset manager, including local government. Technology will play a significant roll and help to minimise transaction and administrative costs (as noted on p134 of Volume 1).

Further any additional costs for local government of administering a national / state system must be identified in any Regulatory Impact Statement process and provisions made under the model.

In relation to the overall issue of road user charging, the hypothecation of revenues, both current and under future arrangements, would provide strong signals on priorities that reflect demand and there are opportunities to be pursued in the short term to improve the hypothecation of funding. Indeed this would likely provide an important step in demonstrating to users that the charges they pay, however collected, go towards providing roads.

As an intermediate step toward applying this to light / private vehicles, the LGAQ recommends that all current taxes, charges, excises etc. collected from road users be directly hypothecated to road infrastructure managers at all levels of government according to their respective responsibilities for road assets.

On the discussion on p136, the LGAQ would caution against an uncoordinated approach by individual jurisdictions and believe this, like HVCI, would need to be driven at a national level by an appropriate body (eg. SCOTI) rather than the national body simply acting as a clearing house for various case studies. Again, the HVCI work will be instructive for any attempt to extend this to light / private vehicles.

In terms of the suggestion that "… substantial community interest in infrastructure… [does] not necessarily make the case that there is a deficit" (p58), the LGAQ refers the Inquiry to the Australian Local Government Association 'State of the Regions Report' report and notes that there is a very real infrastructure (funding) deficit demonstrated by the condition of many kilometers of local roads and bridges.

Planning and tendering arrangements can be significantly improved

DRAFT RECOMMENDATION 11.7

Australian, State and Territory Governments should remove the requirement for local content plans, such as the Australian Industry Participation plans, from tenders for all projects.

LGAQ Comment – On Draft recommendation 11.7 and the related discussion on p389, local content plans offer benefits including supporting retention of an infrastructure delivery capability in regions. The availability of suitably qualified deliverers allows projects to proceed according to the project timetable. This is the other side of the project pipeline story and problems of intermittency may be compounded by an absence of capability in a region and no cost-effective interest from outside of the region.

If local content clauses were to be explicitly discontinued, tender criteria will still need to assess resourcing aspects including availability and reliability. This could be achieved by looking at the experience a tenderer has on similar projects in similar environments, for example the record of resourcing and delivering a project in a remote location.

INFORMATION REQUEST 11.1

The Commission seeks evidence on the skills of public sector clients to manage contracts for major infrastructure projects. Is there evidence that a relative lack of skills has led to systematic cost overruns during the delivery phase? How does this compare to the performance of private sector clients?

INFORMATION REQUEST 11.2

The Commission seeks evidence on the potential benefits of creating special-purpose agencies in each jurisdiction to conduct infrastructure procurement on behalf of government clients that do not frequently procure infrastructure or where combined purchases across a range of government might lead to savings.

LGAQ Comment – The specialist skills required to manage infrastructure projects, including applying the suggestions contained in Draft recommendations 11.8 and 11.9, can be provided to governments by service providers. Local governments in Queensland have access to a range of procurement and project management services through LocalBuy and LGIS.

Better data collection and some reviews are required

DRAFT RECOMMENDATION 13.2

In a reformed partnership with key stakeholders, the administrators of training funds should review existing objectives, conditions and processes around funding allocation. The parties should agree on suitable guidelines that will be able to meet the current needs of industry, as well as their likely future needs in an environment where there is a more continuous flow of infrastructure investment.

DRAFT FINDING 13.1

The Commission considers that overall, men and women who work as tradespeople, their clients and their employers have been poorly served by the lack of progress amongst governments in producing consistent occupational licensing across jurisdictions.

LGAQ Comment – On 13.1, the LGAQ supports consistent licensing arrangements across jurisdictions to maximise uptake and utilisation of tradespersons/key occupations on key infrastructure projects.

On 13.2, the LGAQ supports the concept of Workforce Planning as part of Environmental Impact Statements for all key infrastructure projects to ensure forward planning around skills growth – essential in regional areas to ensure limited skill drain from local councils. Funding systems at state level need to be flexible and demand driven to underpin growth in infrastructure – and to support Local Government as an incubator of this talent in regional Queensland.

5. Comments on other matters in Volume 1 Draft Report discussion

The LGAQ would like to make the following comments on other matters raised in Volume 1 of the Draft Report.

Costs and cost control

Costs are a product of competitive factor markets. In relation to the discussion p18, measures to ensure the efficient and competitive operation of factors markets including appropriate regulatory measures will need to feature as part of any system that delivers efficient infrastructure projects. Project management disciplines also play an important role and these can be employed by both the public and private sectors.

On procurement efficiency (p21-22), LocalBuy and LGIS offer services to local government in Queensland (and potentially to other parts of Australia) and this model is commended for broader consideration. An efficient market in infrastructure services (p 25) will include a role for the ACCC to ensure competition is maintained. In terms of so called 'sweet heart' deals, economic theory indicates that it is not sustainable for a firm to pay wage rates above the competitive market rate, and the competitive tender process provides a mechanism that protects against this occurring.

On labour shortages, it is not so much a matter of 'avoiding' skills shortages (p 29) as properly planning to meet demand. Skills shortages are best addressed by appropriate investments in education and training with regard to appropriate lead times. This is also key to employment creation, which in turn has positive outcomes for government revenues. Some Federal and State agencies are charged with managing the skills shortages issue and this is noted in Box 1.4 Governments' policy and regulatory functions (p54).

6. PPPs and other approaches

The "*Box 3 potential benefits of PPPs*" (p10) are not exclusive to projects using a PPP approach. LGAQ supports the observation that:

> "Sectoral and regional differences might mean that models of private sector involvement that best serve the community's interests in one sector or location may not be the most appropriate in others. In principle, the choice of delivery model should be based on providing the best value-for-money to the community from delivering public infrastructure and services. Of course, value-for-money also depends on how well projects have been selected in the first place. Once again, realising the potential benefits from private sector involvement rests on the presence of strong institutional and governance arrangements, supported by a strong capability and commitment by all parts of governments."

7. User-pays and direct revenue

While it is recognised that it is difficult to apply direct revenue collection to some public assets, roads are the highest cost infrastructure category for Queensland local governments and LGAQ supports the suggestion that "…governments should undertake pilot technical studies of (revenue-neutral) direct road user charging using vehicle telematics" and that this work identify nationally consistent approaches (p11).

Nonetheless, as noted in the Draft Report, there will continue to be

> "…a role for governments to at least partly fund some types of public infrastructure. This can be warranted when it is impractical to exclude users who do not pay direct charges, the transaction costs exceed the benefits, the wider beneficiaries are difficult to identify or very diffuse, and/or infrastructure is provided to meet equity goals. That is why a mix of government funding and direct charging will remain appropriate for roads, public transport and social infrastructure. In other words, it is an unavoidable reality that some public infrastructure that generates benefits for the community ultimately requires funding by governments. In certain cases, user charges might be able to recover the operating and maintenance costs of an infrastructure project but be insufficient to recover fully the investment costs." (p12)

8. Fiscal equalisation, conditions and 'tied' funding

The LGAQ supports an increase in the quantum and annual indexation of the amount made available to local governments under the Financial Assistance Grants to better deliver more appropriate fiscal equalisation outcomes including adequate provision for public infrastructure.

The LGAQ's 2013 Policy Statement advocates the following:

> **3.1.3 Funding of Infrastructure**
>
> 3.1.1.2 The amount allocated by the Federal Government should be based on a fixed share of Commonwealth taxation.
>
> 3.1.3.1 Local governments should have the right to access funding from both public and private sources, including partnerships and joint venturing with other spheres of government and the private sector. State and Commonwealth legislation and policy should not impede such arrangements.

This is a key element to any overhaul of public infrastructure funding and is recognised by the Inquiry:

> "Income and consumption taxes, by far the largest in terms of the level of revenue raised, are levied by the Australian Government. So it has a vital role to play in funding infrastructure spending by the State and Territory Governments, as well as local governments." (p12)

Effective infrastructure planning and provision requires a reliable funding stream including at the delivery and operating stages. A recent research report commissioned by LGAQ included in its recommendations on Commonwealth Government arrangements with local government:

> "Provision of longer-term capital and operational funding commitments to support Local Governments in their ability to more effectively plan and monitor financial sustainability outcomes, as well as assisting in the provision of more reliable 10-year financial forecasts as required by State legislation."
>
> "Utilisation of an allocative model for funding commitments (as opposed to a competitive bid from a nominal funding pool) to provide certainty and stability in financial sustainability outcomes, in addition to enabling Local Governments to take advantage of scheduling, procurement and other efficiencies." (p xiv, 118)
>
> *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach*, AEC Group & Orion Consulting for the Local Government Association of Queensland, September 2013.

In relation to the discussion on conditions and 'tied' funding (p12, 16), the LGAQ notes that overly prescriptive grant funding conditions and reporting requirements have the potential to reduce flexibility and efficiency in the infrastructure prioritisation process at the local and regional level.

Conditions introduce transaction costs and inefficiencies in terms of the resourcing necessary to meet requirements. There is also the risk of duplicating State requirements which traditionally regulate the broad areas of local government financial management and these factors should be considered before applying any conditions.

> "To facilitate adoption of these arrangements by other tiers of government, the Australian Government should make eligibility for Commonwealth funding conditional on compliance with a set of good practice governance principles and policy processes. Care should be taken to ensure that obligations placed on local governments are proportionate to both the funds the Australian Government provides and the capacity of individual local governments to comply. The Commission is seeking views on the merits or otherwise of this proposal." (p16)

An example of a successful program that has followed this approach is the Commonwealth's *Roads to Recovery* Program. A recent review of the Program received many positive comments from Queensland councils noting the Program's effectiveness and relative administrative simplicity. It is understood that the Program is being extended for a further 5 years and receive funding of $1.75 billion (Minister for Infrastructure and Regional Development - media release, 20 March 2014).

In response to the following comment contained in the Draft Report:

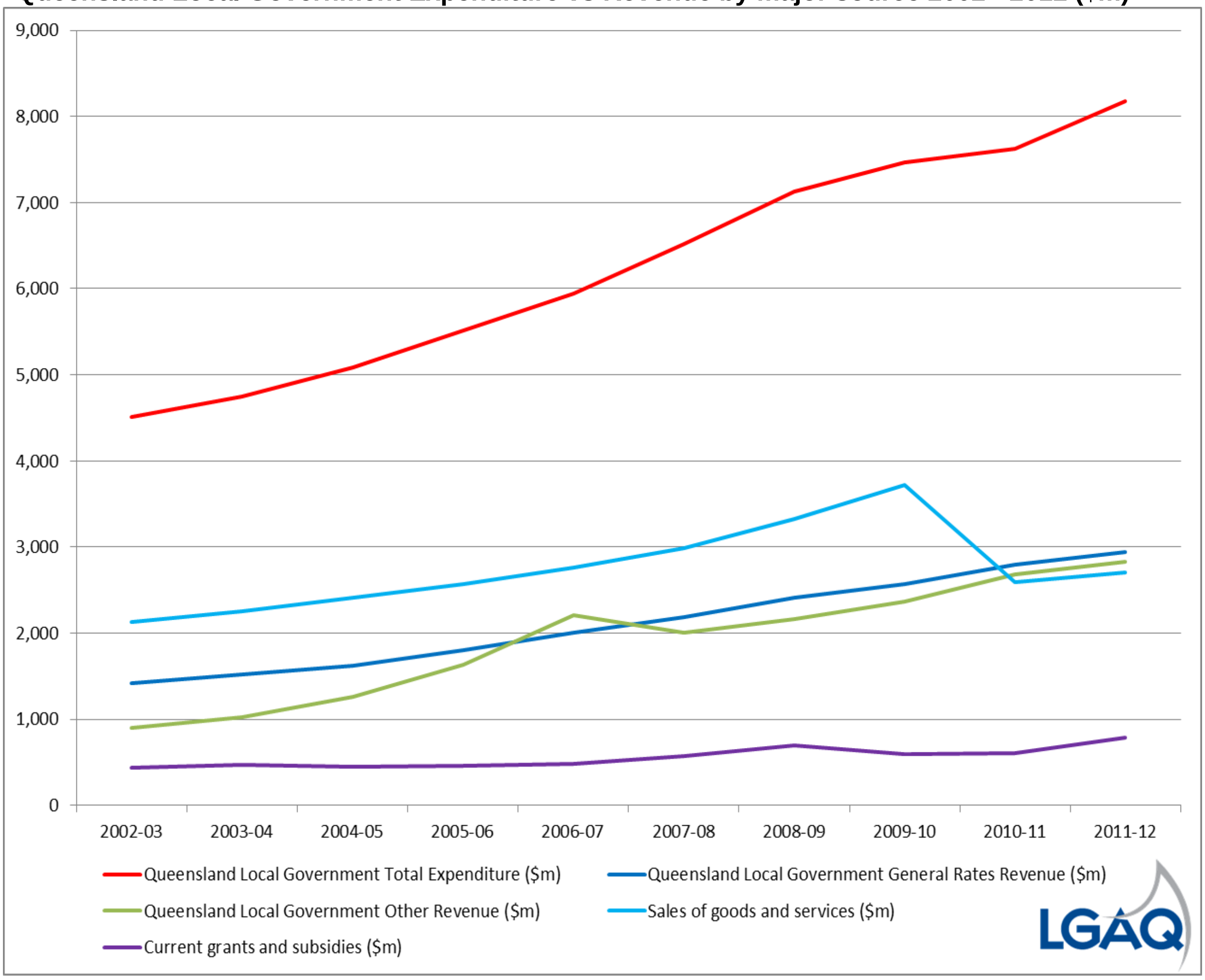
> "In addition, the roles of the Australian Government, the States and Territories and Local Government are considered, as the interaction between levels of government can have important consequences. This is particularly the case, given that the Australian Government raises a disproportionately large share of tax revenues, while State and Territory Governments are responsible for most types of public infrastructure." P65

LGAQ notes that in addition the State and Territory Governments, local government is also responsible for significant infrastructure delivery and is heavily reliant on fiscal equalisation measures in order to fund these, a fact recognised by the Financial Assistance Grants process.

Unfortunately, the trend in funding received by Queensland local governments from other levels of government to provide for fiscal equalisation and support the delivery of infrastructure to communities are not being maintained to keep pace with the infrastructure task. There have been substantial changes in funding arrangements and programs over the years 2002 to 2013. There is a clear downward trend of State Government funding, and a steady rise in Federal Government funding to Queensland local governments over this period.

The following graph shows in nominal dollar terms the relative use by Queensland local government of own-source revenues to provide, manage and maintain $76 billion of non-financial assets and services to its communities over the past 10 years compared with 'current grant' and 'other' revenue sources.

Queensland Local Government Expenditure vs Revenue by major source 2002 - 2012 ($m)



Source: ABS 5512. Note: The series *Sales of goods and services* primarily includes water service revenues; in 2009-10 some SEQ councils agreed to separate their water business to form regional government business enterprises and this explains the step decline in revenue in that year. One of these entities was re-integrated back into the respective share-holder council water operations from July 2012 and this will be reflected in 2012-13 data when released.

Over the past 10 years increased local government costs in providing services and infrastructure, including servicing debt, has been primarily met from growth in own-source revenues. Queensland local governments' total general rate revenue has increased by approximately 100% in nominal terms over the past 10 years, demonstrating that local government and communities have met the cost of increased demand for service and infrastructure created by growth over this period from the growth-driven increase in own-source revenue.

Over the same period, funding from the Commonwealth has remained relatively static, and Queensland State funding has been reduced in nominal terms. However, local government own-source revenue growth is limited and many local government areas are not expected to experience the same rates of growth over forward years. Given the narrow base on which they are levied and in consideration of communities' capacity to pay, the rate at which local government rates have increased is not sustainable into the future.

The following data was collated from diverse sources and this is important to note. Without direct access to State and Federal Treasury figures, this research was conducted solely on the published State and Federal governmental reports for various funding programs, Estimates Committee papers, budget papers and annual reports. In addition, the analysis does not include National Disaster Response and Recovery Arrangements (NDRRA) funding because of the difficulty in determining annual allocations. The 75:25 Federal to State funding ratio would further exacerbate the identified trends.

Financial Year	Approx Federal Funding ($m)	Approx State funding ($m)
02/03	322	438
03/04	331	419
04/05	338	493
05/06	377	573
06/07	408	480
07/08	457	424
08/09	484	579
09/10	490	496
10/11	529	250
11/12	565	148
12/13	510	214
13/14	580	227
	NB: approximations and conservative estimates apply to figures as required	*NB: approximations and conservative estimates apply to figures as required*

Australian taxation arrangements mean that vertical fiscal imbalance will remain a feature of the national system. 'Improvements' as discussed on p153 should also be considered for allocations of tax revenue from the Commonwealth to local government. Also, any comprehensive discussion on revenue efficiency will need to include various state charges and consider the impact these have on infrastructure investment and the economy generally. This is supported in the Draft Report:

"This fiscal transfer is appropriate, as the Australian Government generally has a more efficient tax base (levied through broad-based taxes on income and consumption) than State and Territory Governments" (p219)… and far broader than local governments which have the most extensive road asset maintenance task.

Vertical fiscal imbalance does not mute incentives to undertake a rigorous assessment and identification of infrastructure priorities, but due to it funding has to flow to the local asset manager and requires predictability and a forward commitment over a number of years to support appropriate planning, project delivery and provision.

The suggestion that Commonwealth grants received by local government may not be spent on roads (p128) is not supported by the data. In 2011-12, Queensland councils spent approximately $2.7 billion on roads while the 2011-12 Identified Road Grant to all Queensland councils amounted to $124milion and the General Purpose Grant totaled $302million.

While Queensland local governments were also recipients of other grants of various amounts, local government continues to demonstrate a strong commitment to fund public infrastructure, especially roads, and concerns expressed about funding effort by Queensland local government are unfounded.

9. New user charges, disposable income and savings

In relation to the discussion on implementing more direct user charges (p13), it is necessary to recognise that any additional user charges (assuming constant taxation levels) represent an additional draw down on disposable income and will affect saving behaviour. Aggregate savings provide the pool of funds used to borrow / lend for infrastructure projects. The related issue of 'crowding out' of private sector borrowing by public sector borrowing is also relevant to this discussion and is noted in the Draft Report (p53, 60).

On road user charging in particular, the discussion on "new opportunities for user charging" (p59-60) acknowledges that there are existing charges in the form of taxes and excises, and notes that this would require a commensurate reduction should the application of new technologies etc. allow for more direct forms of user charging. As noted elsewhere in this submission, an important intermediate step would be to improve transparency by hypothecating revenue from current transport charges to road program budgets.

10. Public sector procurement and project management skills

While submissions might suggest that "…broadly, a number of participants pointed to the availability of procurement and project management skills within government agencies as an impediment to the efficient delivery of, and value for money provided by, public infrastructure projects…" (p115), there is no reason why the public sector cannot utilise the same procurement and project management methods as the private sector, and in many instances it does so. That is, public works and road building agencies will have specialist skills in procurement and project management and it would be reasonable to expect best practice is observed across both public and private sector participants.

11. Public asset sale opportunities

On Capital recycling (p206), there are clear limitations on the types of asset that might be attractive to the private sector and this effectively limits opportunities for this to be pursued need to be revenue positive, and any commitment to guarantee usage / revenues or to subsidise or underwrite shortfalls reduce the benefit of such arrangements.

On behalf of member councils, the LGAQ respectfully notes that many local governments in Queensland provide economic and social infrastructure in a number of areas not recognised in Table 1.1 *Responsibility for public infrastructure* (p51). In some regions of Queensland, local government has long-standing responsibilities, wholly or jointly, for the direct provision of some regional dams / water supply sources, water supply, cultural facilities, child care and schools, health, aged care, public housing, and public order and safety facilities, assets and services.

The proposition that "Direct user charges should be the default option because they can provide an incentive for efficient provision and use of infrastructure..." (p121) implies that a fundamental overhaul of current revenue raising arrangements which are used to fund infrastructure would need to be undertaken. Therefore, in addition to opportunities for selling assets to the private sector, any review must consider the sale / transfer of assets to return responsibilities to the appropriate level of government which have been shifted over time to some local governments, which is particularly evident in regional areas.

Elements of water treatment are outsourced in Townsville and Mackay, for example, and wider use of private / contracted service provision is possible. Private contractors delivering services (including reticulation construction and maintenance, meter reading) are prevalent in other states and in New Zealand, with clear efficiencies in some instances. Consulting engineers provide the majority of engineering technical services in Western Queensland, rather than council employees.

12. Infrastructure and 'value capture' charges by local government

The proposition that "When the benefits from infrastructure accrue to more than users, governments should also consider value-capture initiatives — such as betterment levies and property development — so that the wider beneficiaries contribute to funding…" (p121) provide an opportunity for local government, including through special levies for local capital improvements.

On applying the concept of 'value capture' (p142), the LGAQ supports legislative provisions that will continue to allow councils to consult with its community and users to determine whether infrastructure works and other beneficial services can be funded by betterment levies. Volume 1 of the Draft Report provides an example where the Gold Coast City Council is using such levy for its light rail project.

Local governments face significant infrastructure costs associated with new development. The proposition in section 4.2 that "…there is merit in requiring governments to utilise opportunities for users and other beneficiaries to fund a project before resorting to government funding" is supported.

LGAQ notes that the growing practice whereby State governments deem a private development to be 'priority development' and take over the management, planning approvals and revenues creates a number of issues for local government. This intervention can leave local government with significant costs for unfunded connection / integration, augmentation and capital upgrade costs. These issues can also arise in the case of State or Commonwealth infrastructure which can trigger significant unfunded complementary capital works by local government eg. local roads, water, sewer, storm water services etc.

On section 4.3 Developer Contributions (p147), the challenge for Queensland local governments is to manage the demands of providing local services, and to maintain and build infrastructure for their growing communities. As such, supporting development must also be balanced with fiscal responsibility meaning that local governments must be left to decide the right development in the right place at the right time.

Local governments spend more on infrastructure each year than is collected from infrastructure charges, thus effectively subsidising the construction of new infrastructure required to service development. As noted in section 4.3, in Queensland, currently there is an approximate $480million shortfall between developer contributions and the cost of providing essential infrastructure to new developments representing a revenue sufficiency of about 70%. Therefore any shortfalls in revenue must be funded through a combination of local council rates and subsidies from other spheres of government.

As discussed in section 7.5, the 'vertical fiscal imbalance' between revenue sources and proportion of services and expenditure leaves local governments reliant on fluctuating financial transfers from other spheres of government. For example, over the period since 2002/03 State Government funding has effectively been halved from levels averaging approximately $480 million between 2002/03 and 2009/10, to approximately $225 million in 2013/14. The combined effect of abolishing the capital subsidy program, capping development infrastructure charges and limiting income from the water businesses of South-East Queensland local governments have cost the local government sector approximately $800 million a year.

On the other hand, the affordability of council rates is also a key consideration and the effects and tolerance of increases on cost of living are tangible. Local governments can only borrow for infrastructure and by law must achieve a cash balanced budget. For example, the sky-rocketing local government debt in Queensland, has been funded through a 27.5% increase in general rates and a 27.2% increase in water and waste water charges over the 2008-2012 term of local government.

The political fallout of those local taxation increases was that 44 mayors were defeated at the April 2012 Queensland local government elections – the largest turnover in post-World War 2 history. As a post script and with local governments realising the flow-on effects on cost of living; rates and charges have moderated since that period together with a 3,500 FTE or 12% cut in the Queensland local government workforce.

Currently in Queensland, it's only through very low levels of development activity that have allowed local governments to avoid a full financial crisis prior to this point. Any sudden change, such as further reductions in infrastructure charges, and / or significant pick-up in development activity will almost certainly result in severe capital rationing by local governments. This very scenario occurred in some Sydney councils just two short years ago.

Based on this indisputable evidence and in response to the Queensland State Government's commitment to review the development infrastructure charging framework by 1 July 2014, the LGAQ recently wrote to the State Government confirming the policy positions of Queensland local governments:

Position 1 – The current maximum capped charge levels remain unchanged.

Position 2 – An annual automatic indexation of the current maximum capped charges is implemented using the Queensland road and bridge construction index to reflect increasing building and construction costs of providing infrastructure.

Position 3 – The State Government introduce a new subsidy or catalytic infrastructure development program that targets infrastructure projects on a cost / benefit basis focussing on economic development priorities.

Queensland local governments are doing their part to streamline the development assessment and approval process and cut unnecessary red tape. Through projects such as the joint LGAQ / Council of Mayors (SEQ) / State Government - 'Concept to Construction - Development Assessment Innovation Project (DAI Project)'; South-East Queensland (SEQ) and regional councils are now actively collaborating to share ideas, initiatives and learning's to better improve their DA businesses.

South east Queensland councils such as Logan City Council have paved the way for streamlined applications through initiatives such as the 'Development Partnership Process'. This process reduces assessment timeframes by 75% for complex development assessment applications, resulting in significant time and cost savings to the development industry. This improvement initiative is now being delivered to participating Queensland regional councils as part of the DAI Project.

Regional councils have also done their part to contribute to continued planning reform, for example Townsville City Council's 'Plan Right'. Plan Right is an accelerated assessment initiative for low risk planning and operational works applications delivered through accredited consultants and providing decisions on applications in 5 business days. Townsville City Council also offers the Development Partnership Process for complex development assessment applications.

The Development Partnership Process has already delivered savings, including a development approval for a large subdivision in Townsville that was approved in 3 business days. Another development approval on the Gold Coast was approved in 20 business days, down from a regional average of over 300 business days. Previous cost benefit analysis work has identified a potential saving in holding costs for a subdivision of $163 per lot per week, so on a 200 lot subdivision that equates to over $30,000 a week in savings.

Funded until 30 June 2014, the DAI Project will continue to work with participating regional Queensland councils to deliver improvements related to low risk planning applications, third party certification of operational works applications, streamlined plan sealing, and the Development Partnership Process.

The LGAQ's experience has shown clearly that it is very difficult to solely legislate planning and development assessment reform as it largely involves cultural change by all stakeholders, including local government. The best role for government (State and Federal) in this space, in the LGAQ's view, is to encourage and support best practice and enact legislation only where required.

In relation to the Section 7.5 discussion on 'vertical fiscal imbalance' (p254) and the reliance on financial transfers from the Australian Government to support the service delivery responsibilities of the States and Territories, it must also be recognised that local governments are significantly reliant on fluctuating State and Federal Government funding.

The LGAQ largely supports draft recommendation 7.3 and related discussion on p262 and welcome the opportunity, through consultation, to contribute to the criteria to be applied acknowledging the potential implementation issues. The preceding discussion in the Draft Report correctly highlighted potential difficulties for some local governments and that criteria must be fit-for-purpose and reflect varying capacities of individual local governments.

13. Coordination issues

The discussion in s7.3 (p224) considers a few of the institutional arrangements for infrastructure provision and notes some of the major coordination mechanisms under COAG, but it should be recognised that discussions on coordinating projects occur between the 3 levels of government, GTEs / GOCs and the private sector on a daily basis.

LGAQ supports the intent of Draft Recommendation 7.3 (p262) and would support any governance / quality / system efficiency requirements being applied at an over-arching level to avoid burdensome administrative arrangements that could take resources away from project focus, delivery and timeliness.

14. Comments on other matters in Volume 2 Draft Report discussion

The LGAQ would like to make the following comments on matters raised in Volume 2 of the Draft Report.

In relation to opportunities for efficiency improvements in tendering and contracting, and Information Request 11.2, the LGAQ notes the services offered by LocalBuy and LGIS includes pre-qualified supplier lists, procurement and contract management support (p355-404). Advice on the choice of approaches and supporting expertise is available to Queensland local governments.

Regarding the discussion on workforce skills (p461-498), skills shortages are typically more keenly felt in regional and remote areas. Given the emphasis on roads and water infrastructure in Queensland local government, the shortage of supply of engineers is also keenly felt and anecdotally there is strong competition from the resources sector.

Intermittency and retention of road building capability in regional areas is a problem for both local and State governments. The LGAQ is about to commence a research project to investigate strategies for improving the sustainability of rural and regional road maintenance workforces under competitive conditions.

As the discussion on p480 Volume 2 notes “BIS Shrapnel (2009) point out that graduate road engineers typically take between four and five years to reach a point of high competence, which, anecdotally, is similar for other fields of civil engineering. As such, it is important to retain engineering staff in the relevant industries for several years in order to avoid shortages.”

On the registration / accreditation of engineers (p491), the LGAQ supports the work of IPWEA in providing vital services to the public sector.

On Social and Environmental regulation (p499-518), while some social and environmental regulation is created by local government, more often local government is the delegated agent for applying Commonwealth and/or State social and environmental legislation and regulation.

The LGAQ is pleased to provide this submission in response to the Draft Report Volumes 1 and 2. As noted in the covering letter, the LGAQ looks forward to participating in hearings conducted as part of the Inquiry.

The Association’s contact for this submission is:

Mr Greg Hoffman PSM
General Manager - Advocacy
t 07 3000 2222
e greg_hoffman@lgaq.asn.au

References:

AEC and Orion Consulting Network 2013, *Factors Impacting Local Government Financial Sustainability: A Council Segment Approach* (for LGAQ)

Australian Asset Management Collaborative Group (AAMCoG) presentation by Prof Joop Koppenjan, Erasmus University of Rotterdam, 23 October 2013 on the Denmark Rail project

Australian Bureau of Statistics 2013, ABS 5512.0 *Government Finance Statistics Australia 2011-12*

Australian Bureau of Statistics 2013 ABS 6427.0 *Producer Price Indexes Australia Sep 2013*

Australian Local Government Association *2013 State of the Regions Report*

Commonwealth of Australia, House of Representatives Standing Committee on Economics, Finance and Public Administration 2003, Inquiry into Local Government and Cost Shifting ~ *Rates and Taxes: A Fair Share for Responsible Local Government* and LGAQ submission http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=efpa/localgovt/report.htm

Commonwealth of Australia, House of Representatives Standing Committee on Regional Australia 2013, *Inquiry into the use of 'fly-in, fly-out' (FIFO) workforce practices in regional Australia* and LGAQ submission http://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=ra/fifodido/report.htm

Commonwealth of Australia Treasury 2010, Australia's Future Tax System 2010, *Final Report Part 2 - Detailed Analysis - Volume 2 section E3 Road Transport Taxes* http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm

Department of Local Government, Community Recovery and Resilience (DLGCRR) *Queensland Local Government Comparative Information* (data sets – various years)

Ernst & Young 2012, *Strong foundations for sustainable local infrastructure ~ Connecting communities, projects, finance and funds* (for the Department of Regional Australia, Local Government, Arts and Sport)

Heavy Vehicle Charging and Investment (HVCI) Reform Unit 13 December 2013 media release *First Ministers call for urgent action on the HVCI reforms* http://www.roadreform.gov.au/news-consultation/latest-news

Infrastructure Australia 2013, *2013 State of Play: Australia's Key Economic Infrastructure Sectors* and consolidated responses to draft paper (Report Appendix B)

PMI (2012), *A Guide to the Project Management Body of Knowledge*, 5th Ed

Queensland Treasury Corporation 2013, *Annual Report 2012-13* Appendix A: Queensland Local Government Debt (p65)

Roads and Transport Alliance http://www.tmr.qld.gov.au/business-industry/Business-with-us/Alliances/The-Roads-and-Transport-Alliance.aspx

Thompson J 2003, Social Policy Group, Information and Research Services, Department of the Parliamentary Library Australia, Research Paper No. 7 2002-03, *Intergenerational Equity: Issues of Principle in the Allocation of Social Resources Between this Generation and the Next* (Assoc. Professor Janna Thompson - consultant)

-o0o-