

Submission by the National Growth Areas Alliance to the Productivity Commission Inquiry into Public Infrastructure

Introduction

The National Growth Areas Alliance (NGAA) comprises of 25 local governments on the outskirts of the capital cities nationally. With a current population of 3.7m and growth at double the national rate, the infrastructure pressures are immense. No level of government is keeping up with what is required. The means to provide the infrastructure that will drive productivity, social inclusion and environmental sustainability is therefore of great interest to NGAA members.

It is submitted that, given population growth is a major driver of the need for infrastructure investment, a spatial focus on the areas experiencing growth is very important. This should include the decision making processes for where infrastructure investment occurs.

What is Nationally Significant

If taken together, the infrastructure task across all population growth area local governments is nationally significant. Page 4 of the Inquiry discussion paper (the paper) makes some reference to this concept in relation to agglomerating projects for delivery. While such agglomeration may prove worthwhile, it requires close examination to ensure that desired outcomes are able to be realised. There is also evidence that even without agglomeration, the benefits of infrastructure investment in these areas outweighs the cost¹.

Scope – Category of Infrastructure

The paper adopts a definition of economic infrastructure which excludes social infrastructure. Yet the buildings which provide health and education services could also constitute “the physical structures from which goods and associated services are used by individuals, households and industries.” Further, the absence of such infrastructure negatively impacts employment, economic activity and productivity.

It is therefore submitted that the definition of infrastructure being considered is broadened to include all public infrastructure.

The definition of public infrastructure is accepted ie where government has a primary role and responsibility for deciding whether it is provided and how it is paid for. It should, however, refer to governments (plural) as all levels of government are involved in this task.

Infrastructure Provision

Identifying needs

There are mechanisms in place to identify and measure infrastructure needs. The issues are:

¹ SGS Economics and Planning, *A Cost Benefit Analysis of Investment in Growth Areas*, 2009.

- There are not agreed benchmarks for what a community should be able to expect and therefore inequity in provision.
- There is a lack of clarity about which level of government is responsible or how the levels will coordinate and partner in project provision.
- While plans and strategies outline requirements, the means to implement them is rarely there.
- Siloed planning means that major projects proceed without a thorough assessment of the opportunity provided to add value eg a new railway station could also become the focus in a town centre with offices, shops and services.

What may lead to under investment

The circumstances that might lead to under investment in infrastructure include:

- Population growth being allowed to occur without the necessary infrastructure. Associated with this is a settlement pattern that does not provide the critical mass to support major infrastructure or the ability to connect smaller settlements.
- Investment in central business districts at the expense of other parts of cities.
- A policy focus on urban renewal close to city centres and in rural and regional areas and less so in the outer growth suburbs.
- Responsibility and cost shifting from one level of government to another.

A model for provision

A model for provision and funding of infrastructure is the UK Deal for Cities. It provides a way of leveraging private investment and providing value for money. Its key features are:

- It focuses on growth and spatial regions.
- It is about outcomes rather than inputs and sets ways to measure these.
- It rewards delivery with incentive payments for exceeding the benchmarks.
- It is strategic and long term.
- It works by Cities collaborating to deliver growth, sustainability and well being.
- Local enterprise partnerships (which include business) are established based on logical economic regions.
- Time is spent agreeing on desired outcomes and appropriate measures.
- Outcomes include public policy goals eg jobs, skills, green initiatives etc.
- Contracts are entered into with the Government which include a baseline of government funding and benchmarks to be delivered.
- The enterprise partnerships then raise additional finance from a menu of financing options.
- If they exceed the benchmarks they earn additional funding, providing a revolving infrastructure fund.
- The impacts are measured across the region not project by project.
- The model offers flexibility for regions to meet agreed benchmarks in locally appropriate ways.
- In the UK the governance for it sits within Treasury and there are implementation authorities.

Differing legislation and arrangements

There is different legislation and arrangements in each state which affect infrastructure provision. These differing provisions include:

- How much may be borrowed
- Whether local governments can borrow via state governments
- Development contributions legislation

For local governments, this situation was set out by Ernst and Young (2012)².

Weaknesses with current arrangements

A weakness with the current arrangements is that local governments often identify the infrastructure required through their strategic planning processes. The first hurdle is getting a project on the state government priority list, as this will also affect the Commonwealth Government's view of it. No matter how worthy a project, it may not be realised for decades, if at all.

A report on transport by the Victorian Auditor General (2013)³ paints this picture well. It says that a serious problem exists, including a major backlog and that urgent action is needed. *"Despite these growing problems, funding to address the transport needs of growth areas can take more than a generation to materialise."*

According to the report, the State Budget process has failed to deliver the quantum of funding required to meet the transport needs of growth areas, and this is expected to continue into the future. It calls for exploration of alternative financing options and strategies to address the growing transport infrastructure backlog and needs of growth areas.

This scenario is replicated in growth areas around the nation.

Funding Mechanisms

See above regarding UK Deal for Cities.

User charging

The issues that should be taken into account when considering user charging include:

- The impacts on the people who are the users eg people living long distances from CBD's and without alternatives to the car
- The costs of collecting the revenue

² Ernst and Young, *Strong Foundations for Sustainable Local Infrastructure*, A report commissioned by the previous Department of Regional Australia, Local Government, Arts and Sport to review the prioritisation and financing of local government infrastructure, 2012.

³ Victorian Auditor General's Report, *Developing Transport Infrastructure and Services for Population Growth Areas*, August 2013, 2013-14:2

- Whether charging regimes undermine the major purpose of the infrastructure.

Infrastructure costs

Costs should be assessed against agreed outcomes across a geographic area and over the long term rather than project by project and over the short term.

They should also be assessed against what the costs would be if the investment was not made.

Engineering standards

Engineering standards within state jurisdictions can vary and the Commission could examine the potential for a higher level of consistency of standard or application where appropriate.

Examples where variation in standards may be contributing to infrastructure costs include:

- the cost of new railway stations – for example, it is understood that recent premium railway stations in Victoria are costing in excess of \$80M each
- varying road lane width standards and requirements
- standards of each of the servicing authorities' (water, sewer, gas, electricity, telecommunications) and willingness to share trenching as well as the requirement to relocate services when roads are duplicated
- standards imposed in the areas of early childhood services and sports' ruling bodies.

Land

Reservation of land when it is still greenfields is much more cost effective than having to buy it later. Assistance in acquiring reservations for major infrastructure is considered to be a role for State and Commonwealth Governments.

Workforce

The paper discusses skills shortages in rural and regional areas. Skills shortages are also present in some outer metropolitan areas. Essential Economics and Geografia (2012) have assessed this situation⁴.

An example of an award winning program to address skills shortages is the Building Melton Together Project which was created to help the building and construction industry with its skill and recruitment needs, by matching training and employment opportunities with an available skilled workforce. The initiative also assists industry subcontractors to increase their capacity and ability to become preferred subcontractors with volume and domestic builders.

⁴ Essential Economics and Geografia, *Addressing Skills and Employment Gaps in Outer Metropolitan Growth Areas*, 2012.